Germany’s direct lenders make their mark

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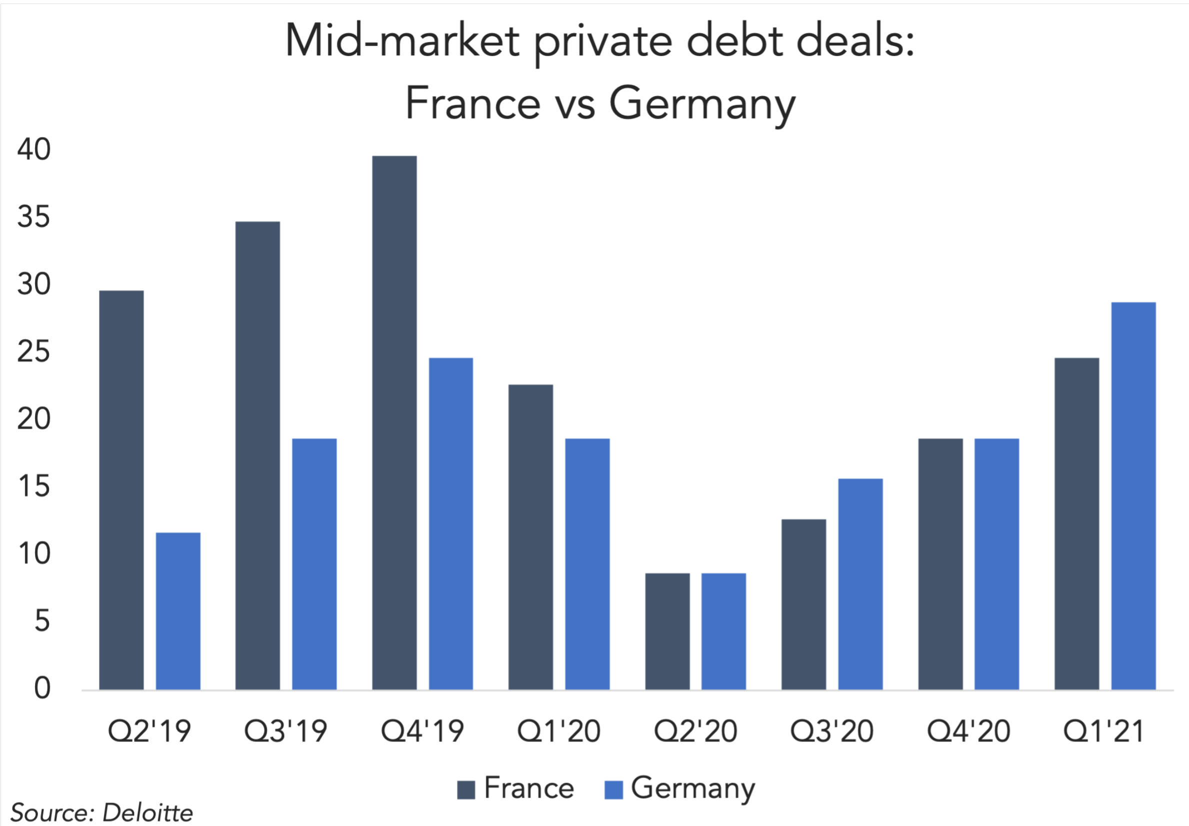

The country’s once-dominant banks have seen their share of the lending market steadily eroded by alternative finance sources.

It must have been around four or five years ago. The venue was London and a delegate at *Private Debt Investor* ’s latest Capital Structure Forum was expressing the view that Germany would simply never be a direct lending market of any great substance. Once a banking market always a banking market was the view, with the culture too deeply ingrained to be eroded by debt fund upstarts. There were plenty of heads nodding in acquiescence, and I don’t recall the argument being openly challenged.

Fast forward to the present day, and Deloitte’s latest Alternative Lender Deal Tracker shows direct lending expanding its influence across the region – and nowhere more so than in Germany. The UK remains Europe’s leading direct lending market by some distance. But while France has always occupied second place when it comes to deal activity, our chart above shows it has been nudged aside over the last year by a Germany which has seen an explosive rise in debt funds, at the expense of banks, in recent years.

The culture that our delegate saw as resistant to all-comers has instead ended up accommodating the new kids on the block. Given the user-friendly nature of alternative finance, and the relative inflexibility of the banks, it’s easy to assume this was bound to happen. The opening paragraph is a reminder that at one time it seemed far from likely.

Moreover, German direct lending continued to gain ground even during the travails of the pandemic in 2020. The Deloitte report shows that the country saw a modest rise in deal activity last year. Of all Europe's private debt markets, only the Netherlands saw a similar trend. Everywhere else, including the UK, saw either major or moderate falls in deal numbers.

(Past performance is no guarantee of future results.)