Value creation in banking

A cross-cycle view of economic value generation by product segment

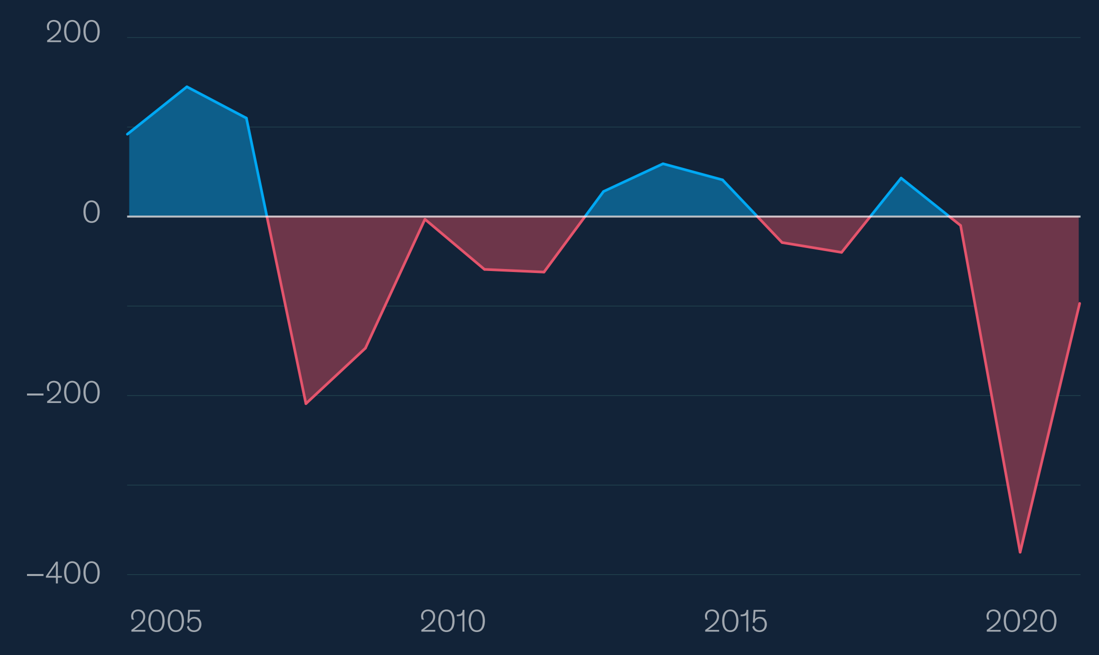
Banking has always involved a degree of cross-financing: some products and sectors create economic value, while others enhance liquidity or improve customer loyalty or acquisition.

Today, however, fintechs and monoliners are threatening to disaggregate the banking value chain by cherry-picking the higher-margin segments.

To respond, banks need to either deliver superior value and unique propositions in these core products, or restructure their operating and delivery models to turn their less profitable products into value generators

Annual economic profits[1] of the banking industry

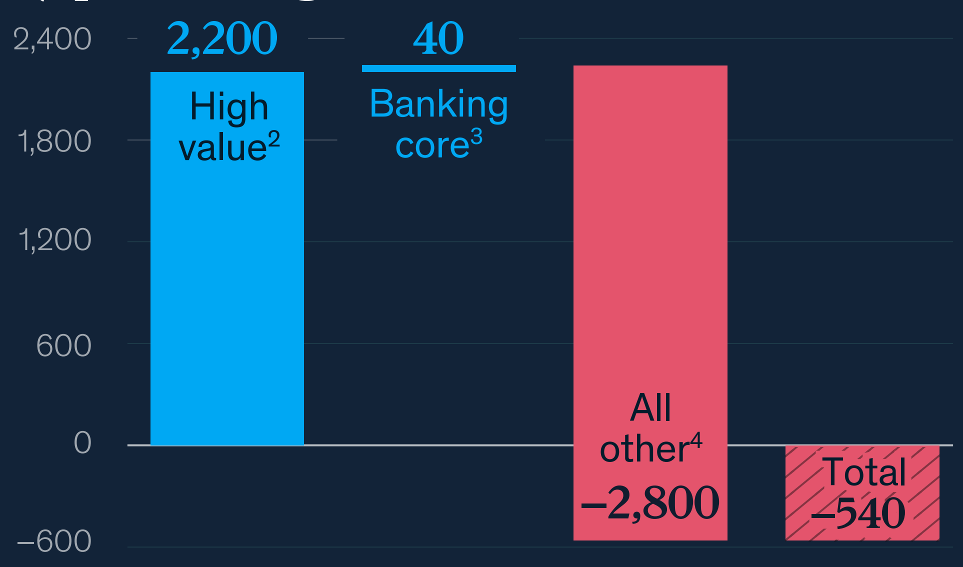
Global, $ billion



[1]Profits less cost of capital

Accumulated economic profits[1] by product segment

2005–21, $ billion



[2]Accounts and payments; consumer lending; wealth and asset management
[3]Asset and liability management and treasury activities
[4]Mortgages/other retail; corporate banking; capital markets and investment banking

Large differences in value creation exist between regions and product segments

Level of value creation, RoE–CoE, %

- High value generation >3
- Moderate value generation 0.1–3
- Value destroying <0

Total value created[5], 2005–21, $ billion

	North America	Europe	Asia–Pacific	Latin America and Middle East
High value				
Accounts and payments	333	230	314	200
Consumer lending	81	54	47	116
Wealth and asset management	368	224	217	65
All other				
Mortgages[5]	28	−26	4	5
Corporate banking[5]	−683	−1,841	40	−374
Capital markets and investment banking[5]	17	−5	6	−1
Banking core				
Asset and liability management, treasury	6	1	24	9
Regional totals	150	−1,362	652	20

[5]Profits less cost of capital. Even in markets where overall value creation for a given product category is negative, there are many segment plays and business models that create value

Threat of disaggregation

83% of all fintechs are attacking value-creating segments, which could disaggregate traditional value chains

Opportunity for banks

Banks who successfully reinvent business models can unlock tremendous shareholder value and improve recognition by the capital markets

Source: McKinsey Panorama

McKinsey & Company