Berkeley Center for Law and Business
University of California, Berkeley
School of Law
Boalt Hall #7200
Berkeley, CA 94720-7220

Despite Government Support, Potential German Finance Giants' Merger Faces Major Obstacles

By: Joshua Trosch, J.D. Candidate 2020 | March 19, 2019

This past weekend, Deutsche Bank and Commerzbank announced that they had begun talks for a possible merger of Germany's two largest financial institutions. Marked by several years of disappointing revenue, the two firms hope a consolidation effort might give them the edge they need to compete with the likes of Goldman Sachs, JP Morgan Chase, Morgan Stanley, and other major, foreign financial players. Backing the merger, the German government has lent its voice in favor of consolidation, stressing the need to create a competitive, domestic financial entity that would shield the German economy from reliance on foreign firms – critically important in the event of another financial crisis when German businesses may have difficultly acquiring foreign credit. Moreover, the German government's extant equity position in Commerzbank following a 2008 bailout means that the government could hold as much as 5% of the consolidated company (which will probably be Deutsche Bank, as it is the larger firm), further aligning its interests.

However, the proposed merger is not without its opponents. A consolidation would likely result in the loss of tens of thousands of jobs, leading unions representing workers in the banking industry to come out strongly against it. In addition, some investors and analysts doubt the wisdom of merging the two German giants, citing the difficulties associated with combining highly competitive firms, each already suffering from a long list of ailments that led them to this point; consolidation might actually make worse the problems the two banks now face. Deutsche Bank has been in the news lately regarding investigations into the financing of major Trump Organization projects, drama that could taint the firm's image at a time when investor confidence needs to be at an all-time high. Still, if a merger is successful, the resulting firm would have access to a considerably larger talent, resource, and capital pool – maybe enough to get it to the critical market share it needs for the long-standing German finance industry to survive.