



Weekly Brief

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Banking at a Crossroads

Banks have historically played two vital roles: directly financing economic growth and indirectly advancing societal progress.

The rapid rise of mobile banking in developing countries shows how these two roles intertwine by creating economic and social opportunities for the “unbanked” population. [Banks will also be critical](#) in providing the \$37 trillion needed to reach net zero goals by 2030. More broadly, banks touch every part of the economy, facilitating trade and economic activity that generates job and income growth.

For these reasons, business leaders need to understand what’s happening in the banking system. In a nutshell, the industry has still not recovered from the global banking crisis of 2008. The average return on equity has since declined by more than 450 basis points, and many banks, especially in Europe and parts of Asia, are trading below their book value.

In 2023, the failure of a few high-profile banks in Europe and the US exposed the industry’s continued vulnerability. Can banks fulfill their economic and social missions without fundamental transformation?

The State of Banking Today

My colleagues in BCG’s Financial Institution practice recently wrote a [comprehensive report on the industry](#). Some highlights:

- **Banks' share of total financial assets has been steadily declining in most markets.** Banks are ceding their raison d'être. Direct commercial lending by asset management firms (such as private equity funds) grew by 20% annually between 2017 and 2022, compared with banks' asset growth of less than 5%.
- **Banks spend more on technology than most other industries, such as consumer goods, industrial goods, media, and telecom, but have struggled to reap the benefits.** Only about one-quarter of the industry's tech spending is on innovation, including intuitive mobile banking apps or AI-powered decision making. Most of the rest goes to costly maintenance and updating of legacy systems.
- **Regulators are likely to impose additional capital and liquidity requirements on banks.** Managing climate risks, for example, will require structured end-to-end data platforms and new, complex data.

The \$7 Trillion Opportunity

Despite these challenges, there is a window of opportunity for banks to create \$7 trillion in shareholder value over the next five years—but only if they fundamentally reshape their organizations and collaborate with regulators.

- **Banks need a new, simplified business model.** Banks need to actively manage their business portfolio by exiting subscale businesses. They also need to reskill their staff, create digital end-to-end processes, and seamlessly partner with fintech firms. Banks that fully adopt this model can improve productivity by as much as 40%.
- **Regulators need a new approach, too.** Regulators need to balance profitability, innovation, systemic stability, and consumer protection. Otherwise, business will move to unregulated markets and increase the systemic risk regulators are trying to avoid. Regulators should adopt agile approaches to rule making, allow consolidation when it makes sense, and support the development of digital public

infrastructure, such as a real-time interbank payments system.

Banks are too important for the overall economy and for societal progress to have underperformed for more than 15 years. It's time for banks and regulators alike to take a fresh look at how they operate and how they regulate in the interest of stability, innovation, and sustainable profitability.

Until next time,



Christoph Schweizer
Chief Executive Officer

Further Reading



[To Seize a \\$7 Trillion Opportunity, Banks Need Bolder Strategies for Serving Customers and Society](#)

Banks must blaze a clear path that enables them to meet their obligations: driving economic growth, helping to finance the climate transition, and generating lasting shareholder value.

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[We Can Close the Climate Finance Gap](#)

A conversation with BCG's Amine Benayad on the role of financial institutions in addressing the climate transition.

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[Global Fintech 2023: Reimagining the Future of Finance](#)

In just two short decades, fintech has exploded onto the financial scene—with more dynamic growth to come.

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