

McKinsey Global Survey results

Assessing banks' confidence after the crisis

Financial-services executives report a mostly positive outlook on banking—and some signs of industry complacency.

Nearly three years after the global financial crisis, a recent McKinsey survey¹ of executives in financial services indicates that their institutions overall feel positive, in line with the restored performance many are seeing: respondents note few concerns about the availability of funding, though those working at European banks are more concerned than others. Only about half say their institutions plan to reduce costs by more than 5 percent, and slightly more than half who expect future returns on equity to be high (greater than 15 percent) already saw high returns last year.

¹The online survey was in the field from May 10 to May 20, 2011, and received responses from 638 executives, representing a full range of regions, sub-industries, tenures, functions, and company sizes within the financial-services industry, which includes respondents in asset management, investment banking, retail banking, wholesale banking, conglomerate/holding/investment offices, and credit institutions.

But at points beneath the surface, respondents indicate complacency, a lack of organization-wide responses to trends, or serious problems. Strong shares of respondents report that their top managements spend only up to 25 percent more time on regulatory and government issues than before the crisis and—contrary to the predictions of many analysts—say the Basel III regulation will have just a marginal impact on credit and growth. A full quarter of respondents don't know what share of their customers currently use online banking. More than half of investment bankers say their institutions adequately managed risk during the crisis. And many respondents at European banks report plans to scale down products, geographies, or customer segments in response to the constrained funding environment.



The state of funding and strategy

Most respondents say their financial institutions are not having trouble securing funds, although the availability or cost of funds is an important part of strategy for the vast majority of them. Respondents at institutions catering to corporate and/or wholesale customers are more likely to cite funding challenges than respondents where the focus is primarily on retail customers—but those institutions are also less likely to make funding a top component of their strategies.

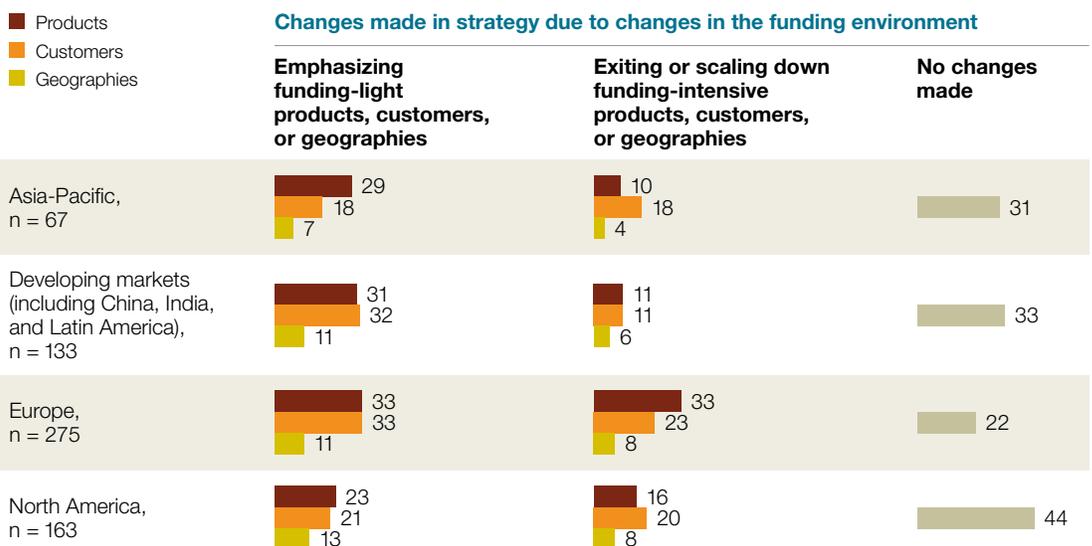
Though funding is an important component of strategy, a third of respondents—the largest share—say their institutions have made no changes to strategy based on changes in the funding environment. Among those who say they have made a change, more say their banks are emphasizing “funding-light” products (such as commercial loans) or customers (such as retail-distribution companies) than other options the survey asked about. Regionally, the pressure to act seems strongest for institutions headquartered in Europe: respondents there are three times likelier to say their institutions will exit or scale down funding-intensive products than banks based in developed Asian countries² or developing markets,³ which include China, India, and Latin America (Exhibit 1).

²Australia, Hong Kong, Japan, New Zealand, the Philippines, Singapore, South Korea, and Taiwan.

³Antigua, Argentina, Bahrain, Botswana, Brazil, Brunei Darussalam, Chile, China, Colombia, Costa Rica, Dominican Republic, Egypt, India, Indonesia, Iran, Israel, Jamaica, Jordan, Kazakhstan, Kenya, Kosovo, Lebanon, Malaysia, Mauritius, Mexico, Mongolia, New Caledonia, Nigeria, Oman, Pakistan, Panama, Peru, Qatar, Saudi Arabia, South Africa, Thailand, United Arab Emirates, Vietnam, and Zambia.

Exhibit 1
More change in Europe

% of respondents,¹ by type of strategy



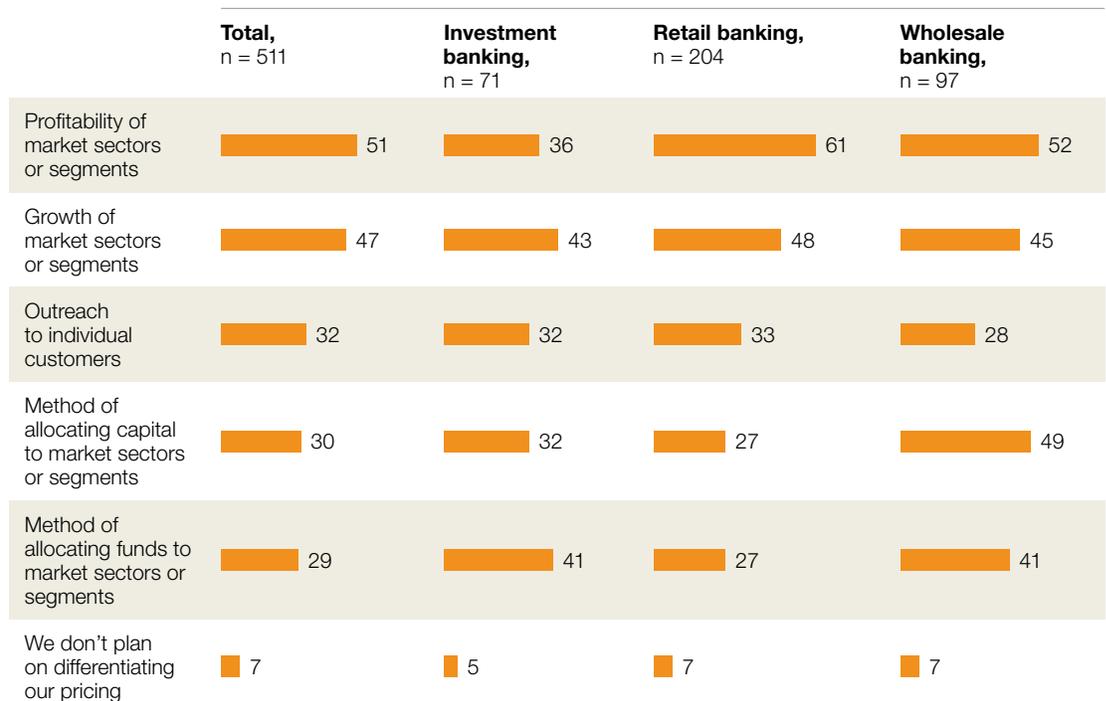
¹ Respondents who answered “don’t know/not applicable” are not shown.

Exhibit 2

Focus on profitability and growth

% of respondents,¹ by subindustry

In which areas, if any, does your institution plan to differentiate its pricing versus competitors?



¹ Respondents who answered "don't know" are not shown.



While most respondents (81 percent) agree that pricing will be either extremely or very important to their institutions' strategies in the future, plans to differentiate pricing relative to competitors vary greatly by the financial subindustries represented in the survey (Exhibit 2). There is also some variation among regions: developed-Asia executives are likelier to say their banks will differentiate in market sector or segment growth than executives in other regions, who are slightly likelier to say their banks will differentiate pricing in profitability of sectors or segments. European banks are more than twice as likely as developing-market banks to differentiate their methods of allocating capital, according to respondents.



All subindustries expect more of their business to move online over the next five years; by how much diverges in ways that make sense for their type of business. Of respondents in retail banking, 68 percent expect more than 40 percent of their customers to complete transactions online in five years, compared with only 42 percent of those in investment banking. To handle the increasing shares of customers using online transactions, a majority of respondents say their institutions are investing in infrastructure—sensible, given the expectations for growth. Furthermore, two-thirds of respondents expect their institutions to manage their sales and customer service online over the next five years, whether they currently handle these services remotely or not.

Just a quarter of respondents say more than 40 percent of their customers bank online; institutions headquartered in developed Asia are likeliest to say so. Regardless of the region, though, about a quarter of respondents say they don't know how many of their customers bank online. The same is true when they consider online banking five years from now, suggesting uncertainty about the future or a lack of attention to changes within the industry.

Risk and responsibility after the crisis

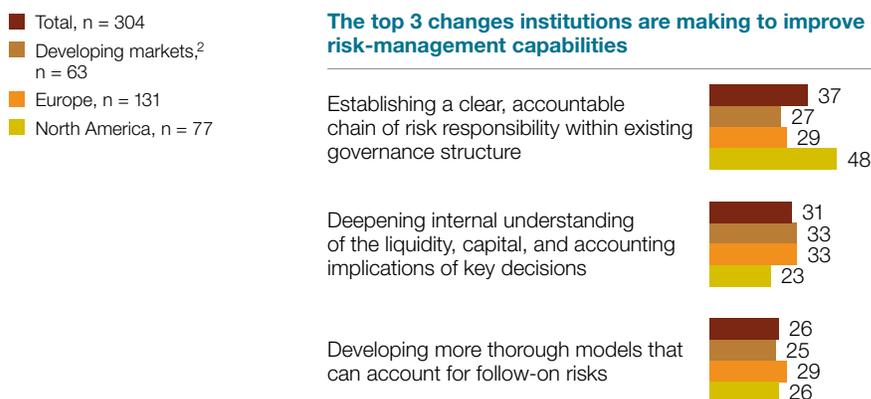
When asked about any failures to manage risk leading up to the global economic crisis, nearly half say their institutions managed their risk adequately; notably, more than half of investment bankers say so (in part, perhaps, because many investment banks that managed risk poorly didn't survive). Now, almost three years after the crisis began, nearly half of respondents say that while their institutions' appetite for risk is the same as it was before, their understanding of risk has improved. Given that most respondents say investors consider robust risk management to be more important since the crisis than other issues—growth potential or return on equity, for example—it appears that institutions are making a concerted effort to address their real concerns.



Exhibit 3

Better risk management

% of respondents, by location of company headquarters¹



¹Because this question was asked of a subset of respondents, the sample size for the Asia-Pacific region was not large enough to draw statistically significant conclusions.

²Including China, India, and Latin America.

As banks move beyond the crisis, there seems to be little consensus about *how* to improve their risk-management capabilities. More respondents say their institutions are establishing a clear chain of risk accountability than doing anything else, but the survey does not reveal any sweeping efforts to embed responsibility into the institution. Furthermore, there are some marked differences across regions: according to respondents, North American banks are likelier to create accountability chains, while those based in Europe and developing markets focus more on deepening internal understanding to aid in decision making (Exhibit 3).

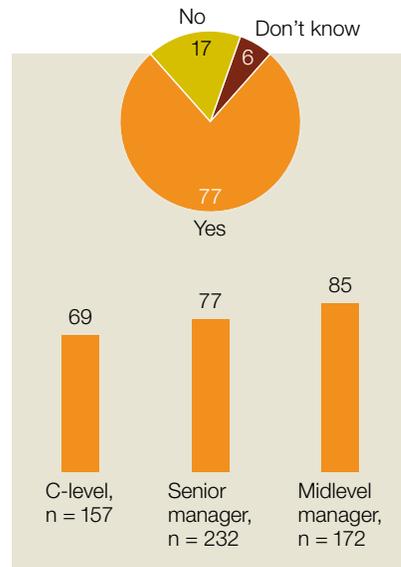
Even as industry-wide regulations have tightened in many countries since the crisis, a majority of respondents say their top managers spend only somewhat more time on regulatory strategy and government relations than before. And nearly half say the global Basel III regulation, which includes new capital requirements and liquidity ratios for banks, will have just a marginal impact on the availability of credit and on future economic growth.

Most respondents report that their banks are taking supportive action in the economies where they operate, with 77 percent saying they devote effort to specific lending targets or social-responsibility programs. These efforts may not be a particularly high priority—

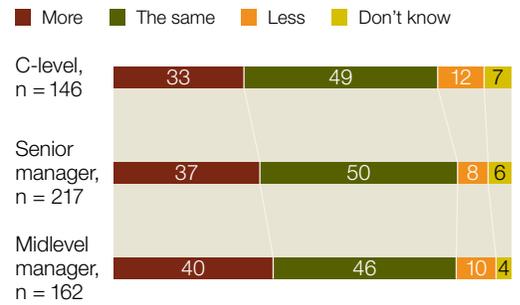
Exhibit 4
Conflicting reports

% of respondents,¹ by job tenure

Does your institution devote effort to activities designed to support the economies in which you operate?



Since the financial crisis, how has the amount of effort your institution devotes to these activities changed?



¹Figures may not sum to 100%, because of rounding.



or well communicated—across organizations: more midlevel managers than senior managers or C-level executives say their institutions engage in such activities (Exhibit 4). Across regions, banks based in developed Asia and Europe are more engaged in such efforts; across subindustries, the issue is most important to retail banks, which are likely driven more by consumer pressures than internal, corporate concerns. Yet for more than half of respondents, managing their institutions' impact on the economy isn't a higher priority than it was pre-crisis.

All this suggests a trend toward complacency: although regulatory change is one of the biggest post-crisis threats to banking profitability, nearly one-fifth of respondents say their top managements spend the same amount of time on regulatory strategy as they did before 2008.

Looking toward growth

In terms of total returns on equity, respondents expect a little growth. Just one-fifth of respondents say their banks' return on equity exceeded 15 percent in the past fiscal year; one-quarter expect to see the same over the next five years. Executives in developing markets report returns higher than executives in other regions, both for last year and their forecasts.

Looking ahead, the largest share of respondents say they expect normal, post-cycle returns to be between 12 and 15 percent, suggesting that banking leaders are returning to pre-crisis expectations. Interestingly, post-cycle expectations are broadly similar among banks that serve mostly retail customers, corporate and/or wholesale customers, and a mix—about two-thirds of respondents in each group expect future returns above 11 percent—despite very divergent performance in the past year and through the crisis (Exhibit 5). With respect to costs, 64 percent of respondents say their institutions will reduce theirs over the next three years.

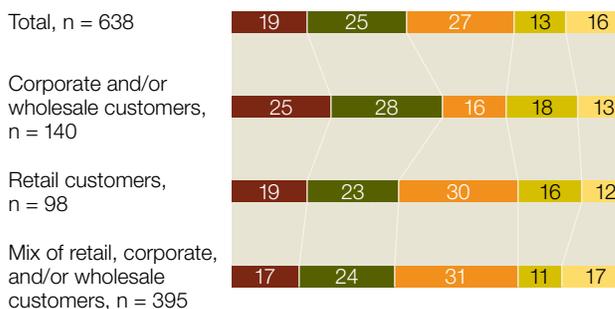
Exhibit 5

Unequal returns

% of respondents, by primary customer segment

Institution's total return on equity in previous fiscal year

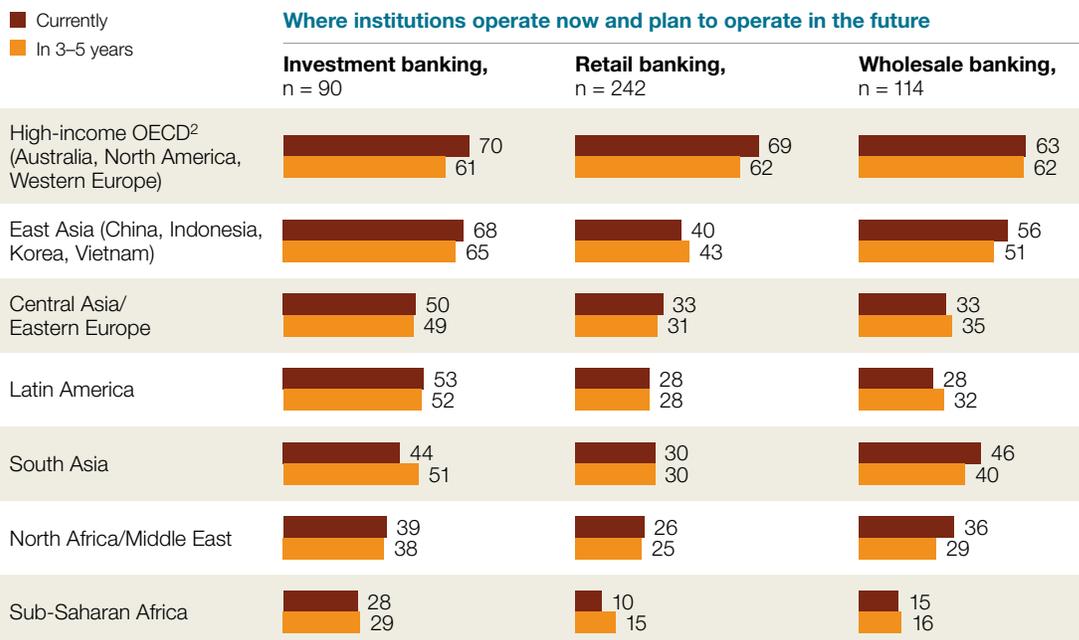
■ >15% ■ 11%–15% ■ 5%–10% ■ <5% ■ Don't know



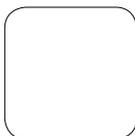
Majorities of respondents say their banks currently operate in high-income OECD countries and in East Asia (including China, Korea, Indonesia, and Vietnam), and on the whole, little change in their overall reach is expected in the coming years. Respondents at developing-market banks expect to expand their reach in OECD countries, while all others anticipate reduced operations there. Yet the results don't indicate marked, global growth in emerging markets such as Latin America and the Middle East—interesting, since only 3 percent of all respondents say emerging markets present a competitive threat in the form of well-financed rivals for current business. Executives at developed-Asia banks say their institutions plan to scale back operations in East Asia while growing some in emerging markets (most notably, in Central Asia and Eastern Europe, and in Sub-Saharan Africa); executives at European and North American banks say they will also scale back in developed countries. Plans for geographic reach also differ by subindustries (Exhibit 6). More investment bankers, for example, say their institutions will push into South Asia in the coming years, while wholesale bankers expect a slight decrease in their presence there.

Exhibit 6
Reach varies by subindustry

% of respondents,¹ by subindustry



¹ Respondents who answered “don't know” are not shown.
² Organisation for Economic Co-operation and Development.



Looking ahead

- Financial institutions seem secure in their funding, and most aren't planning big cost cuts. However, some are likely overlooking the potential effects of pending regulation and ongoing consumer mistrust. Top management would do well to capture the benefits—and overcome the risks—related to regulation and public sentiments by spending more time on regulatory strategy and better coordinating its efforts to support local economies.
- The results indicate that some institutions aren't paying enough attention to emerging trends such as online banking and the growth of developing-market economies (23 percent of respondents say emerging markets have no major impact on their institutions). Apart from pricing strategies, financial institutions can also differentiate themselves from competitors in these two areas. □

The contributors to the development and analysis of this survey include **Anna Marrs**, a principal in McKinsey's London office; and **Walter Rizzi**, an associate principal in the Milan office.

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