



MARKET REPORT

EUROPEAN BANKS – BRIEF PERFORMANCE OVERVIEW



MOONROC INSTITUTE OF
ECONOMIC RESEARCH



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EUROPEAN BANKS – BRIEF PERFORMANCE OVERVIEW

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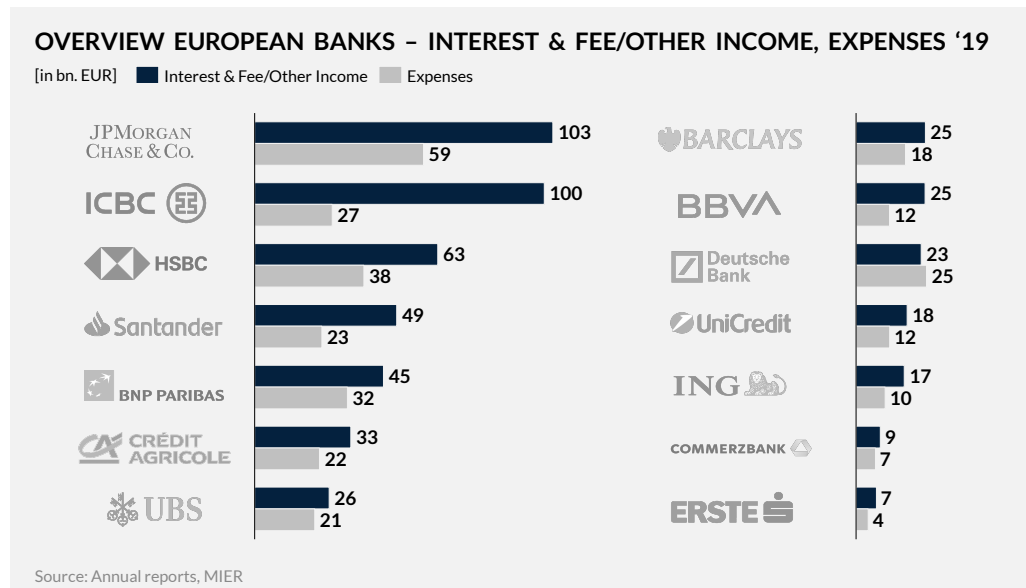
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1. THE EUROPEAN BANKING MARKET DRIFTS APART

Most of the large European banks still manage to deliver significant growth numbers, despite all the known challenges facing the banking industry. The growth is reflected in rising interest and non-interest income (revenue) and in stable or growing profits.

All the headwinds caused by the zero-interest-environment, fierce competition and political uncertainties concerning global trade are offset by new opportunities and the banks' ability to start to fundamentally adapt their business models.



Banking markets globally, in Europe and within each country (e.g.) Spain, the UK, Italy, France and Germany function similar, yet differently. Competitors, pricing levels, regulatory environment, technology adoption rates, customers and profit pools vary significantly among European banking markets.

Despite these differences, some players anticipate future revenue pools better than others. These institutes are capable of strengthening their market position, tightening their customer relationships and extracting significant profits out of the respective markets.

It is well enough that people of the nation do not understand our banking and monetary system, for if they did, I believe there would be a revolution before tomorrow morning.

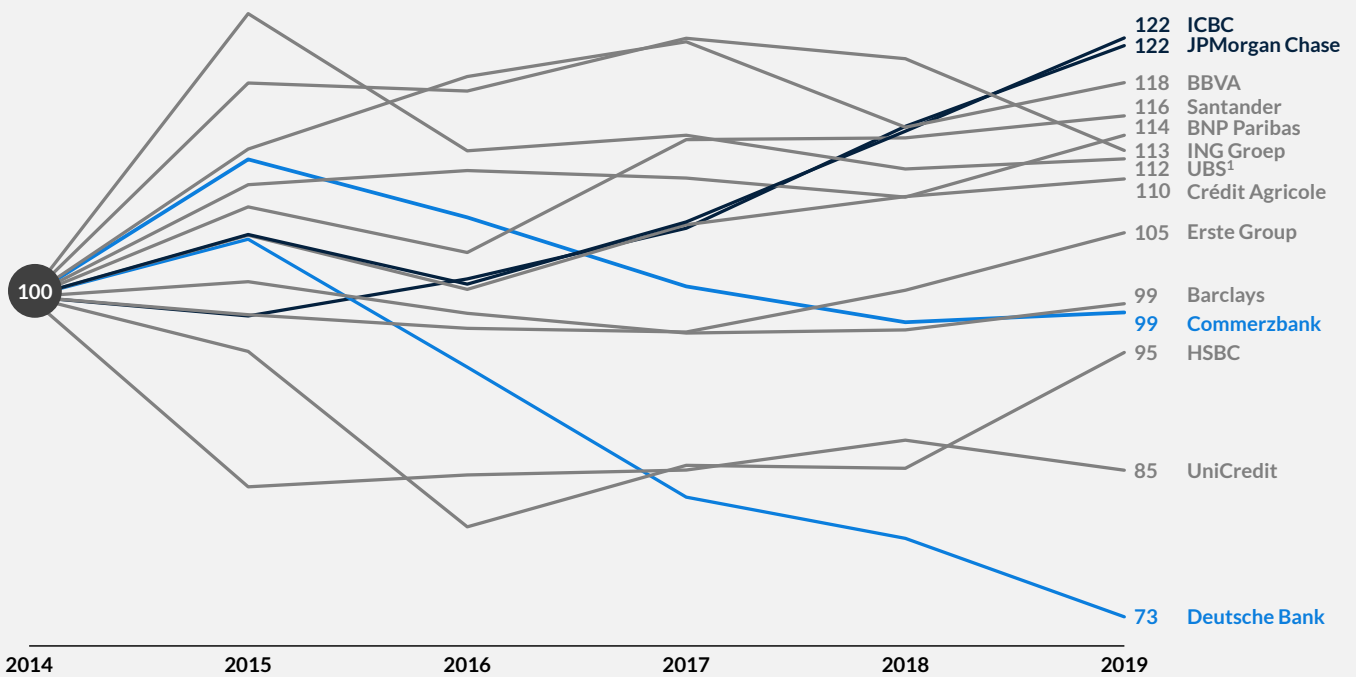
Henry Ford

On the other hand, major German players had difficulties in their restructuring efforts so far. They could not really participate in the overall recovery of the European banking markets and faced challenges adjusting their respective cost base (2014-2019).

In terms of size, major German banking institutes (private) could not keep pace with most of their European competitors, amongst which HSBC, Santander, BNP Paribas, Crédit Agricole and UBS are the leading banks in terms of revenue.

In contrast, American and Chinese banks seem to play in a league of their own. They have significantly outgrown their European competitors in terms of interest and fee income (revenue) and profit. In terms of income, J.P.Morgan Chase and the Industrial and Commercial Bank of China generate on average more than twice or three times the income of their large European counterparts.

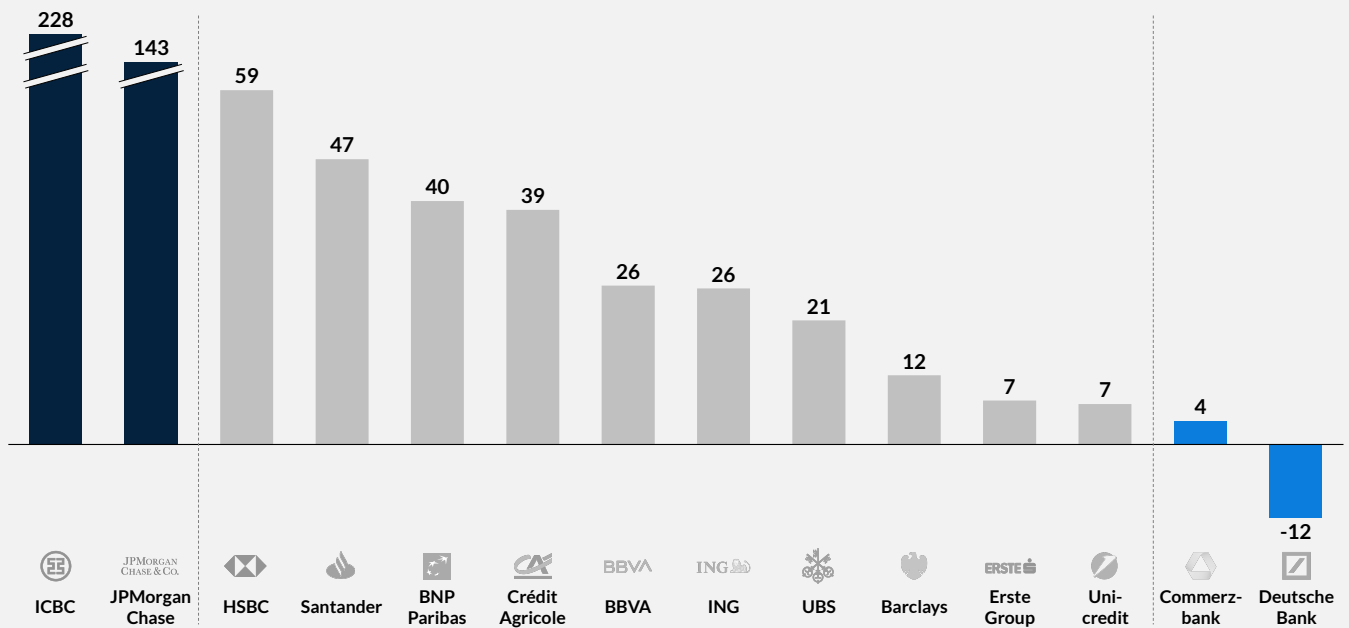
DEVELOPMENT OF INTEREST & FEE/OTHER INCOME '14 - '19 - INDEXED



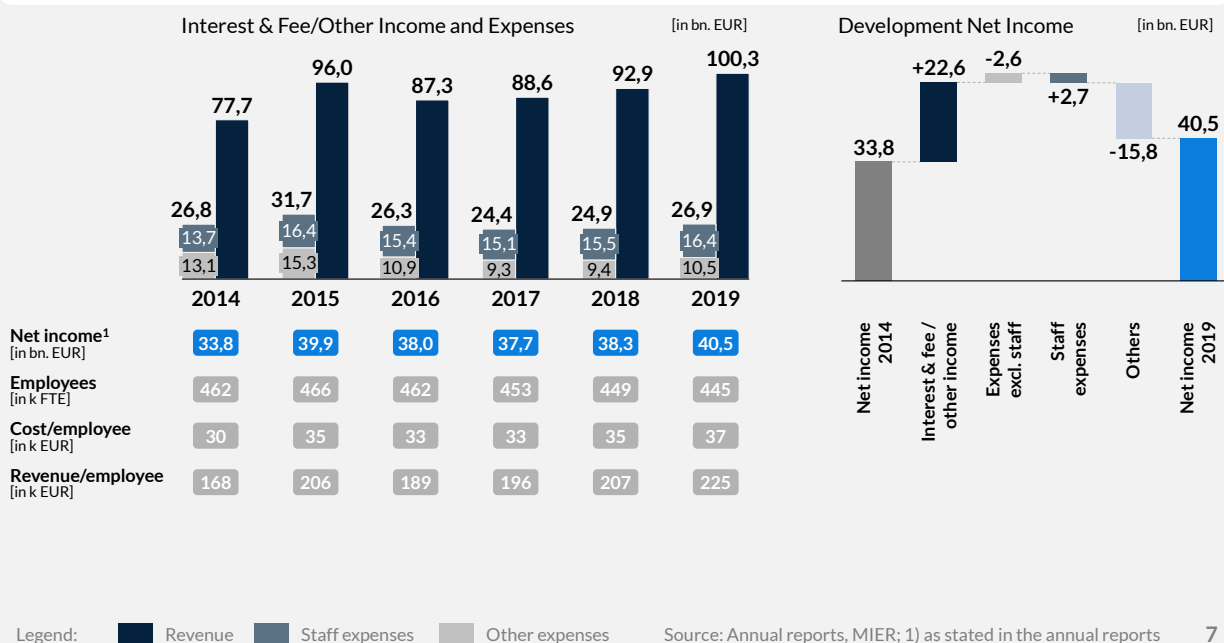
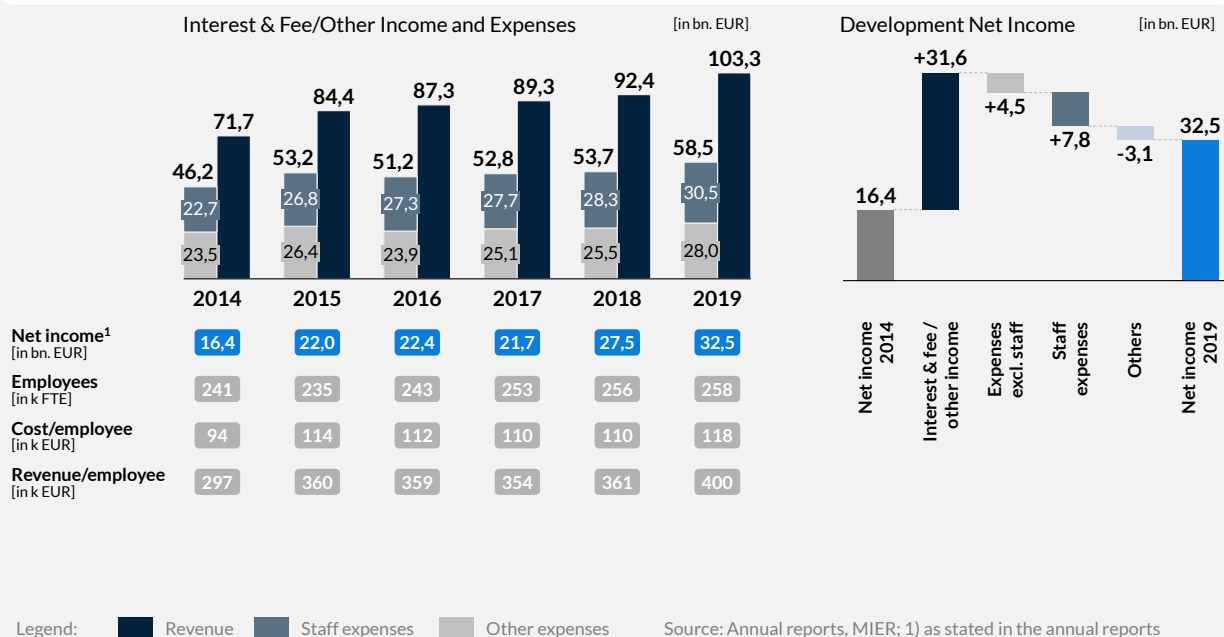
Source: Annual reports, MIER; indexed based on currency of financial statements; differences due to rounding possible; 1) indexed in EUR

NET INCOME '14 - '19 - AGGREGATED

[in bn. EUR]



Source: Annual reports, MIER; differences due to rounding possible



2. THE GERMAN BANKING PARADOX

The development of the German banking institutes stands in strong contrast to the overall economic foundation and development of the German economy in general. Between 2012 and 2019 the German gross domestic product increased by +700 bn EUR (+26%), which is by far the strongest increase within the EU.

The overall economy in Germany has been in a continuous and stable growth mode for years. Until 2020 the German economy grew for about ten years in a row, the longest period since the reunification of Eastern- and Western-Germany (03.10.1990).

In addition, the quality of loans in Germany is comparably high. The German “non-performing loans ratio” (NPL) is the lowest in the European market, making lending money a relatively save and riskless business. Yet the paradox is, that German banking institutes have not been able to capitalize on this fundamental advantage so far.

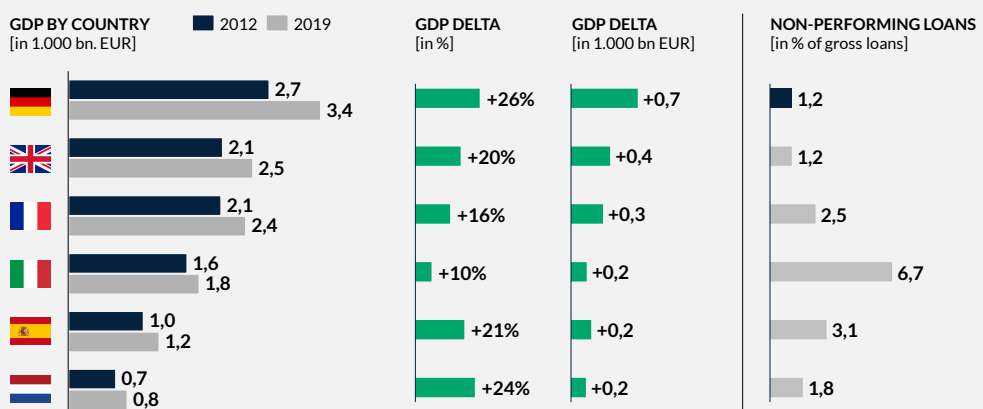
Of course, there are legitimate reasons why some of the German banks are having difficulties in realizing sustainable growth. Among others, the “3-Säulen-Modell” (Three pillar ownership structure), fierce competition and a demanding regulatory body are the most frequently cited hurdles within the local banking market.

However, there is one thing to consider. Just at the turn of the millennium, German banks were among the largest banks in the world. Deutsche Bank was even considered the largest banking institute not only in Europe but globally (in 1999/2000). All the cited reasons why banking in Germany might be different and difficult were valid at the time as well and did not really obstruct the institutes from growing their business back then.

Good banking is produced not by good laws, but by good bankers.

Hartley Withers

GROSS DOMESTIC PRODUCT '12-'19 & NON-PERFORMING LOANS (selected countries)



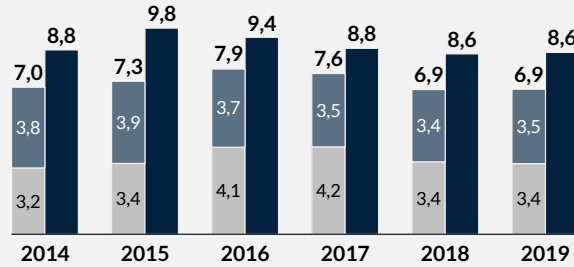
Source: Eurostat, European Central Bank



COMMERZBANK

DE

Interest & Fee/Other Income and Expenses [in bn. EUR]



Net income¹
[in bn. EUR]

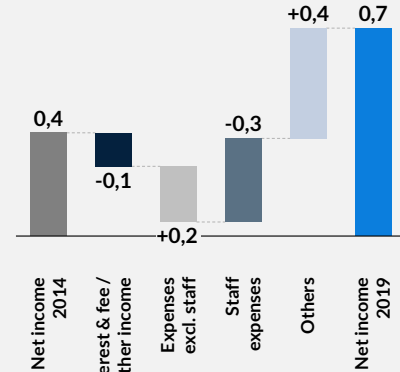
Employees
[in k FTE]

Cost/employee
[in k EUR]

Revenue/employee
[in k EUR]

2014	2015	2016	2017	2018	2019
0,4	1,2	0,4	0,2	1,0	0,7
52	51	50	49	49	49
74	76	74	71	70	73
168	191	187	179	173	178

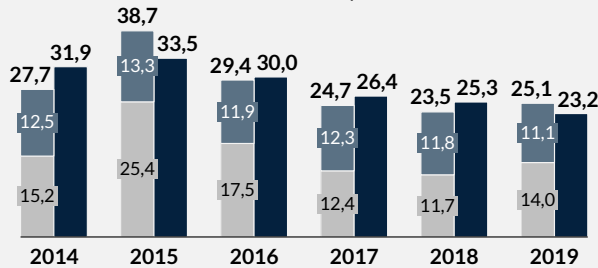
Development Net Income [in bn. EUR]



DEUTSCHE BANK

DE

Interest & Fee/Other Income and Expenses [in bn. EUR]



Net income¹
[in bn. EUR]

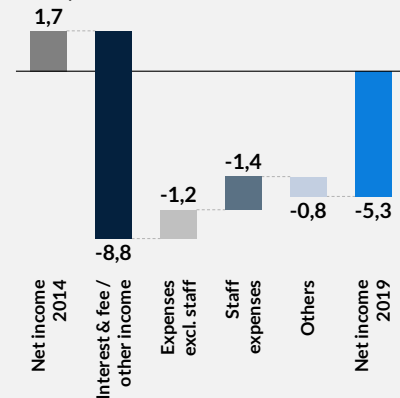
Employees
[in k FTE]

Cost/employee
[in k EUR]

Revenue/employee
[in k EUR]

2014	2015	2016	2017	2018	2019
1,7	-6,8	-1,4	-0,7	0,3	-5,3
98	101	100	98	92	88
127	132	119	126	129	127
326	332	301	271	276	264

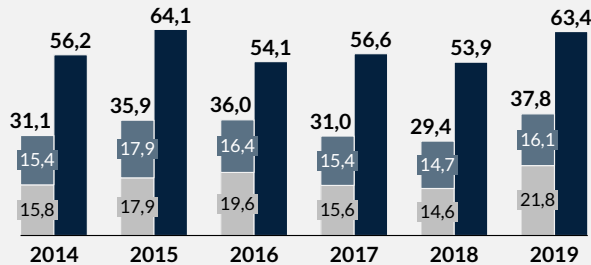
Development Net Income [in bn. EUR]



HSBC

UK

Interest & Fee/Other Income and Expenses [in bn. EUR]



Net income¹
[in bn. EUR]

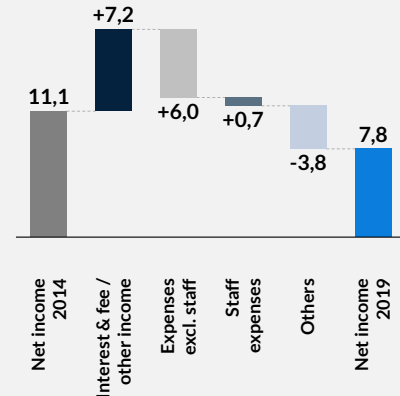
Employees
[in k FTE]

Cost/employee
[in k EUR]

Revenue/employee
[in k EUR]

2014	2015	2016	2017	2018	2019
11,1	13,6	3,1	10,5	12,7	7,8
258	255	235	229	235	235
60	70	70	67	63	68
218	251	230	247	229	270

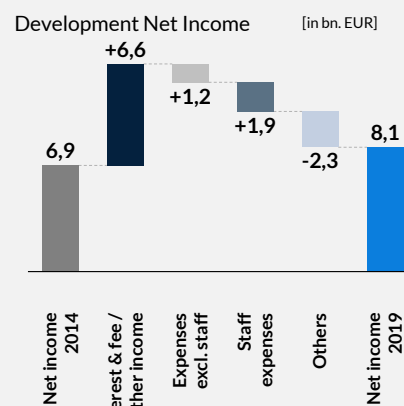
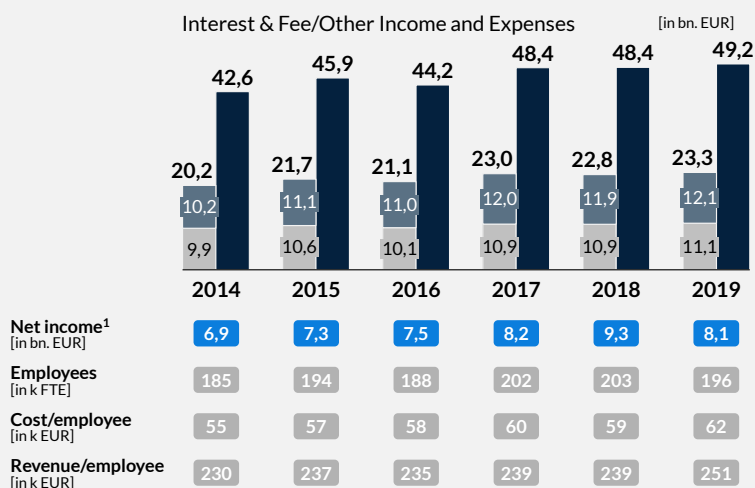
Development Net Income [in bn. EUR]





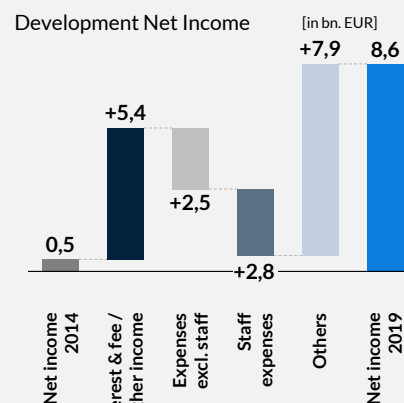
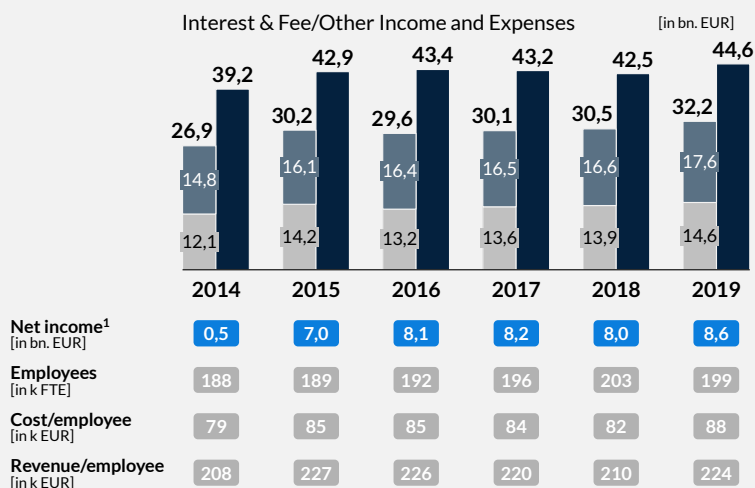
SANTANDER

ES



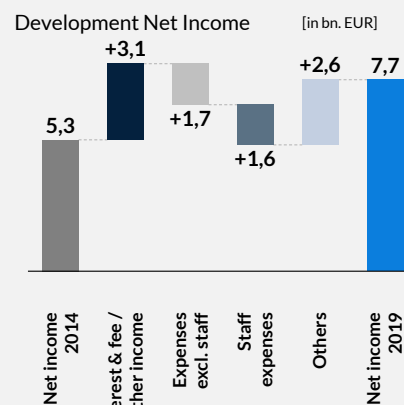
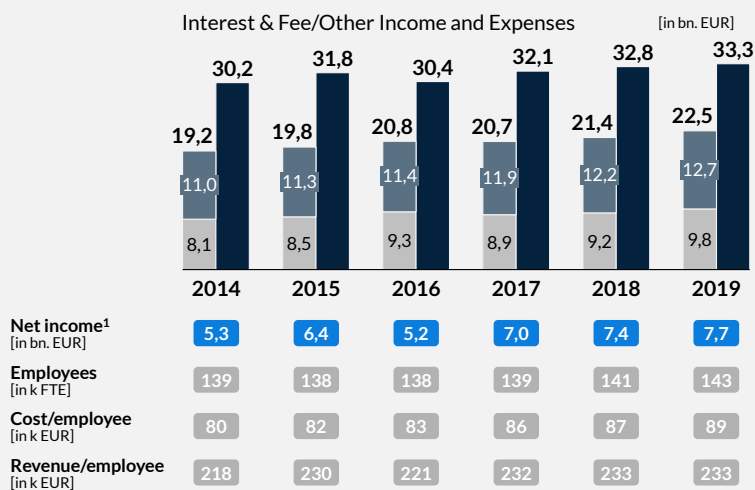
BNP PARIBAS

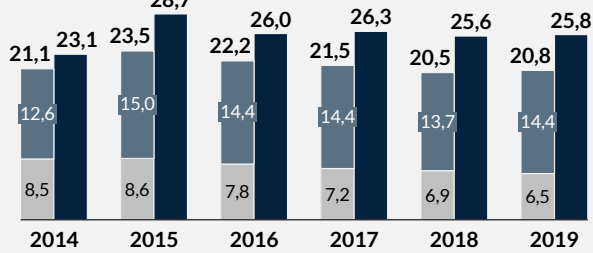
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CRÉDIT AGRICOLE GROUP

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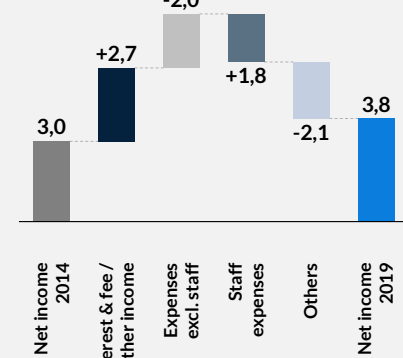
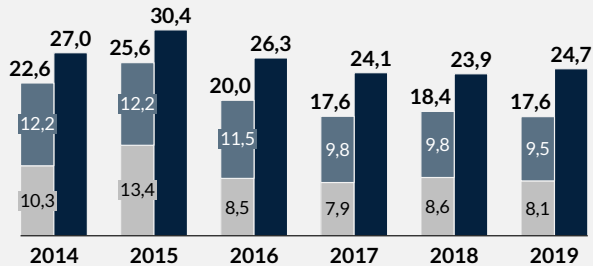
Interest & Fee/Other Income and Expenses [in bn. EUR]

Net income¹
[in bn. EUR]

Employees
[in k FTE]

Cost/employee
[in k EUR]

Revenue/employee
[in k EUR]

2014	2015	2016	2017	2018	2019
3,0	6,0	3,1	0,9	3,8	3,8
60	60	59	61	67	69
209	249	242	235	204	209
384	477	437	429	383	376

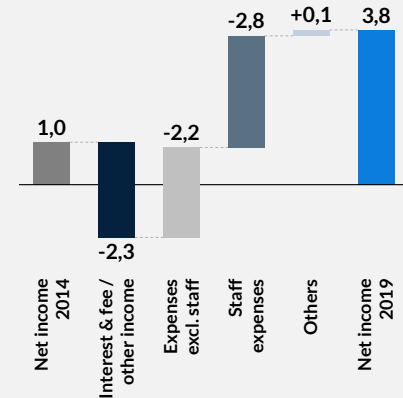
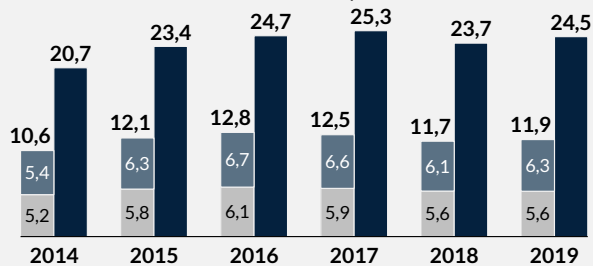
Development Net Income [in bn. EUR]

BARCLAYS
Interest & Fee/Other Income and Expenses [in bn. EUR]

Net income¹
[in bn. EUR]

Employees
[in k FTE]

Cost/employee
[in k EUR]

Revenue/employee
[in k EUR]

2014	2015	2016	2017	2018	2019
1,0	1,0	3,6	-0,8	2,9	3,8
90	88	79	80	84	81
136	139	147	122	117	117
300	346	334	301	286	305

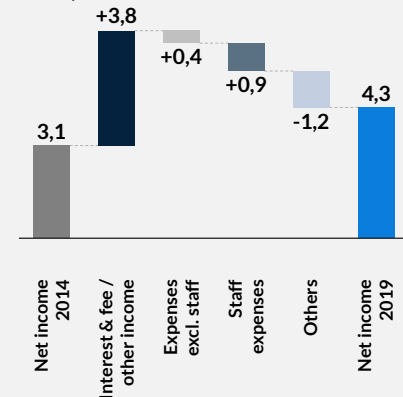
Development Net Income [in bn. EUR]

Interest & Fee/Other Income and Expenses [in bn. EUR]

Net income¹
[in bn. EUR]

Employees
[in k FTE]

Cost/employee
[in k EUR]

Revenue/employee
[in k EUR]

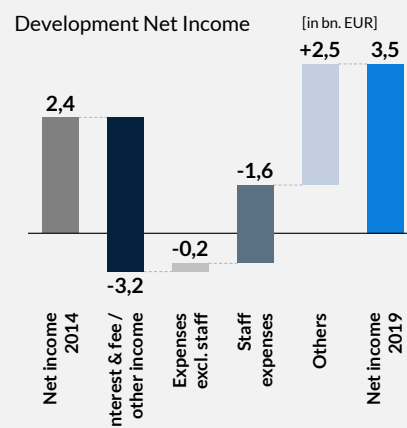
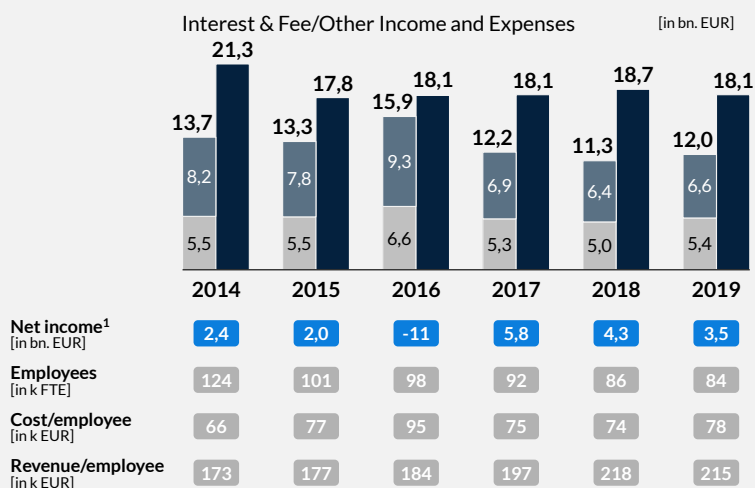
2014	2015	2016	2017	2018	2019
3,1	3,3	4,7	4,8	6,2	4,3
109	124	137	132	126	127
50	50	49	50	49	50
190	188	180	192	189	193

Development Net Income [in bn. EUR]




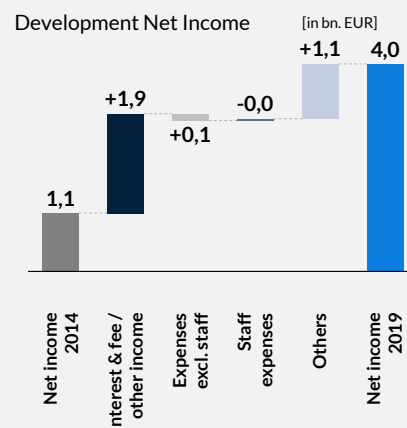
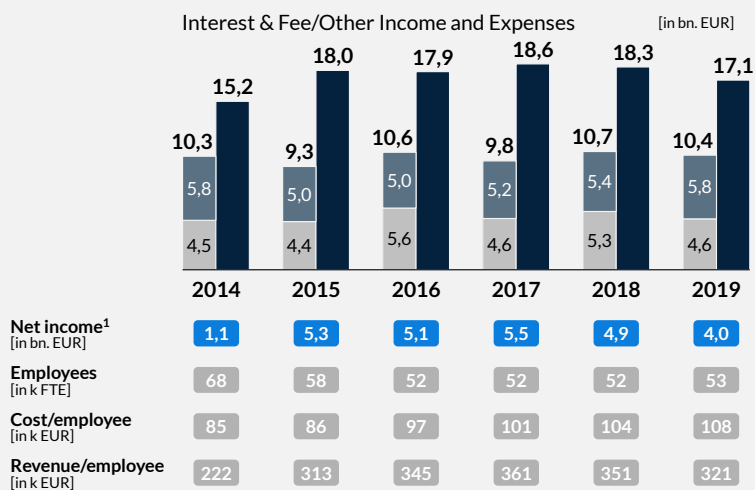
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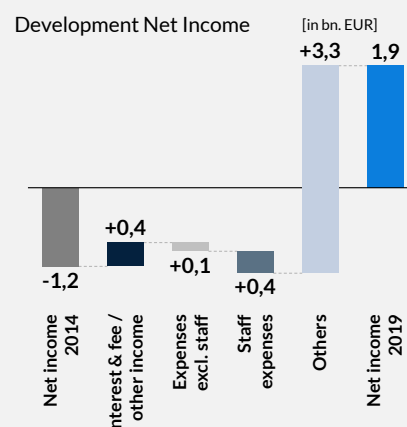
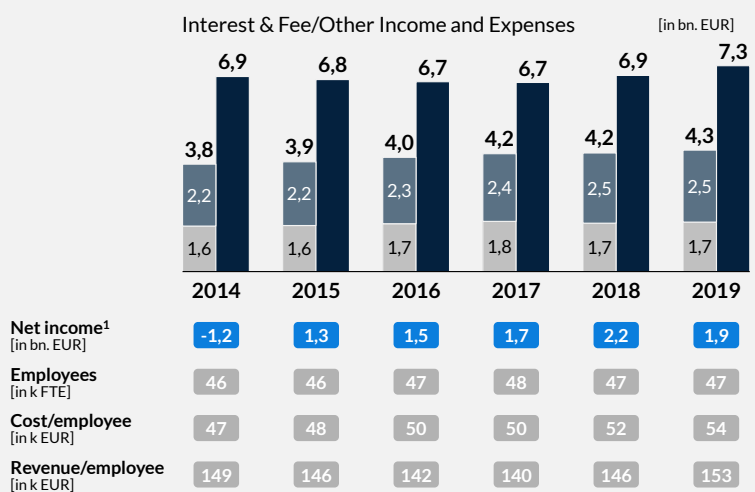
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AT



3. HOW TO ACHIEVE GROWTH

Formerly “leading” German banks have struggled to generate growth and defend their position on the local and global markets over the past years. At the same time, other major European banks have proven that it is possible to succeed, even under current market conditions.

Successful European and global financial institutions were able to tap new revenue opportunities in their respective markets and transform these opportunities into P&L relevant businesses. At the same time, only very few institutes successfully executed sustainable cost saving measures and hence were able to transform into more efficient organizations. Most institutes that have chosen to focus merely on cost reductions have been facing sharply declining revenues without any considerable effect on their cost-income-ratios.

This might be one of many reasons, why investors seem to honor revenue growth over cost saving efforts, as their investment capital is seeking for future growth cases, not business models trying to protect the past.

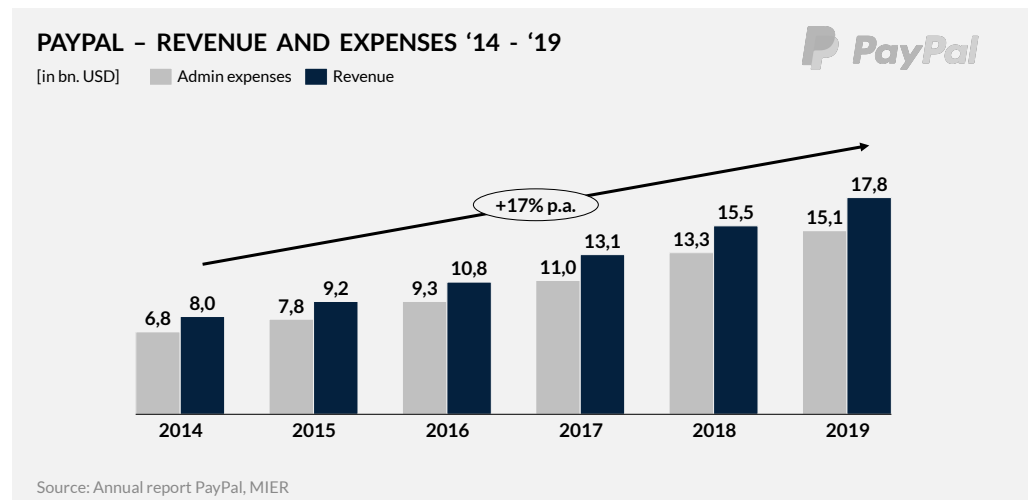
Nowadays, banks should consider their business as being more than keeping a loan book and managing deposits. As in other industries, like for example the automotive sector, where completely new car models, new technologies and new value added services are being developed and launched constantly, the banking industry must learn to regularly reinvent themselves and their respective solutions.

Banking organizations tend to change pricing schemes rather than rethinking the product portfolio or introducing new value adding product or service enhancements.

The ‘What do we need to change in order to stay who we are?’ – approach does not seem to be the right strategy for the new banking world.

New entrants in the banking arena have started to develop less interest dependent banking models. One approach that has been proven to be successful is the shift towards transactional banking models. This move allows banks to generate new revenue streams and to form new partnerships with retailers, platforms, or clients from other industries.

PayPal provides a prime example of how a transactional banking model at the intersection of banking and commerce can produce astonishing growth numbers in an otherwise 'overbanked' market. In fact, PayPal achieved double-digit growth figures over the last five years and more than doubled their revenues (2019: ~ 18 bn. USD revenue).



Embedded finance can also be considered another megatrend in the banking industry. It describes financial solutions or products that form an integrated and invisible part of other products like cars, platforms, buying processes or other industrial products.

Another driving force that is changing today's banking landscape are BigTechs, as they started to flex their muscles by introducing more and more banking solutions on their platforms. Apple launched the Apple Card, Amazon started different payment and loan solutions and Google rolled out their new wallet.

Interestingly, the pace of innovation in banking products and solutions has never been higher over the last 20 years. However, not all institutes developed a clear vision of how they want to win in this dramatically changing banking environment.

It appears that it is time to re-evaluate growth opportunities and to invest in the right ideas that have the potential to drive the business forward even in a zero-interest-environment. The challenge for European banks seems to be the future (innovative solutions, growth and size) - not necessarily costs.

We should only water the flowers that have the potential to grow.

unknown

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Principal

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Our values are an integral part of our daily business life. MOONROC stands for the highest quality, independent/honest advice and always acting in the very best interest of our clients.

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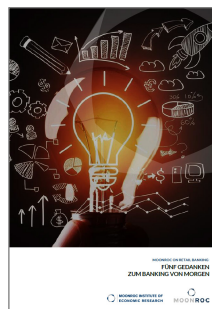
Additional studies published by MOONROC and currently available:



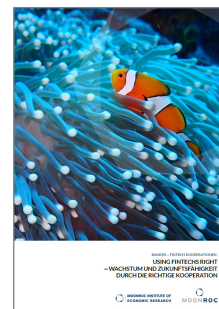
Retail Banking
Kompass 2020



Corona-Krise stoppen
5 Handlungsfelder
Banken



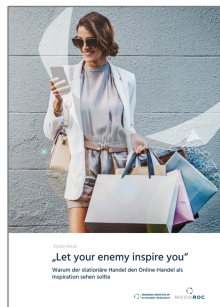
MOONROC on
Retail Banking



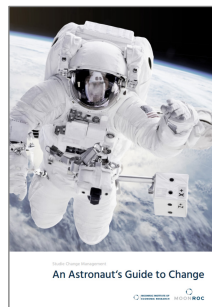
Using FinTechs
right



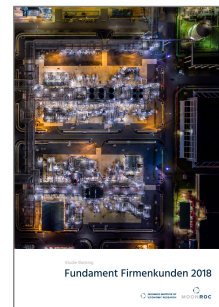
Digitale
Transformation



Let Your Enemy
Inspire You



An Astronaut's Guide
to Change



Fundament
Firmenkunden

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