Frankfurt charm offensive for Brexit-wary London firms

AFP, *Frankfurt*

THE marketing team of Frankfurt never expected its English-language dummy website to attract new businesses would actually go live after Britain's European Union referendum.

"We hadn't really assumed that we would need the site at all," spokeswoman Michaela Kahle told AFP, as the team thought Britons would surely vote "Remain".

But as it turned out, the Welcome to FrankfurtRheinMain site was not only put to good use, but has become a hit, with 27,000 views since Britain stunned the world by deciding to leave the bloc.

Quickly recovering from the shock, Kahle and her colleagues kicked into action, fielding inquiries from firms ranging from big banks to tiny financial technology start-ups looking at the possibility of relocating to the German financial capital.

While Britain has yet to trigger the two-year exit negotiations, corporations wary of the impact of Brexit have begun scouting for alternative European headquarters.

"It's the very beginning, and the firms themselves don't know yet when, or whether at all, they will move," Kahle said.

But they are asking questions about German law on immigrant workers, the talent pool in Frankfurt, banking licences and regulation, and how easy it is to do business here in English.

Home to the European Central Bank, the EU's insurance regulator EIOPA and 198 banks, Frankfurt is a natural contender in the battle to lure the City of London's financial behemoths.

But the city on the Main has never truly challenged London for pre-eminence in Europe.

Britain's capital prospered thanks to factors including the English language, its cosmopolitan history at the heart of a world-spanning empire, and the "big bang" financial liberalisation of the 1980s.

As London cemented its status as a financial centre, its attractiveness only grew, as opening an office in the City meant direct access to a powerful network of expertise.

But Brexit may force many financial services providers to look at moving as they will need a place to do business inside the eurozone should they lose "passporting" rights that allow them to carry out euro-denominated trades outside the single currency area.

A delegation of politicians from Frankfurt and its federal state of Hesse made a trip to London in early August to meet bank executives and talk up their town.

With an eye on the City's firms, Germany's Bankenverband (banking federation) has launched a broadside of reform demands it says will help attract new companies.

Although Frankfurt has many advantages -- including its physical and digital infrastructure, ease of doing business in English and reliable German legal system -- it's far from a given that it will beat competition from Paris, Amsterdam and Dublin, Bankenverband managing director Michael Kemmer warned.

The government must do more to support financial start-ups and make business and the law more accessible in English, among others, he said.

Kemmer acknowledged with a chuckle the suggestion that his proposals -- including loosening some regulations and abandoning plans for a financial transaction tax -- were well-worn themes for banking lobbyists.

But he insisted that "the need now is greater, as we're looking at real competition between cities as places to do business".

Bank lobbyists also want the European Banking Authority (EBA) relocated from London to Frankfurt.

While calling on the government to begin laying the groundwork immediately, Kemmer says he would be "surprised if banks don't wait until everything is cleared up" on a political level before deciding how to respond to Brexit.

Most companies may opt for a wait-and-see approach, but at least one firm has already made a big commitment to the city on the Main, managing partner Ralph Schonder of real estate consultancy Knight Frank told AFP.

"We've had a big rental of 10,000 square metres" since the vote, he said. "At this speed, and given the location, it wouldn't have happened without Brexit."

Schonder acknowledged that such deals remain the exception -- matching what other people familiar with the real estate market say.

Deals are being "talked about, considered, but we're expecting it to happen later when the situation is clearer", managing partner Matthias Stanke at consultancy Colliers International said.

German financial regulator BaFin also confirmed "a slightly rising trend" of inquiries about the legal environment and possibilities available in Germany.

But there was no corresponding increase in the number of actual applications for a banking licence, said BaFin's spokesman.

With much of the sector biding its time before acting, it is unlikely commercial rents in Frankfurt will suddenly spike or that the city's international schools will suddenly fill up with the children of relocated bankers. None of the schools spoken to by AFP had experienced a surge in applications in the weeks since the referendum result.

But in the long term, while "no-one welcomed Brexit," Bankenverband director Kemmer said, "we can do everything possible to strengthen Frankfurt as a financial centre".


REUTERS

The skyline of Frankfurt am Main is pictured.

China takes forceful steps to tame unruly peer-to-peer lending sector

REUTERS

China's banking regulator unveiled aggressive measures to restrain the country's fast expanding peer-to-peer (P2P) lending sector on Wednesday, warning that almost half of the 4,000-odd online lending platforms are "problematic".

The $93 billion P2P lending sector has been a source of funds for individuals and small businesses overlooked by the country's traditional financial services institutions that prefer big borrowers with better credit history and collateral. But Beijing's hands-off approach to promote the sector as a form of financial innovation has led to a rash of high-profile P2P failures, scandals and frauds.

Some P2P firms are running Ponzi schemes and raising funds illegally, said the China Banking Regulatory Commission (CBRC), which jointly released a new set of regulations with three other government bodies to tame the unruly sector.

Under the new rules, P2P firms cannot sell wealth management products nor issue asset-backed securities, and must use third-party banks as custodians of investor funds. P2P platforms will also not be able to take deposits.

The regulations, issued by the CBRC, Ministry of Public Security, Cyberspace Administration of China, and the Ministry of Industry and Information Technology, follow the passage of a plan by the State Council, or cabinet, four months ago to clean up the online finance sector.

The banking regulator also set a ceiling for borrowers to control the size of loans on P2P platforms, said Li Junfeng, director of the Inclusive Finance Department at the CBRC.

An individual can borrow a maximum of 200,000 yuan ($30,072) from a single P2P platform and a maximum of 1 million yuan from all P2P platforms, he said. A company can borrow no more than 1 million yuan from a single P2P platform, and no more than 5 million yuan from all P2P platforms.

The regulations also ban P2P firms from providing guarantees for investment principal or returns, a common marketing practice to lure funds from unsophisticated retail investors.

"Investors must understand they need to bear the risks for their investments, no matter big or small," said Li from the CBRC.

"These are not deposits. So we are telling P2P investors: P2P is risky, investments need to be cautious."

As of end-June, China had 4,127 P2P platforms in operation, of which 1,778 were "problematic", the CBRC said. The remaining firms had total outstanding loans of 621.26 billion yuan ($93.43 billion).

Those troubled P2P firms, suffering from capital constraints and poor management, have seen executives run away with investor money, the CBRC said. Some were Ponzi schemes that solicited funds illegally.

Samsung, Tencent surge in race to become Asia's most valuable firm

REUTERS/FILE

People are silhouetted as they pose with mobile devices in front of a screen projected with a Samsung logo.

REUTERS, *Singapore*

TENCENT Holdings Ltd and Samsung Electronics Co Ltd are racing to be crowned Asia's most valuable company as expectations for robust earnings growth push their share prices to record highs.

Their surge - both have gained by a third this year - has made them the world's best performing large-cap tech stocks and highlights how these nimble Asian firms are thriving while rivals Apple Inc and Alibaba have struggled.

"These companies can grow earnings despite weaker global growth," said Andrew Gillan, head of Asia ex-Japan equities at fund managing firm Henderson Global Investors, which is overweight on Asian technology firms.

"The operating fundamentals of the Chinese internet sector particularly have surprised positively in the most recent quarterly results."

While many investors remain upbeat about Samsung and Tencent, some caution the firms are vulnerable to rapid swings in sentiment on any sign of slowing momentum. Samsung and Tencent have been more volatile than the Asia tech sector and the broader market this year.

On Wednesday, Samsung said sales of its latest flagship smartphone were outstripping supply, but second-half profits could still take a hit if production shortfalls are not fixed and a recovery in components demand fails to eventuate.

Moody's Investor Service also warned that Samsung's profit margins might narrow in the second half because of seasonal factors in the consumer electronics business and competitive pressures.

For Tencent, the market expectations that are driving shares higher are themselves a risk, according to Nomura. A faster-than-expected slowdown in personal computer game revenue, aggressive spending and new products or business models from competitors could weigh on earnings, the bank warned.

Samsung and Tencent have added about $30 billion in market value since Thursday, surging to all-time highs. Tencent is valued at $249 billion, only 4 percent smaller than the most valuable Asian firm, China Mobile, at $259 billion. Samsung is now worth $239 billion.

Tencent is now the world's 12th-biggest company by market value and Samsung the 17th-largest, Thomson Reuters data shows. That's up from Nos. 26 and 33 respectively just five months ago, according to a PricewaterhouseCoopers ranking released March 31.

Samsung shares' have significantly outperformed Apple's - the Korean firm has leapt 50 percent over the past year, while the U.S. company has gained 3 percent amid concern about weak sales in China.

The gap between Samsung's price-to-earnings ratio of 12.4 and Apple's 12.7 is now the narrowest since late 2011, although Samsung is still worth less than half the $586 billion Apple, according to Thomson Reuters data.

Samsung's share price growth spurt comes after years of struggle in its smartphone business which left investors impatient for higher returns.

Daimler adopts Silicon Valley tactics to counter new rivals

REUTERS, *Frankfurt*

MERCEDES-BENZ maker Daimler is embracing Silicon Valley management techniques in a drive to speed up decision making, empower staff and fend off new rivals such as electric carmaker Tesla Motors.

Chief Executive Dieter Zetsche is sweeping away layers of bureaucracy and encouraging a more experimental approach to new products. He has also asked 144 employees - many of them from the rank and file - to generate new leadership ideas, according to sources at the German luxury automaker.

These are big changes for a company known for strict hierarchies and meticulous planning, and follow a trip by around 100 top managers to Silicon Valley last summer when they met executives from companies including Apple, Google and Uber.

The changes will be closely watched by rivals such as BMW and Audi as traditional carmakers weigh up how to respond to new technologies including autonomous driving and electric vehicles that have turned firms like Google and Tesla into rivals.

Daimler, whose founder invented the modern automobile 130 years ago, is investing heavily in electric vehicles and Zetsche has decided that in order to succeed, the company, as well as its product range, needs an overhaul.

Outlining some of his plans in June, he likened Daimler to a rhino but said its size - with twice Tesla's market capitalisation and 20 times the number of staff - did not mean it couldn't also be nimble and decisive.

"Rhinos are large, but they are not slow," Zetsche said.

Alexander Hilliger von Thile, a senior graphics and rendering manager at Mercedes-Benz research and development in North America, said Daimler was now encouraging ideas from all team members and not just the "Bereichsleiter" or department chiefs, as well as greater collaboration.

"We do not want to have experts who know everything, who sit somewhere and don't talk to anybody," he told Reuters.

Daimler, like many traditional carmakers, was initially sceptical about prospects for electric vehicles. According to a senior executive, Zetsche used to joke that Daimler, which owned a stake in Tesla from 2009-2014, was the only automaker to make money from electric cars when it sold out of that investment.

But advances in battery technology and the success of the Tesla Model S, which last year outsold Mercedes's flagship S-Class limousine in the United States, have changed that.

"We said before that if you are too early, you lose money. Now the view is if you are too late, you lose the market," the executive told Reuters, speaking on condition of anonymity.

The risks associated with releasing new technologies, however, were laid bare earlier this year when Tesla shares tumbled after news that a driver of one of its cars had been killed while using "autopilot" mode, an advanced cruise control tool that other automakers have taken a more cautious approach to introducing.

Daimler sources say Zetsche's reforms have been influenced by the company's dealings with Tesla when it was a shareholder, as well as techniques studied at other Silicon Valley companies.

Working on various projects with Tesla, a clash of cultures was clear from the outset.

"One party (Daimler) wanted to plan and think things through. The other (Tesla) acted on a 'shoot and aim' principle correcting things as you go along," one Daimler source told Reuters, adding Tesla was often faster at implementing new technologies as a result.

Daimler has learnt from this and is now moving more quickly, with its new 144-strong brainstorming team including engineers who worked on projects with Tesla, the source said.

So far, Daimler staff have generated around 150 ideas of which 80 percent have been implemented. The results are confidential, although it is clear that in future, decisions should be reviewed by only two management levels instead of up to six, the source added.

Another major change is to allow departments to fund an idea even if it is not clear what products will result from the spending. Having a perfect "specification sheet" used to be a precondition for investment.

Daimler calls this "corporate crowdfunding" - a technique learned during last year's Silicon Valley trip, when managers also met start-ups such as San Francisco-based La Cocina, a non-profit organisation helping low-income food entrepreneurs.

"They were mostly interested in the ways that our entrepreneurs brought their ideas to market, and how La Cocina, as an organisation, supported that type of innovation," La Cocina director Caleb Zigas told Reuters.

As much as speeding up decisions, Zetsche's reforms are focused on engaging and retaining staff.

Tesla's success has given rise to a raft of rival electric carmakers, including Faraday Future, Borgward, and Future Mobility Corporation, and traditional carmakers have seen several high-profile defections.

Carsten Breitfeld, CEO of China-based Future Mobility Corp., switched in July from BMW, where he was head of the i8 electric vehicle programme but grew tired of the cumbersome approval processes at large corporations.

"At the end of the day I get the impression that the traditional car companies, not only BMW, will not really be able to follow the pace and do the big steps which will be needed," he told Reuters, explaining his decision to move.

Daimler itself lost engineer Tilo Schweers to become chief developer for alternative drive systems and powertrain electrification at Chinese-backed Borgward Group.

REUTERS/FILE

The Mercedes-Benz logo is seen before the company's annual news conference in Germany.