СВІТОВЕ ГОСПОДАРСТВО І МІЖНАРОДНІ ЕКОНОМІЧНІ ВІДНОСИНИ

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THE RISE AND FALL OF DRKW

The history of banking is not studied as a separate subject in the finance and banking faculties in Ukraine.

However, the experience of former bankers should appear very helpful for future generations, especially in terms of avoiding risks of failures. Some glances on the historical facts are made while studying the particular banking instruments. For example, we all know that the first promissory notes were discovered and introduced into practice during the Crusades – wars undertaken by Christians in the late Middle Ages to secure the right to visit the Holy Sepulcher and to recover the Holy Land. The knights put the funds with their trusted agents in one country and received them at the trusted agents in other countries while moving across them during the wars.

It's a deep down historical view, while the more recent history, of 1960th-1980th which for us, the students of XXI century, is already a history, has also a lot of interesting to know about.

Dresdner Kleinwort Wasserstein, a worldwide profitable bank in those years, which prior the term came into the obscurity, and now, if you ask any of students of banking faculties what they do hear about it, you will receive the question in eyes in respond, is a good example to speak few words about.

For banking community, it's not fair to leave behind the ups and falls of the best banking minds and connoisseurs.

The aim of this article is to inform profoundly the people about one of the best practices with the analyses why it was not survived in the changing world.

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The formation of DRKW

Kleinwort Benson was founded in 1961, when Kleinwort, Sons & Company merged with Robert Benson, Lonsdale & Company Limited. Both houses were old British commercial banks. The Bensons were a Quaker. In the 1780s, they became a cotton merchant in Liverpool. The company moved to London in 1852 and began to specialize in investment banking. By the end of the century, the Bensons had achieved a major, prestigious coup by providing capital for a railroad boom in the American West. In 1948, Robert Benson & Company Limited merged with the Lonsdale investment fund.

Kleinwort Benson continued to face increasing competition from its larger counterparts in the United States and Europe. The company agreed to be absorbed by Dresdner Bank AG, the second largest German bank at the time. Both sides found the purchase of $ 1.6 billion extremely profitable. Kleinwort Benson will give Dresdner a foothold in international investment banking [1]. At the same time, Kleinwort Benson expected to expand under the leadership of a strong bank, creating a solid foundation for a safe future.

In 1989, Dresdner was involved in another transaction. Allianz AG, a large German insurance group, invested $ 22 billion in Dresdner and added them to its arsenal at the end of 2001 [2]. The Union created the fourth largest financial group in the world, giving Dresdner an enviable position.

After taking office in 1995, the company was registered as Dresdner Kleinwort Benson (DKB). The merger of Dresdner was the first of many changes in the company in the coming years. The entire European banking sector experienced a wave of mergers in the late 1990s and 2000s. Dresdner followed suit and made a big $ 30 billion deal with Deutsche Bank. However, the merger failed when it turned out that DKB would be dissolved due to the deal.

Dresdner was not impressed in its search for ways to strengthen own assets, especially in the investment banking sector. In 2000, the company began promoting Wasserstein Perella & Co., a US investment bank founded in the late 1980s. Both companies clarified the terms and closed the $ 1.4 billion deal in January 2001. The result of the merger was Dresdner Kleinwort Wasserstein (DrKW), the seventh largest adviser on corporate mergers in the world.

Lately, Dresdner Kleinwort sold Dresdner Bank, including Dresdner Kleinwort, to Commerzbank in 2008 as a result of continuing high losses from Dresdner Kleinwort, for which, in particular, Dresdner Kleinwort was accused of doing business. In 2009, the new owner of Commerzbank restructured investment banking Dresdner Kleinwort with the integration of its trade mark. Commerzbank gave it the end under pressure from EU monitors: in 2014 the division was renamed after acquiring BHF –Bank, Germany.

The reasons of fall

Some of these steps worked well; others are not. Kleinwort Benson Cross Financing proved to be a consistent financier. Kleinwort Benson made a deal to familiarize itself with price changes and auction methods in the US Treasury.

Kleinwort Benson did not do so well in the second half of 1988. The securities business has lost more than £ 45 million and reduced the total profit before tax to £ 17.7 million (in 1987: £ 51.6 million). Low rates led the stock price to close to a four-year low in the spring of 1989. However, Kleinwort Benson remained committed to the securities.

The company's assets collapsed again in the early 1990s, partially because of attempts to diversify its assets. The strategy has proven to be costly and harmful to the industry’s reputation. Rumors began to spread that the once mighty and respected commercial bank would be forced to dissolve. However, until 1995, the company recovered thanks to the introduction of a new management plan, which focused its efforts on corporate finance, as well as the search and distribution of national and international shares.

On the other hand, the merger with Allianz AG challenged the future of DrKW. Recent financial results have worsened, and to top it off, Dresdner did not seem to be so determined to keep its investment unit safe and sound, as it had a rich parent. The Economist summed up the company's problems in the article in August 2002: «Last year, almost one-fifth of Dresdner’s turnover collapsed. The problem lies in the Dresdner «Companies and Markets» division, which also includes Dresdner Kleinwort Wasserstein». The article urther states: «With the weakening of the stock markets and the depletion of the mergers and acquisitions business, the income from trading operations increased by more than a half, and the commission fees decreased by more than eighth» [3].

In response to a complex business environment, DrKW implemented a number of cost reduction strategies to support the bottom line. Internal restructuring efforts seemed to pay off, and by September 2003 DrKW had recorded three consecutive quarters of growth. Its ability to overcome difficulties and the collapse of the market provided it a short-term future with the Allianz. However, the investment bankers are aware of Allianz strict «red pencil», which understands a little in investment banking, not least with respect to the bonuses paid to the traders [4]. The investment bank's business has «shrunk».

The conclusions

As we can summarize, the bank operated stable for centuries being based on the industrial businesses: cotton production, US railway construction. Then, the focus to the securities market only with an aggressive policy on it in terms of mergers and acquisitions move the bank to the edge. Indeed, the market of M&A can be very profitable, more on the growing curve. But the main thing is how to hold the purchased businesses, not to acquire them only: the costs of handling can overcome the costs of purchase, and even if considering the bonuses of the traders for the deals. The insurers in Allianz AG did recognized the risks of the aggressive penetration with no long term arm-length financing if no cost reduction is held. And the biggest European insurance company appeared to become the anchor to the profitable «sail» of the strong «ship» DRKW putting it to the bottom by the cost reduction.

References:

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