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A tale of three Asias

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China's midsized cities are the biggest growth story in Asian banking. Rural areas in other emerging Asian markets and top-tier cities in developed ones also should grow smartly.

Asia is likely to produce 45 percent of all growth in banking revenues between now and 2020. But McKinsey analysis suggests that global banks should focus their efforts on cities across the continent rather than adopt traditional country-driven strategies—as many do at present (exhibit). In both developed Asia¹ and China, more than 95 percent of all banking growth will happen in urban areas. In the former, the greatest potential lies in the ten largest cities, though GDP growth will be higher in tier-two ones. The reason is that wealth in these developed economies is concentrated in regional financial hubs, such as Tokyo, Hong Kong, and Singapore. By contrast, the majority of China's growth (which will be nearly as great as that of emerging and developed Asia combined) will happen in the country's roughly 150 tier-two cities,² which track the growth of GDP and population.

The customers fueling that growth will differ somewhat, too. In developed Asia, more than 70 percent of it will come from retail-banking services for wealthy consumers in regional hubs. Corporate banking will grow mostly through increased deposit volumes;

revenues from lending will fall as growth slows and margins decline. In China, corporate lending will drive revenue growth as monetary easing compresses deposit margins. Personal banking for the emerging middle class will be a bright spot.

Emerging Asia's story is more about how banking has and will continue to become increasingly accessible to the rural and urban poor. As larger numbers of people open deposit accounts and make more payments, retail banking will scoop up two-thirds of the roughly 9 percent revenue growth (lower than GDP's expected 12 percent surge). In the top ten cities of emerging Asia, wealth management will fuel expansion. And in these countries, corporate growth will probably come from increased lending, mostly to small and midsize businesses. ○

¹ Australia, Hong Kong, Japan, Singapore, South Korea, and Taiwan.

² With populations from 1.0 million to 7.5 million.

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Where banks will find growth in Asia—top cities, other cities, or rural areas—differs significantly across markets.

Share of 2014–20 banking-revenue growth (after cost of risk), %

■ Top 10 cities¹ ■ Other cities¹ ■ Rural



¹Top 10 cities are ranked by estimated 2014 total banking revenue after cost of risk. Cities (as opposed to rural areas) are defined as settled areas with populations over 150,000 in developed countries and over 200,000 in emerging markets.

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