DBRS considers the recently announced senior management changes at Deutsche Bank as potentially having implications for its strategic direction. A further slim down of the CIB is expected, albeit these adjustments are likely to be gradual and focused on under-performing businesses.

In addition, DBRS has concerns regarding the manner in which these management changes were carried out, raising questions about the cohesiveness of senior management, at a time when the Bank still faces significant headwinds. DBRS will look for further clarity from the Bank on strategy in the coming weeks.

Deutsche Bank AG (DB or the Bank, A (low) stable for Long-term Issuer Rating) has recently announced senior management changes which have raised some concerns for DBRS given DB’s lack of management stability, with numerous C-level management changes in recent years. DBRS views a high level of management turnover as a concern, although DBRS does note that new management has been promoted from within and, with the new CEO having largely spent his career at DB, across various roles and geographies, this could result in greater clarity on strategy being provided in a relatively short amount of time.

The manner in which these management changes were carried out – very publicly and without a clearly signalled plan – raises questions about the cohesiveness of senior management and its ability to execute on its plans. DBRS sees DB’s successful execution of its strategy over the coming year as critical. Specifically, DBRS will be looking for increased revenues and improving market shares within key areas of the CIB.

In an announcement on 8 April 2018, DB named a new CEO, Christian Sewing, with immediate effect. Mr Sewing’s career has included roles across audit, risk, and most recently as the head of the Private & Commercial Bank (PCB). At the same time, Garth Richie and Karl von Rohr were named as new Presidents. James von Moltke remains CFO, having been appointed fairly recently in July 2017.

Mr Sewing succeeds John Cryan, who was CEO of DB from July 2015. It was also announced that Marcus Schenck will be leaving, having most recently held the post of co-head of the Corporate & Investment Bank (CIB), and previously held the role of CFO from May 2015.

With these announcements, DB has eliminated any co-heads of businesses, resulting in only one person accountable for each of Deutsche Bank’s main businesses – CIB, PCB, and Asset Management. This should accelerate the decision-making process, supporting the execution of its strategy.

In recent years, DB has made some progress with legacy issues by settling numerous litigation issues, running down the noncore portfolio, and strengthening the Bank’s balance sheet through a capital raise and IPO of the asset management unit. While management has taken appropriate steps to manage through various periods of market stress and position the Bank well for future growth, progress has been slower than anticipated resulting in added pressure on the Bank to institute change. This pressure stems from an elevated cost structure, with a cost/income ratio of 93% in 2017 (see Exhibit 1). While expenses remain above strategic targets, DBRS also recognizes that investments in systems, processes, and people will play a critical role in the Bank’s future success.
DBRS views the CIB as a key component of DB’s strategy, with its diversity across products and geographies supporting significant revenue generation. Indeed, in 2017 the CIB contributed 53% of DB’s total net revenues and 44% of profit before tax (see Exhibit 2). While adjustments to slim down the CIB businesses may emerge, these are expected to be gradual adjustments to underperforming businesses rather than any significant cuts. Over time, this could benefit the Bank’s earnings stability, but will likely add earnings pressure over the near-term.

As DB is the only European CIB with significant market positions across all products globally, the Bank plays an important role in the European capital markets, as well as catering to large corporate and institutional clients globally. To recover and maintain market share within the CIB will require continued investment, in both people and technology. DBRS sees DB as facing the challenge of balancing the need to reduce expenses and improve profitability, while also investing in the franchise. Specifically, DB will need to reduce expenses by about EUR 800 million over the coming year in order to meet its EUR 23 billion adjusted cost target. DBRS sees this as a significant challenge, particularly when working to demonstrate franchise momentum and improve revenue generation capabilities.

DBRS expects further clarity regarding strategic direction over the coming weeks and will assess the impact, if any, on DB’s ratings.

DBRS has a Long-Term Issuer Rating on Deutsche Bank of A (low) with a Stable trend.
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