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Global Banking Annual Review 2024

Attaining escape velocity

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Executive summary

The past two years have been the best for banking since before the global financial crisis (GFC) of 2007–09, with healthy profitability, capital, and liquidity. But even though banking is the single largest profit-generating sector in the world, the market is skeptical of long-term value creation and ranks banking dead last among sectors on price-to-book multiples.

In addition to a mix of macroeconomic factors, there are also some industry-specific ones:

— Labor productivity growth in banking has been mixed, even though banks spend the highest proportion of revenues across sectors on tech.

— Regulatory changes around the world continue to require investment.

— The more profitable pools in banking are witnessing competition from focused attackers (including private credit, payments, and wealth management).

— The recent lift in performance has largely been buoyed by rising interest rates.

— Despite the recent value creation, over the past decade, the sector has eroded economic value when measured against cost of capital.

So will the liftoff in overall industry results achieved in 2023 give way to the gravitational pull of the industry's recent history, as questions about banking fundamentals persist?

Looking at banks that outperformed over the past five to ten years could hold the answer to how banks might achieve escape velocity. We identified these winners through multiple analytical lenses. What we found is that they win through a combination of smart moves on three structural dimensions (selecting segments carefully, finding scale where it can matter, and strategically locating themselves, whether geographically or in the value chain) and rigorous operational execution across a range of capabilities (for example, analytics, marketing effectiveness, operating model, and tech). For some contexts where we modeled the relative effects, execution had two times the impact of structure, though both were important. No bank we found among the winners appeared to be outperforming with only an average structural context nor being propelled solely by its structural position.

The good news for the rest of the industry is that things can be improved. Indeed, about 10 percent of the industry improved as much as five deciles of return on tangible equity over the past five years (though conversely, roughly two-thirds of the industry stayed within two deciles of their prior performance). For banking to recover its multiple, management teams will need to conjure the dynamism of these winners. We believe this "management quotient" will be what makes the real difference in the remaining years of the 2020s.

The industry

Everything is going to be fine in the end. If it's not fine, it's not the end.

—Unknown (often attributed to Oscar Wilde)

There's some solace in the witticism about it not being the end if it's not fine. But recently, things have been fine indeed for banking, so what does that say about the endgame? In fact, the past two years have been the best for banking since before the Great Recession. Globally, banks generated $7 trillion in revenue (Exhibit 1) and $1.1 trillion in net income, with return on tangible equity (ROTE) reaching 11.7 percent (Exhibit 2). Banks have returned to healthy levels of capital (12.8 percent common equity tier one capital divided by risk-weighted assets) and liquidity (77.2 percent), which both improved over 2022. In fact, banking generated more total profit than any other sector around the world (Exhibit 3).

Exhibit 1

In 2023, the global financial system intermediated $410 trillion in assets, generating about $7 trillion in revenue.

Global financial intermediation, 2023, $ trillion

Source of funds (total 410)

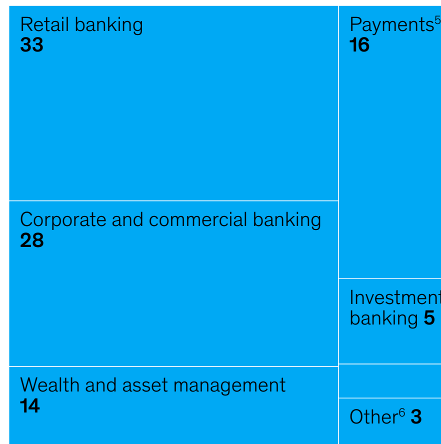
Banks' bonds, other liabilities, and equity	Corporate and public deposits	Personal deposits	Sovereign wealth funds/pension funds	Retail AUM[1]	Private capital	Insurance and pension AUM	Other alternatives	Other institutional AUM[2]	Digital assets	Total
59	52	65	32	78	10	66	9	39	1	410

On-balance sheet | Off-balance sheet

Use of funds (total 410)

Retail loans	Securities held on balance sheet	Corporate and public loans	Other assets	Government bonds	Corporate bonds	Equity securities	Securitized loans	Other investments[3]	Total
49	60	60	10	62	17	61	12	79	410

Share of total annual revenue from global financial intermediation, by type, 2023,[4] %



Market infrastructure **2**

$6.8 trillion total

[1]Assets under management. [2]Including endowments and foundations, corporate investments. [3]Including real estate, commodities, cross-border deployments, derivatives. [4]Figures do not sum to 100%, because of rounding. [5]Net interest income from deposits considered in retail and corporate banking. [6]Includes revenues from real estate funds, infrastructure funds, hedge funds, commodities funds, absolute return, liquid alternatives, as well as from mining, buying and selling of digital assets via exchanges, custody, payments, and liquidity providers.
Source: McKinsey Panorama

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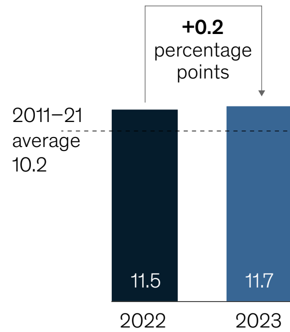
Exhibit 2

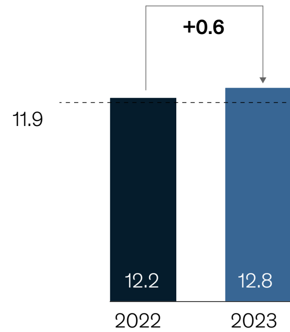
Banking revenues, return on tangible equity, and liquidity all grew in 2023, maintaining healthy levels across the board.

Key industry measures

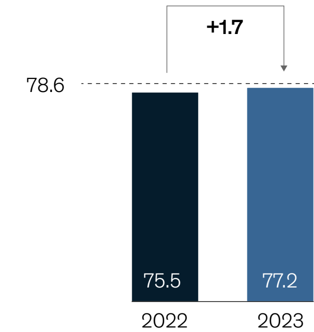
Strong profitability, return on tangible equity, %



Healthy capital, common equity tier 1 as a ratio of risk-weighted assets, %



Sustainable liquidity, total loans as a ratio of deposits, %



Source: S&P Capital IQ; McKinsey Panorama; McKinsey Value Intelligence

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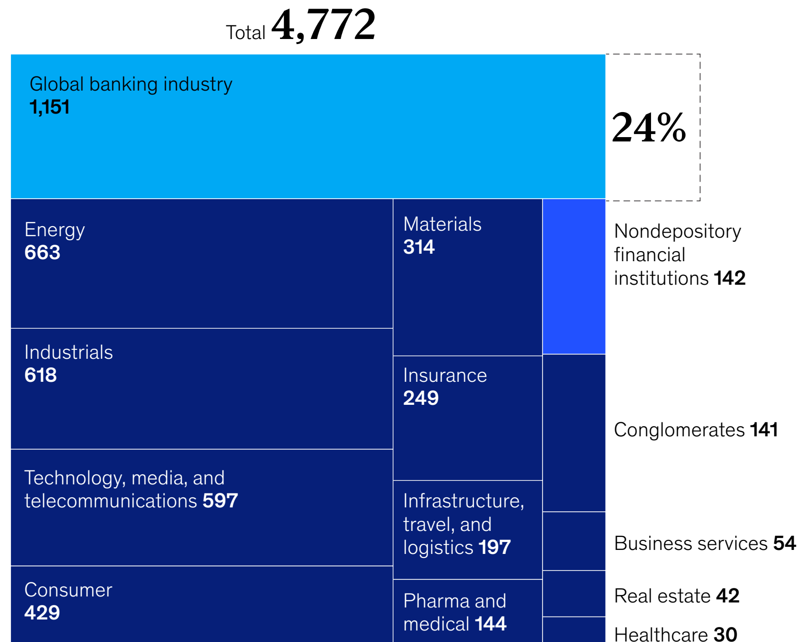
Exhibit 3

The global banking industry generated $1.15 trillion in net income in 2023, roughly equal to the combined energy and industrials industries.

Net income of publicly traded companies, by industry, 2023,[1]
$ billion



[1]Based on 35,000 publicly traded companies.
Source: McKinsey Value Intelligence

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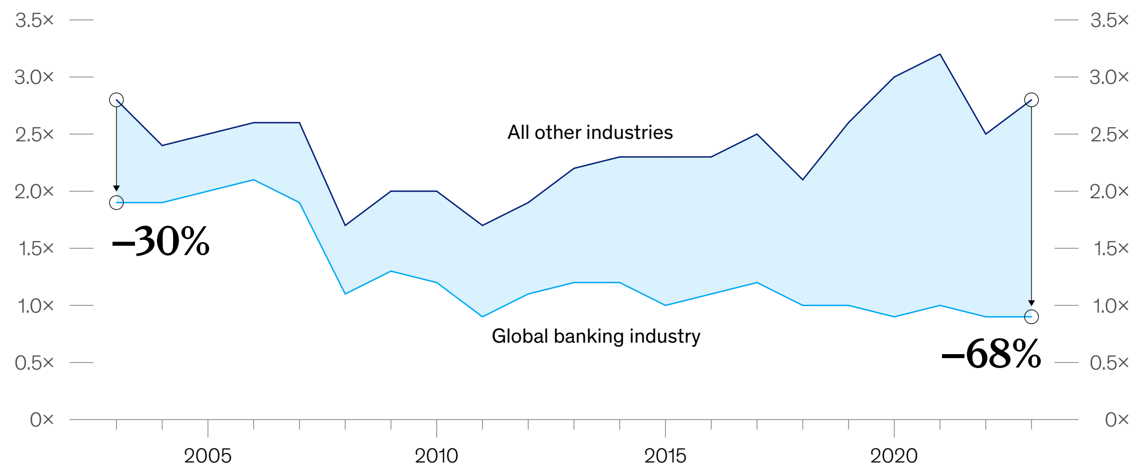
So why the foreboding? Simply, global banking is valued at a price-to-book ratio of 0.9—the lowest of all industries—which suggests the market is expecting the industry will erode economic value as a whole (Exhibit 4). And this challenge exists across most markets (Exhibit 5). There are many potential reasons for it:

— *The improvement in returns could be fleeting.* Looking back, while the industry has reduced costs and kept credit quality high, the improvement in returns since 2021 appears to be largely owed to rising interest rates (Exhibit 6). Modeling, while imperfect, suggests that without rate support, industry ROTE in

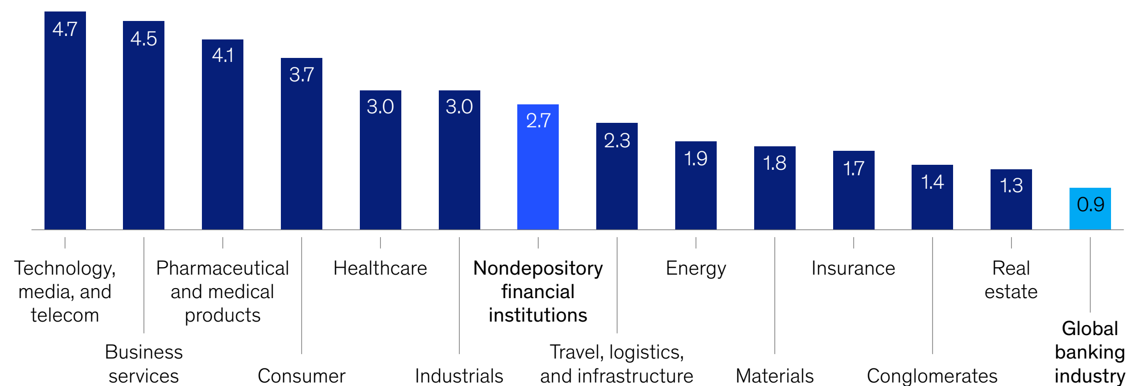
Exhibit 4

Capital markets place a large and growing valuation discount on banking relative to other industries.

Price-to-book ratio, 2003–23[1]



Price-to-book ratio, by industry, 2023[1]



[1]Average excluding outliers and firms with a negative price-to-book ratio. Based on ~15,000 publicly traded companies.
Source: McKinsey Panorama; McKinsey Value Intelligence

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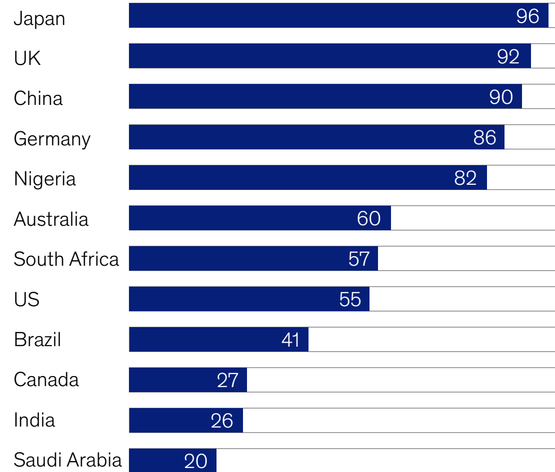
Exhibit 5

The valuation challenge in the banking industry exists across all markets.

Share of institutions with price-to-book ratio <1, %



Source: McKinsey Panorama; McKinsey Value Intelligence

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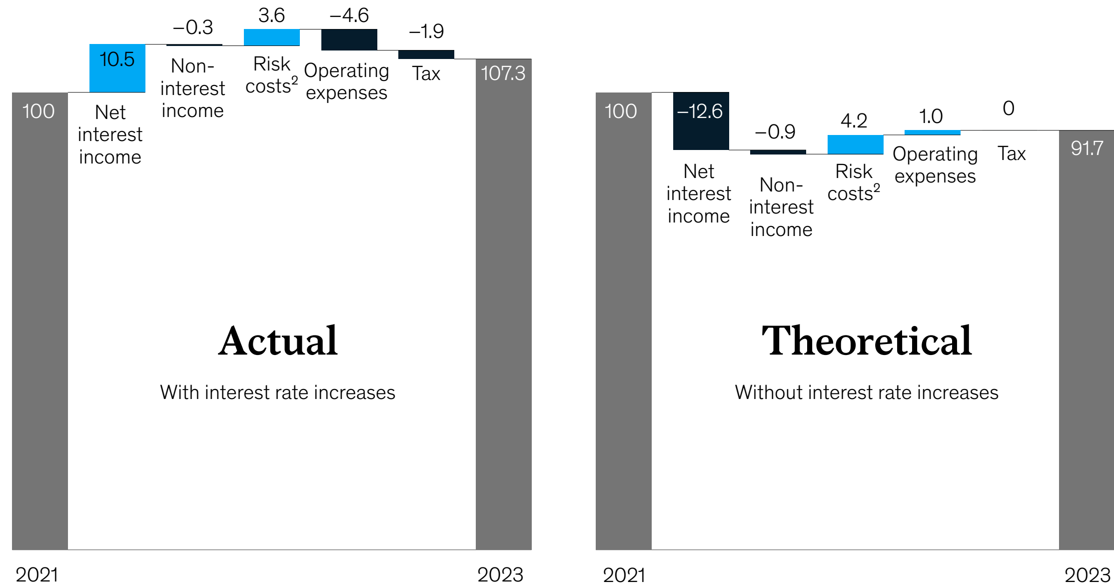
Exhibit 6

Net interest margin improvement has been the key driver of improved returns on tangible equity in recent years.

Comparison of impact on return on tangible equity (ROTE), 2021–23,[1] index (2021 = 100)



[1]Greater China is excluded given different interest rate environment.
[2]Includes loan loss provisions, other financial impairments, and write-downs.
Source: McKinsey Global Banking Pools; McKinsey Panorama; McKinsey Value Intelligence

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many geographies would have been around 8 percent, or below cost of capital. If one believes that rates will be lower than they are today, some of our scenarios suggest the industry's ROTE could revert to near its cost of equity over the next two years (Exhibit 7). Naturally, we recognize that significant regional differences might exist, depending on drivers like local inflation and the pace and effects of reductions in interest rates. But if interest rates globally decline, on average, as some forecasters are projecting, our models suggest that net interest margins (NIMs) might compress by 50 to 60 basis points, from just over 3.1 percent in 2023 to roughly 2.7 percent by 2030. If this occurs, economic profit growth witnessed recently from the increase in interest rates will diminish and ROTEs could again trend toward cost of capital.

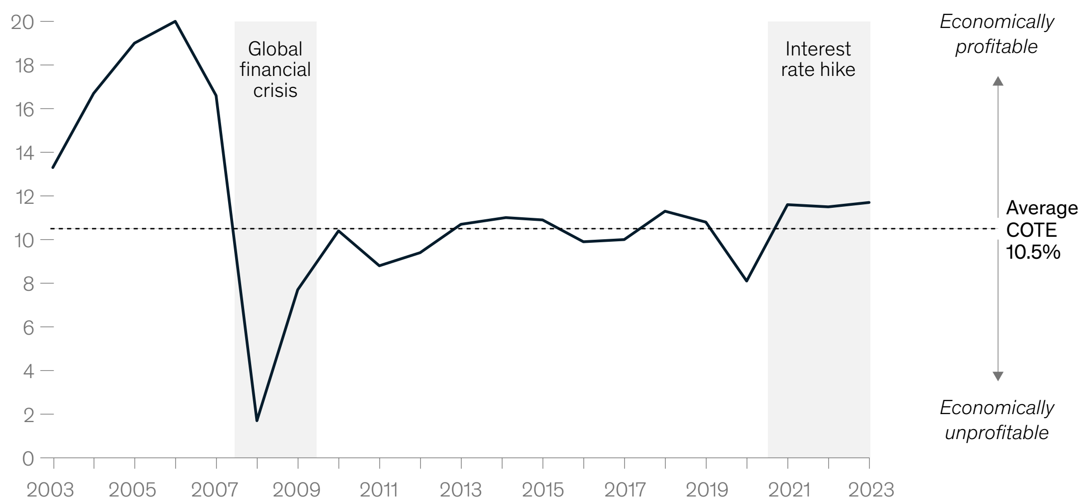
— *The wide variations in the industry across subsectors and geographies may skew how certain institutions are viewed relative to others.* Structure and mix could significantly influence how individual banks fare as conditions change. In some countries, including the United States, the United Kingdom, India, Germany, and Nigeria, performance improved in 2023 versus the 2010–22 period, while other countries, like Brazil, Canada, China, Japan, and Australia, saw lower ROTEs. These variations are also sectoral, with a roughly ten-point gap in returns between the highest- and lowest-returning sectors (Exhibit 8).

— *Banks may not be able to count on raising productivity or harnessing scale.* These continue to be conundrums for banks in many regions of the world. AI hasn't yet proved a panacea (though quite recently, some leading banks that have been first movers have publicly announced efficiencies from AI—for some of them in the billions of dollars, already worth as much as a point of efficiency ratio). Despite a global total of approximately $600 billion being spent by banks on tech that should be boosting productivity, labor productivity in some major

Exhibit 7

While higher interest rates have supported recent economic profitability across banking, this trend could reverse if interest rates fall.

Return on tangible equity (ROTE), by cost of tangible equity (COTE), 2003–23, %



Source: S&P Global; McKinsey Panorama

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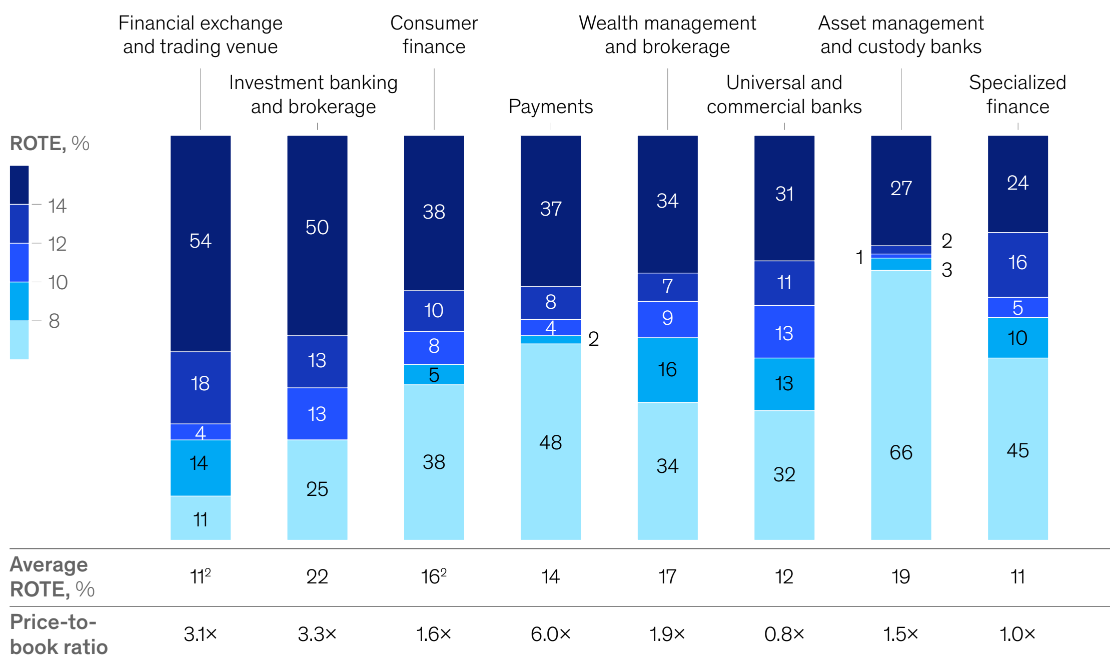
Exhibit 8

Performance in the banking industry varies across and within subsectors.

Distribution of return on tangible equity (ROTE), 2023,[1] % of institutions



[1]Based on ~3,000 financial institutions. Figures may not sum to 100%, because of rounding.
[2]Indicates ROE, considering that substantial goodwill in the segment results in negative tangible equity.
Source: McKinsey Panorama; McKinsey Value Intelligence

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markets (for example, the United States) is declining (Exhibit 9).[1] AI could change that, but at most banks, generative AI (gen AI) is currently in pilot mode. And with it comes more spending and more regulatory requirements, so many banks have adopted a cautious posture. Some of the winners are moving from this pilot approach to a domain approach, where they are looking to streamline domains end to end and applying all levers, including AI and gen AI. We will see when those effects show up in the data. Banking in many global markets also doesn't exhibit absolute scale economies, though we do see scale effects in specific subsectors, like retirement record keeping and some parts of capital markets (see sidebar, "Does scale still matter?"). As a result, neither tech spending to raise productivity nor size has truly bent the cost curve for banks to squeeze out some extra points of margin.

— *Improvement in margins may not be able to come from more cost cutting.* To maintain current ROTE in the face of some macro-driven scenarios, the industry would need to reduce its cost per asset by 5 percent per annum, or five times the industry's historic performance of 1 percent reduction per annum (Exhibit 10).

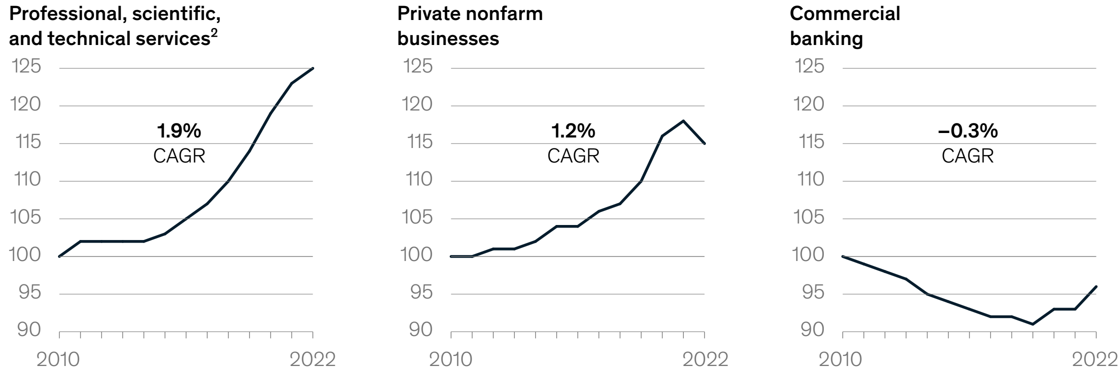
— *Attackers continue to pressure incumbents.* As we described in last year's *Global Banking Annual Review*, about two-thirds of financial asset value growth was in off-balance-sheet

[1] Gregor Petri, Jeff Casey, and Debbie Buckland, "2024 outlook: Enterprise IT spending forecast for banking and investment services," Gartner, December 4, 2023.

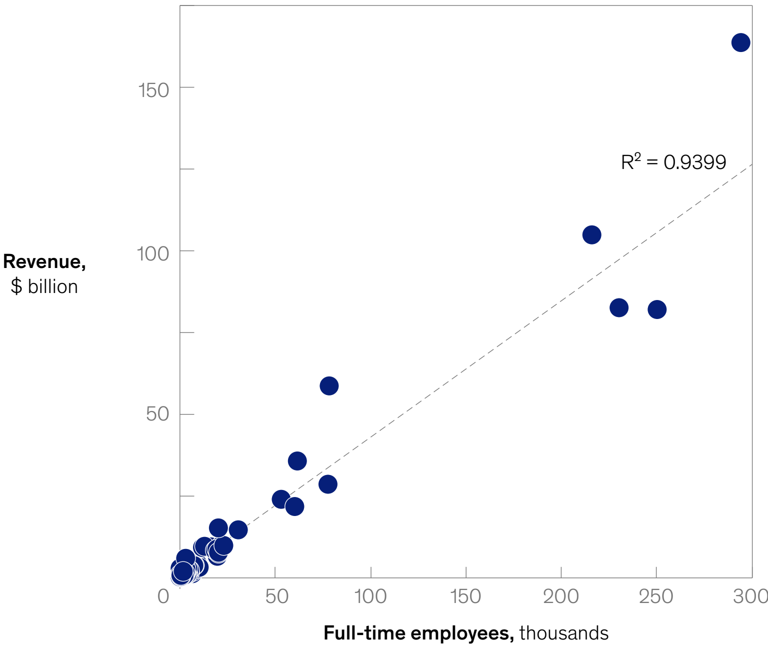
Exhibit 9

Despite tech spending, productivity at US banks has been falling, and economies of scale have been elusive.

US labor productivity, by sector, 2010–22,[1] index (2010 = 100)



Correlation between revenues and number of employees at US banks, 2023



[1]Three-year moving averages are used for professional, scientific, and technical services and for commercial banking.
[2]Includes subsectors such as accounting, computer systems design, consulting services, legal services, and scientific research.
Source: US Bureau of Labor Statistics; McKinsey Panorama; McKinsey Value Intelligence

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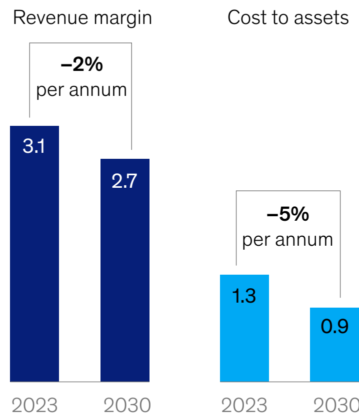
Exhibit 10

Banking has a leveraged business model and cannot simply cut costs to 'escape gravity.'

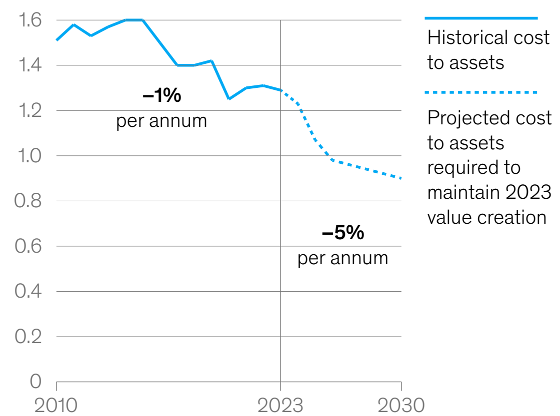
Cost-to-asset reduction required to maintain 2023 levels of return on tangible equity (ROTE) given anticipated revenue margin compression[1]

Cost to assets needed to maintain current levels of ROTE given margin compression,[2] %



To maintain current ROTE margins, banks will need to cut costs ~2.5x as fast as revenues decline

Cost to assets required to maintain 2023 value creation, %



This implies a reduction over the next 5 years that is 5× as rapid as the previous 5 years' reduction

[1]Revenue margin is defined as net interest revenue + fee and commission revenue divided by outstanding balances.
[2]For an average global bank.
Source: Economist Intelligence Unit, Oxford University; McKinsey Panorama; McKinsey Value Intelligence

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assets (for example, mutual funds and alternatives).[2] Nontraditional competitors (for example, nondepository companies and private capital) and well-funded neobanks peck at the largest profit pools.

Macro uncertainties and industry-level issues also pose challenges:

— The cost of funds for banks could increase, driven by continued quantitative tightening that reduces total deposit volumes (–6 percent CAGR since 2021 in the United States and –10 percent at European Central Bank) and increased competition with money market flows in some markets (since 2021, 12 percent CAGR in the United States and 7 percent in the euro area). The resulting competition for deposits could drive costs higher.

— Loan originations face the dual challenge of declining consumer and corporate demand. For example, US commercial real estate (CRE) originations are down 55 percent from their pandemic peak and 25 percent below their ten-year average. At the same time, existing assets face potential devaluations—some of which are yet to be fully realized. For example, CRE price index was down 9 percent in the fourth quarter of 2023 in the United States and the euro area. A reduction in interest rates may help to smooth some of these effects, but with a large share of Russell 2000 Index companies losing money,[3] there's no certainty that modest reductions will turn the tide. Additionally, rising credit costs from stressed consumers could crimp that growth to some extent, and many markets face devaluations of loan portfolios and refinancing cliffs from high-yield debt coming due for renewal.

[2] "Global Banking Annual Review 2023: The great banking transition," McKinsey, October 10, 2023.
[3] *The Daily Spark*, "40% of companies in Russell 2000 have negative earnings," blog entry by Torsten Sløk, November 17, 2023.

Does scale still matter?

Scale in banking—and the advantages it confers—has been debated across the industry for many years. Across our global study of more than 2,000 banks, we offer some empirical observations on the topic:

— *Local scale still matters in many places.* In the United States, branch density is still predictive of deposit market share, and the vast majority of checking accounts are still originated in branches, even as servicing has moved to digital channels. With the importance of operational deposits, branch networks seem to be experiencing a new lease on life after enduring a decade of skepticism and digital conversion of footfalls. Having said this, in the recent decade or so, as we said in "Customer mindshare: The new battleground in US retail banking," branch density has now become only one of four key variables (the others being Digital Quotient, customer experience perceptions, and local marketing spend) that predict share in local markets. In other markets—particularly those that are highly digital, with high population density and homogeneity—branch density may be less relevant.

— *Scale matters in certain places.* For example, in retirement record keeping, our benchmarking suggests a plateauing of the scale curve at five million participants. In some capital markets or consumer servicing businesses, amortizing a key fixed cost tech platform becomes a critical driver of unit economics. Scale can also help in marketing, with a halo effect being conferred on less-advertised products under the same brand. In some markets, we also observe a "minimum scale" required to be competitive, although the benefits of scale plateau after this point.

— *Digital can cut both ways.* While digital can lower barriers to entry in some markets and reduce scale advantages, sometimes the capital requirements to build a credible digital platform can create an entry barrier and confer scale effects on the first movers.

— *Vendor networks can reduce scale effects.* In some markets up to a certain size and complexity, it's easy to "rent" capabilities. Beyond that, it becomes more prudent to own those (for systemic resilience, proprietary differentiation, or other reasons like talent attraction). The maturity and vibrancy of the vendor ecosystem is therefore an important factor to how prominent scale effects become.

— *Complexity negates scale benefits.* In most markets, as banks get larger, so does their management complexity, regulatory oversight, and obligations. This increases complexity, which in turn leads to additional costs and negates any economies of scale.

Our conclusion, therefore, on scale: it matters selectively, and CEOs and management teams need to know when it's creating tailwinds versus headwinds. But quite often, counting on scale effects to boost comparative economics isn't a reliable strategy.

— Unrealized losses for held-to-maturity securities are predictably burning off and will shrink, with revaluations at lower rates, potentially opening the aperture for M&A. While the right M&A deal has the potential to transform a franchise, or just add valuable new capabilities (for example, digital customer acquisition tools), large-deal M&A is not a certain path to success, since scale alone isn't a predictor of margin growth in many markets. Putting aside any legal and regulatory uncertainty, successful M&A also requires robust integration planning and execution to mitigate the operational, cultural, and talent risks (among others) that can distract from day-to-day business operations. Said another way, the bar for M&A in banking should remain high, even as the aperture for deals opens.

— Our projections for the original Basel III endgame impact on ROE were material. It remains to be seen what the recently released revised proposal will result in, but that could have a further moderating effect on ROTEs.

Add these challenges to the geopolitical uncertainties of the world today, and one can contextualize the impact on ROTE that the markets are foreseeing.

Attaining escape velocity

For things to stay the same, things will have to change.

—Giuseppe Tomasi di Lampedusa (*The Leopard*, 1958)

We believe that banks wanting to attain escape velocity will need to operate very differently from today to "avoid gravity." To understand how they could do this, we looked at the track record of performance by some leaders, hoping to find clues to their longer-term health.

As we say this, it's also important to note that banks are by nature fragile entities that first and foremost need to prioritize safety and soundness. Poor structural bets, like a lack of diversification by concentrating on one segment or over-rotating on a portfolio, can destroy banks through liquidity or credit quality. Some of the leading banks in the United States by the measure of ROE (and often, growth) from a few years ago were consumed by the regional banking disruption of 2023. Further back, prior to the GFC, the leaders were subprime originators. So when we look at winners, we're cautious, looking at what they do through the lens of whether they are achieving their leadership prudently and sustainably.

With that in mind, we identified potential winners from around the world in four ways:

1. First, we looked at banks that have separated from the pack in both ROTE and price-to-book multiples. This identified institutions that have outperformed their peers.

2. Second, we looked at banks that have changed their position by more than five deciles of performance vis-à-vis their starting point five years ago. This identified institutions that have been successful at changing their performance positively.

3. Third, we looked at banks that have consistently delivered above their cost of capital (a relative rarity in an industry where, between 2013 and 2023, the average bank globally generated a $1 million economic loss, a figure which would have been substantially higher without the recent interest rate increases). This identified consistent performers.

4. Finally, we looked at banks in the United States in the top decile of TSR, compared them with the bottom-decile banks, and then ran dozens of metrics through our models to unpack, statistically, the economic drivers of the top institutions' TSR. This defined economic drivers that have propelled differentiated returns to shareholders in at least one major region.

The winners

When you come to a fork in the road, take it.

—Yogi Berra

Perhaps heeding the baseball sage's advice, banking winners have achieved their position through a combination of both structural and execution moves. Neither strategy confers enduring advantages, but the combined effect puts banks in a position that's market leading. For some contexts where we modeled the relative effects, execution (or how you operate) had two times the impact of structure (or where you compete), though both execution and structure are important. No bank we found among the winners appeared to be outperforming in only an average structural context nor being propelled solely by its structural position.

A few observations on the performance of these winners offer clues to enduring health.

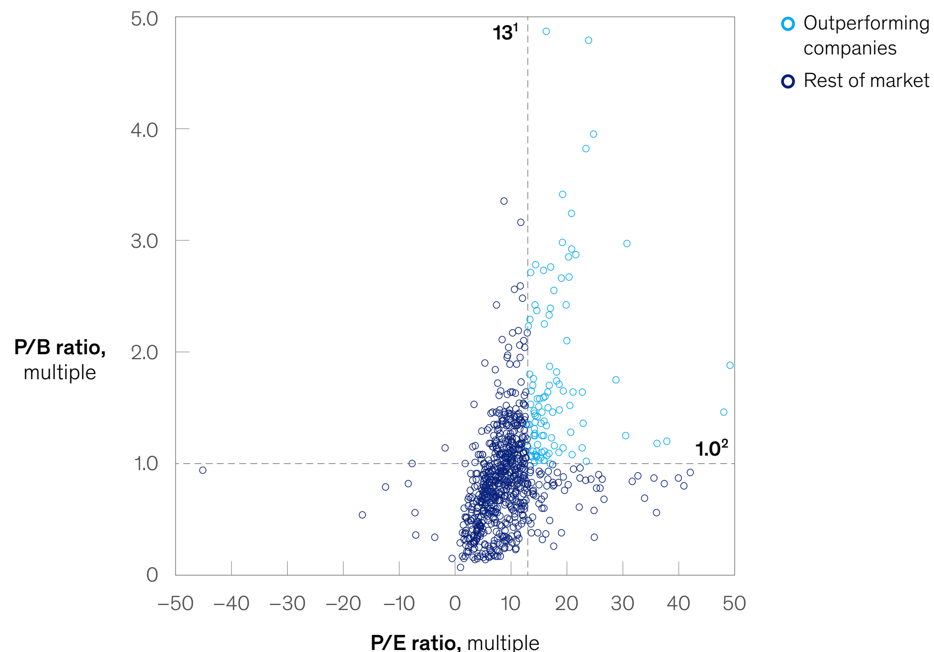
There's a path to escape velocity

A total of 14 percent of banks are expected to create value and perform at a high level based on their current price-to-book multiple (more than one) and price-to-earnings multiple (more than 13), demonstrating that there's a path to "escape gravity" in the industry (Exhibit 11). By comparison, about 62 percent of publicly traded companies outside of banking achieve this same threshold (Exhibit 12).

Exhibit 11

Fourteen percent of banks have a price-to-book ratio above one and a price-to-earnings ratio of more than 13.

Distribution of banks, by price-to-book (P/B) and price-to-earnings (P/E) ratios, 2023



Note: N = 786, of which 112 are outperforming.
[1]P/E of 13x is the bottom end of the historical rate and corresponds with the economic-profit growth above nominal GDP levels.
[2]P/B of >1.0 means expected value creation.
Source: McKinsey Panorama; McKinsey Value Intelligence

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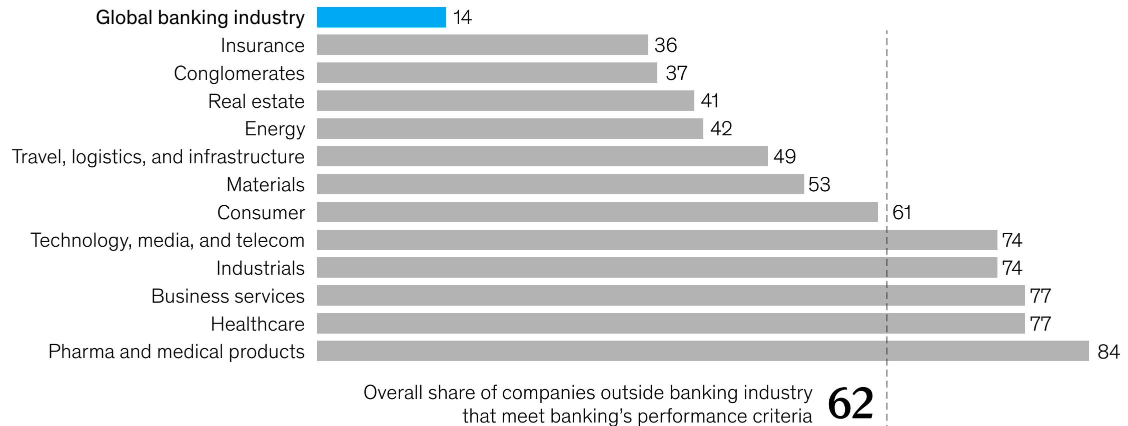
Exhibit 12

Across all other industries, 62 percent of companies have a price-to-book ratio above one and a price-to-earnings ratio of more than 13.

Share of companies[1] with a price-to-book ratio of >1 and price-to-earnings ratio of >13, by industry, 2023, %



[1]Based on ~17,000 publicly traded companies.
Source: McKinsey Value Intelligence

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The path is more common now

In good news, higher performance is becoming more distributed across the industry (perhaps aided by the regulated nature of different markets). Today, 14 percent of banks account for 80 percent of the economic profit in the industry, up from 11 percent in 2013 (Exhibit 13). The figure is almost five times the average of all other industries, where performance is far more concentrated in a few players (Exhibit 14).

The outperformance can be large

Our analysis of TSR outperformers (in the United States) shows that there's a wide dispersion in performance: 14 points between the top and bottom deciles across 90 top US banks between 2013 and 2023. Four operational metrics, along with avoiding risk, largely explain most of the outperformance of TSR: *revenue growth* (34 percent); *better net interest margin management* (34 percent) from lower cost; stickier deposit-gathering strategies (lowering the cost of funding) or better distribution and credit risk management into more lucrative lending activity, in both cases improving NIMs; *growing fee income* (16 percent) from expansion in advisory services, wealth management, and other fee-heavy businesses; and *cost efficiency* (5 percent), which while significant, has only a minimal explanatory effect on TSR (perhaps because costs are often in the bank's control and many do manage down costs rapidly, so TSR becomes less differentiating).

Many other metrics don't contribute materially to TSR (for example, asset size at the institutional level, once again emphasizing institutional scale doesn't matter as much). Calculating these kinds of metrics for your bank can help determine whether your bank is truly investing behind them. For example, do the projects in the tech portfolio support those outcomes?

Where you operate matters

About one-third of these institutions are in attractive banking markets (for example, Australia, Canada, and India) that demonstrate high margins and strong

fundamentals (for example, demand for credit, demographics, and economic growth) (Exhibit 15). Within countries, too, operating in economically vibrant regions naturally confers growth advantages. The same story plays out with portfolio mix. Some subsectors, like payments, generate ROEs of 14 percent and price-to-book multiples of six. While others, like universal and commercial banking, generate 12 percent ROTEs, with price-to-book multiples of 0.8.

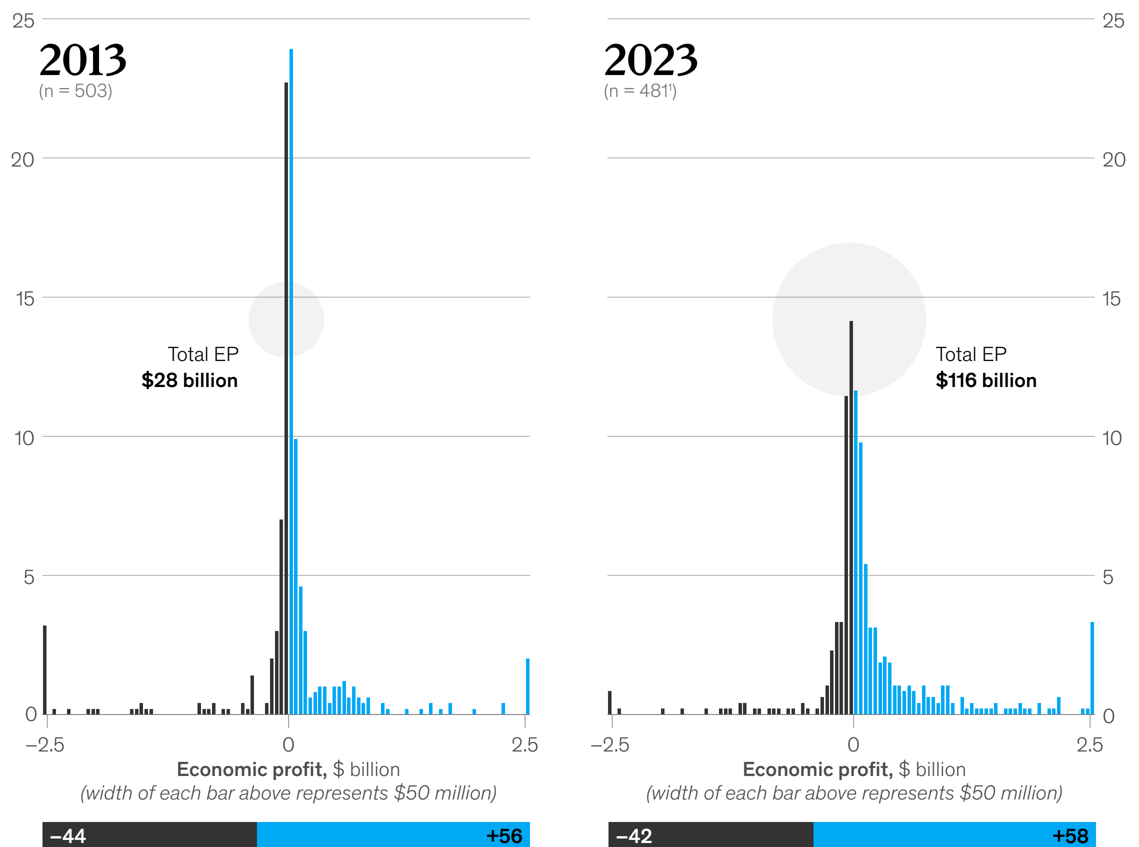
Performance also matters

Endowment or structure—or where you operate—isn't the only thing that matters; performance matters too. Institutions have achieved and sustained high levels of performance through deliberate strategic choices around structure and bold moves around execution. These winners operate across all sectors and geographies. These are the institutions you might be interested in unpacking and perhaps replicating.

Exhibit 13

The top 14 percent of banks generate 80 percent of economic profit, up from 11 percent of banks a decade ago.

Economic-profit (EP) distribution, global banking industry, % of institutions



[1]Excludes institutions that merged or ceased operations since 2013.
Source: McKinsey Value Intelligence; McKinsey analysis

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What do these banks look like? Since comparing widely varying geographies is pointless, we normalized some features to common benchmarks. The outperformers' revenue growth is 1.5 times their local GDP growth, their fee-to-revenue ratio is typically 40 percent or higher, their efficiency ratio is lower than 50 percent, and their risk costs are generally well-managed enough through the cycle to be significantly below their reference industry's costs (in amplitude as well as absolute average).

Where to compete (structure)

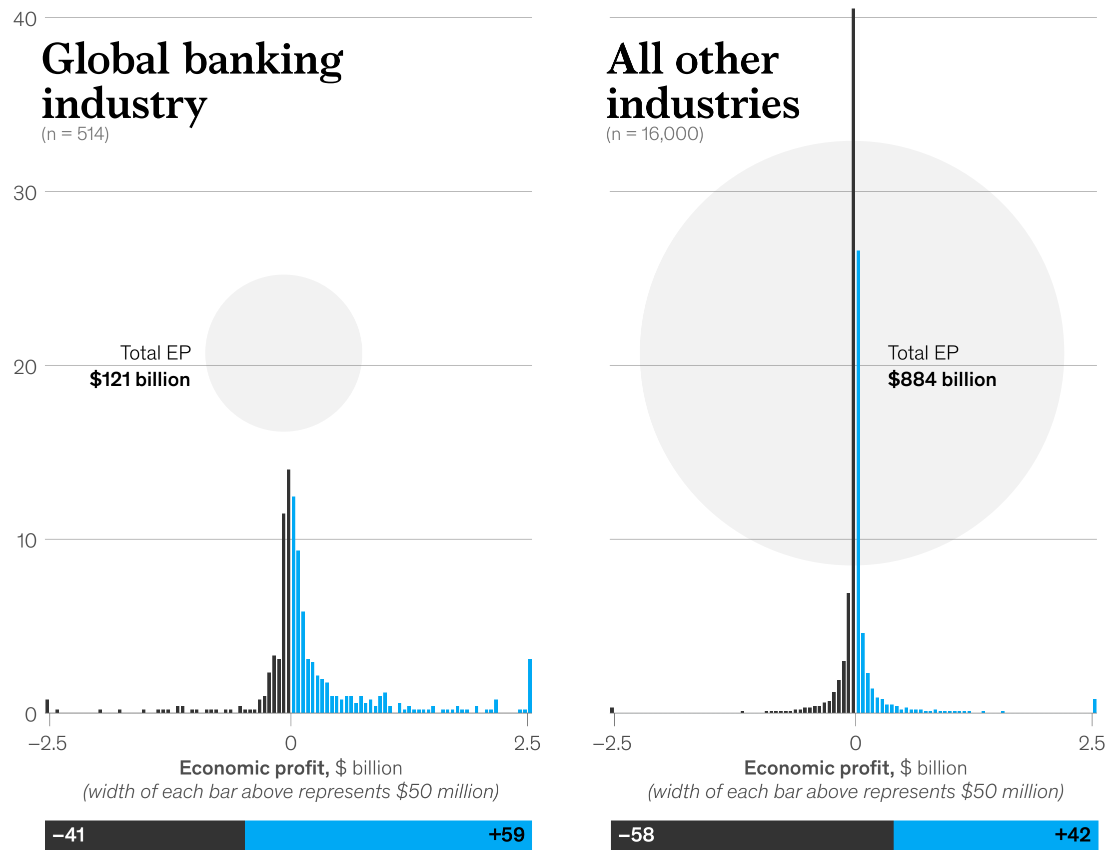
Winners have at least one of three structural markers that drive their performance:

— *Picking and decisively committing to the right segments for growth while avoiding the trap of over-rotating into them.* Investing in growth by client segment or product type but not tipping to a point of concentrating exposure is crucial. Some winners have grown their commercial

Exhibit 14

Economic profit is more distributed in banking than in other industries.

Economic-profit (EP) distribution, 2023, % of institutions



Source: McKinsey Value Intelligence; McKinsey analysis

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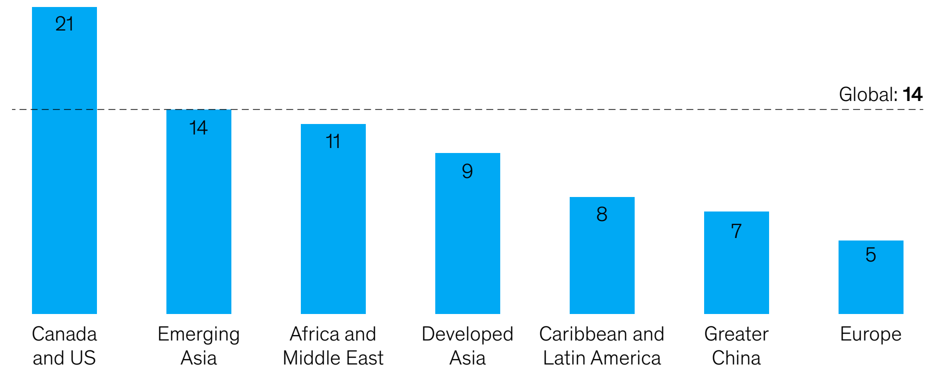
Exhibit 15

Value creation is uneven across the world.

Share of public banks with a price-to-book ratio of >1 and price-to-earnings ratio of >13, by region, 2023, %



Note: N = 786, of which 112 are outperforming.
Source: McKinsey Panorama; McKinsey Value Intelligence

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portfolios that inherently carry lower expense ratios, thereby lowering the institutions' overall expenses. Other winners have leveraged their existing platforms in sectors that carry higher ROEs, like wealth and payments; a notable example is the mass affluent segment that, in many countries, composes the largest profit pool of wealth. Others have doubled down in capital markets to drive ROE-enhancing fee income growth. For most, these changes have been a handful of points of tilt in direction, not massive swings. But these winners have reallocated meaningful investments—in money, management bandwidth, and talent—to those tilts, and that has made a difference to their returns.

— *Finding scale where it matters to drive productivity and acquisition.* While in some countries, finding economies of scale is elusive at the overall industry level, scale does exist in pockets, and finding out how to harness it can thus have a significant effect. Some winners have found those pockets and doubled down on their position to create more margin by moving up the scale curve. Examples include finding economies of scale in marketing spending; in segments like retirement and wealth brokerage; and in parts of custody operations or customer servicing that are more standardized and where economies of scale therefore exist. Additionally, scale can be local, regional, national, or global, and the best banks maximize the scale benefits in key areas around these axes.

— *Optimizing location—either geographically or in the customer value chain.* Positioning is clearly important, and some banks have chosen to shape their footprint either transnationally in countries or domestically in states and provinces that show higher-than-average economic prospects. Other banks have occupied strategic positions along the value chain. For example, a European mortgage institution has moved up the commerce funnel by offering a home search capability to consumers rather than being relegated to the bottom of the funnel, where consumers looked for financing after finding their home.

How to win (execution)

Execution excellence also provides an edge. For many institutions, there are limits to what can be done structurally (for example, shifting geographies and entering more attractive lines of business). More disciplined focus can be on targeting specific profit pools, more granular pricing capabilities, and better tailored customer segments for growth, among other approaches.

To illustrate some examples, we looked among the winners to curate a selection of strategies that different institutions have deployed to propel their returns. No institution can excel at everything, but each winner does excel at something.

The following are some execution-based approaches we observed among the winners across the globe:

— *Deepening relationships (one customer-centric bank and ecosystems).* This is particularly a factor in the corporate space that has seen less of this strategy than of the consumer approach, which benefited from a branch system that naturally served up many products via a common channel. Delivering the right mix of mutually reinforcing businesses across balance-sheet-intensive and fee-generating activities (for example, bringing a one-bank approach to deposits, lending, wealth, and other solutions, like payments products) spreads the cost of acquisition of an expensive customer across more of the bank. Some winners excel at providing wealth services to corporate customers; others offer higher ROE payments products to small businesses that otherwise would remain just credit customers. In emerging markets and increasingly in more mature banking markets, winners have been adding services beyond banking (such as loyalty, coupons, vouchers, personalized offers, marketplace services, gamification, and integrating with lifestyle and social media apps) to increase customer engagement and usefulness. This doesn't just reduce churn to near zero but also deepens relationships substantially. In some cases, there may also be substantial third-party revenue from these carefully designed ecosystems.

— *Achieving retail or small and medium-size business (SMB) customer primacy through a personalized funnel.* A North American leader has retooled itself to be able to create a more personalized experience for its customers, all the way from marketing to service. It has focused on products like wealth and home equity to create rapid cycle propositions (as many as four marketing campaigns a month). It has attached that to a segmentation that drives who answers the phone, the script used, and ultimately what kinds of ongoing servicing support the customer experiences (for example, at what points it checks in on the customer and what types of offers it mails to them). The company uses a dashboard to update all the key metrics in almost real time, enabling self-generating improvement loops. This has resulted in a dramatically lower cost of acquisition and decreased customer attrition levels, resulting in longer lifetime value.

— *Leveraging granular pricing and risk selection.* A leader that had long prided itself on both customer access and speed of decision making to build its book of complex lending (for example, mortgages and SMB loans) realized a few years ago that these two edges were being competed away by the ubiquity of digital offers and the inevitable compression of decision-making time. Indeed, in its market today, the vast majority of approvals are achieved in a matter of hours. The institution therefore invested heavily in data and analytics to build a truly microsegmented view of its customers. These clusters of customers, linked together by both need and behavioral characteristics, have helped the bank expand into new, previously underserved segments—and to better price existing segments to match its risks. It has also married its complex lending with a network of partners offering additional value-added services, further diversifying its sources of revenue.

— *Building world-class lead generation in wealth management.* A wealth manager with a large team of financial advisers decided to fundamentally shift its approach to lead

generation and economics. The institution recognized that there were three outsize drivers of capturing "money in motion": the right offer, the right time, and delivery through the right channel. Getting these three things right rather than going about them randomly is delivering a propensity to convert that's almost 20 times higher than that of typical adviser outreach. By building an analytical model that combined client data with these kinds of triggers, along with a rigorous A/B-testing program, the institution was able to provide materially better leads to its financial advisers, just in time. Not only did this result in a double-digit increase in customer and asset conversion, but the institution was able to fundamentally change the economics on these clients, with a lower financial adviser fee share.

— *Achieving retail or SMB customer primacy through mobile-orchestrated distribution.* A winner that operates in a digitally forward nation has invested heavily in making the shift from thinking about an omnichannel distribution strategy to using one that's truly mobile orchestrated. It has elevated mobile as the orchestrator of all customer journeys (which deepens relationships and routes customers to the right service point effectively); standardized all other channel operations, turning these channels into interfaces of the same process (which reduces operation costs and complexity); moved many services that require specialized expertise into a remote advisory model (which enables efficient deployment; and moved the "system intelligence" into an "orchestration brain" across the customer relationship management, funnel management, and customer value management systems (which makes it harder for competitors to copy the model). This has improved revenues by simplifying customer acquisition and deepening relationships; reduced costs by moving some staff out of the branch (and reducing branch footprint) and into contact centers (with AI-supported self-service capabilities increasing as well); improved customer experience, as customers are delighted with the ease and simplicity of banking with the institution; and aligned what were previously diverse tech platforms into coordinated, cloud-based platforms with near-zero marginal costs to serve. As a result, this institution now leads peers in four dimensions: growth, relationship depth, customer satisfaction, and operating leverage.

— *Using strategic talent management to win with clients and unlock productivity.* Some winners are focusing on their return from talent and using their people to differentiate their client

No institution can excel at everything, but each winner does excel at something.

value proposition. They have created a strategic HR capability to recruit candidates in days instead of months, compensate at the top quartile, maintain employee satisfaction scores (including by providing mission motivation, not just monetary incentives), and inspire their workforces to go above and beyond to serve their customers. Most effective leaders are leveraging workforce and talent optimization to drive change. They leverage three set of changes: rapid interventions into location, pyramids, and other areas; moves to rewire the organization for future success, such as with centralization and reduction in shadow functions; and the capture of opportunities to fundamentally strengthen the talent backbone with better workforce planning.

— *Picking the right spots in wholesale banking to win.* A regional bank recognized that it would never reach the scale to win across wholesale banking holistically. Instead, it undertook building specialized sector offerings (vertically integrated across the entire sector's value chain) to become the destination institution for clients in those spaces. It invested deliberately in talent, footprint, marketing and thought leadership to build its brand in these areas. In addition, it focused heavily on becoming the one-stop shop for clients in this space, making it easy for them to access treasury management services, payroll (through partners), and a host of other related activities. Rather than being threatened by private-credit players, the bank has embraced them, creating new unique opportunities for its clients to access additional financing through its private-credit partners and providing it with a new revenue source.

— *Building an AI-enabled bank.* While intelligence that's truly artificial is still emerging, there are a few leading institutions that have leaned very heavily into using advanced analytics, which include machine learning, deep learning, and more recently, gen AI and other approaches. They have built this into their cultural fabric (for example, there's no central analytics group, as analytics are embedded in every cell, and they have compliant model validation processes that are three times faster than the average) and operating models (for example, their data structures are best in class; they have made strategic investments in the ecosystem, including analytics start-ups; and their talent is best in class). Their focus is therefore tilted toward scalable businesses where they can leverage their analytical prowess to drive digital interactions supplemented with human interactions at critical points where needed. We think that this model (which we're seeing different banks deploy on every continent) will become more common as digital interactions proliferate, AI becomes more democratized, and talent becomes more skilled.

— *Using proven operating models to unleash speed at scale, safely.* Several winners have built (and branded) their operating models. These are variations of "digital factories," "product and platform," or more aggressively, "independent mini-companies" that are able to operate under the same umbrella with more independence while automating a large portion of common services. What we have observed is that infused into these operating models is a can-do culture. There's aspiration and ambition, respect for expertise, and a dedication to the customer. There's also generosity, collaboration, and a spirit of involving control functions early on and often to prevent surprises at the end. There's an obsession with details and a top-down mandate to keep at the forefront while always being prudent—a difficult balance to achieve culturally. These banks outperform because they just make things work more smoothly, and the decisions they take at the top translate into action at the front line far faster than seen with others. Building these operating models and role modeling and nurturing the culture and behavior that optimizes the speed they work at has been the secret sauce for many of the winners that use this approach.

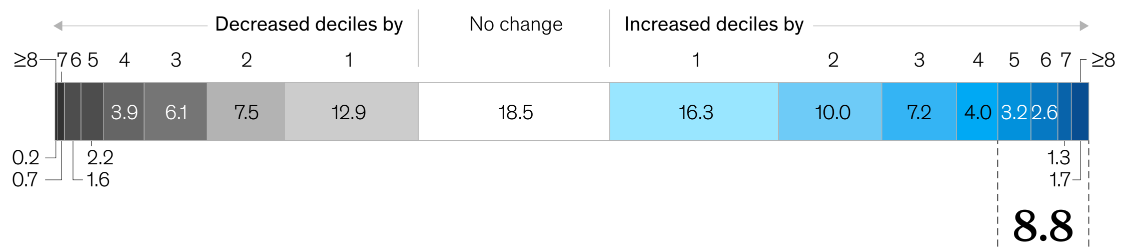
‘Management quotient’ as a differentiator

About 10 percent of global banks have been successful at raising their performance by as much as five or more deciles of the industry’s ROTE distribution, showing that breakout performance is indeed possible in this sector (Exhibit 16). But overall, our analysis shows that there doesn’t seem to be a lot of relative positional movement in the industry. Only 5 percent of banks dropped their performance by five or more deciles, about half the industry remained within one decile of its starting position, and roughly two-thirds of the industry remained within two deciles of its starting position. Change is clearly not easy. But conversely, this isn’t an industry where you can statistically wait for your competitors to score own goals and hope that improves your relative position. With the average bank historically eroding economic value and the industry globally trading at below-book value of

Exhibit 16

About 10 percent of banks have moved up five or more deciles in return on tangible equity over the past ten years.

Share of banks that changed deciles in return on tangible equity, 2013–23, %



Source: McKinsey Panorama; McKinsey Value Intelligence

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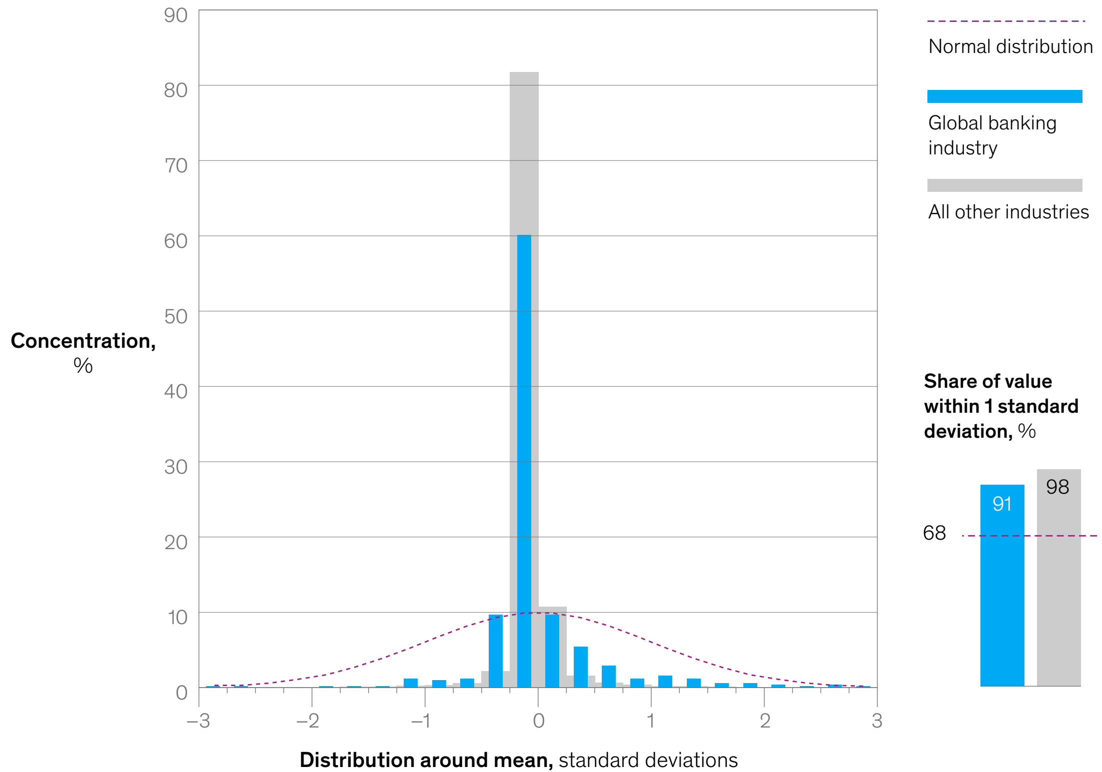
equity, this puts the onus on management to actively move to "fight gravity" and achieve liftoff in the face of the coming headwinds we described earlier.

The economic returns[4] from most industries in the world very roughly resemble a bell curve[5] (maybe this suggests some element of randomness in their results, a symptom of external and myriad forces at work outside management's control) but with far more concentration around the average (Exhibit 17). Banking appears similarly hewn to the distribution shape of other industries but with more dispersion around the average. Can this greater fragmentation of results be where more opportunity lies—either from structural consolidation of lower performers or from some of the outliers taking share? Naturally

Exhibit 17

Economic profit is much more concentrated around the average compared with a normal distribution.

Distribution of economic profit compared with normal distribution, 2023



Source: McKinsey Panorama; McKinsey Value Intelligence; McKinsey analysis

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[4] Returns above cost of capital.

[5] The shape of the distribution of corporate results somewhat resembles a normal distribution but with a lot more modality or skewness around the mean. For nonbanking companies, 96 percent of their returns fall within half a standard deviation of the mean versus 38 percent for a Gaussian or normal distribution, and 98 percent fall within one standard deviation versus 68 percent. But by the time one gets to the second standard deviation, 99 percent fall within two standard deviations, consistent with the 99 percent of a Gaussian normal distribution. Banks are a little less skewed (or more normalized) than other industries are, with 86 percent of banks falling within half a standard deviation, 95 percent within one standard deviation, and 99 percent within two standard deviations.

the regulatory oversight of banks differs greatly from what many other sectors experience, so there are some different forces at work. But would a stronger "management quotient" change the skewness by creating more outliers as more companies outperform?

The general tightness in distribution around the average and the previously quoted figures of the relatively small amounts of movement in performance speak to how hard improving performance is. The industry is rife with examples of well-intentioned ideas and initiatives that didn't anticipate second-order effects that weren't sustained over time (for example, cost-cutting programs that lasted two years only to see costs "walk back in the door") or that ran at cross purposes (for example, poorly designed mobile apps that led to increases in call center volumes instead of the reductions planned in the business case). For example, our GCI Analytics subsidiary that tracks detailed metrics in commercial banking and cash management in the United States has tabulated several instances of increases in prices that led to enough customer attrition that more than offset the additional revenue. Research has consistently found that only 30 percent of transformations fully succeed, while 70 percent either only partially succeed or entirely fail. But management can make a real difference to these outcomes.

Given the market's current view of banking and the gravitational forces at work, management teams can seize the moment to separate from the pack. They can create real dynamism by answering five core questions:

— *The hand you have been dealt.* Given market structure matters (fragmented versus concentrated, public versus private, and global versus national versus regional versus community focused), what's your thesis about how the fundamental economics in your specific market will play out? What are the empirical drivers of your and your competitors' market values that could realistically be influenced to drive relative competitive advantage?

— *The hand you play.* Once you have isolated and accounted for market-structure-oriented drivers of enterprise value, how much of the residual value gap to your competitors can be closed by further harnessing endowments your bank enjoys (for example, brand and community loyalty)? How much would need to rely on execution factors (for example, moves you make and businesses you grow into)?

— *Tilting the scales.* Where are the points of disproportionate structural leverage (for example, via scale, portfolio mix, and relationship depth)? Where are the points of disproportionate executional leverage (for example, from better risk selection, talent selection, pricing, and marketing)? How much of this leverage is organically capturable?

— *Friction or frictionless.* Is your operating model set up to translate ideas to actions fluidly, or does it sometimes feel like you're wading in mud when trying to get things done internally? What exactly is getting in your way? What can be learned and adapted from more nimble executors?

— Improvidus, apto, quod victum.[6] How fast do you tack to changing trends and competitors' moves? Who are the "beacons" you have set yourself and your management team to emulate, so you can leap ahead?

[6] Improvise, adapt, and overcome.

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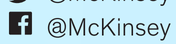 @McKinsey
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