FINANCIAL INSTITUTIONS
RETAIL BANKING REPORT

Glacial Innovation Rates Must Thaw Fast or Retail Banks Face 2030 Failure

October 2024

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Executive Summary

After decades marked by glacial innovation rates and performance stability, retail banking is on the brink of a seismic shift. Two game-changing factors are reshaping the commercial landscape - creating revenue and efficiency opportunities but posing a threat to banks that fail to rise to the challenge:

1. **Revenues are becoming more fluid as customers unbundle their banking relationships and switch providers more easily:** Banking customers are increasingly focused on fees and conditions and have become more comfortable making financial choices. Regulators are also working to reduce switching barriers. This combination could mean 15% to 20% of market revenues in motion every year, up from just 5% to 7% in recent years.

2. **Emerging technologies are set to reduce unit costs and power a productivity uplift:** Over the past 30 years, retail banking productivity has rarely risen above the rate of inflation. This will change as banks modernize their workflows. Generative AI (GenAI) and digitalization offer banks the potential to cut product unit costs by 50% or more, and technology will reshape competitive dynamics.

These two game changers - more fluid revenues and a tech-driven cost implosion - will usher in a new era of retail banking economics. Meanwhile, trends including digitalization of the consumer front end, margin erosion, and growing regulatory pressure will continue to progress. Players acting swiftly in this new reality can significantly reduce costs and capture more customers by offering improved rates and better experiences. Failure to adapt, conversely, will mean relatively higher costs and fewer customers. Indeed, by 2030, there could be 30% to 50% fewer banks than there are today.

Winning in the new world of retail banking will not be easy. At a minimum, it will require a re-orchestration of sales, involving a digital-first approach supplemented by human touchpoints. Banks must prioritize scalability and ensure their balance sheets make sense to investors. And most will need to reduce their time to delivery by roughly two thirds, while increasing their attractiveness to valuable talent.

The views expressed here are based on extensive research, including more than 50 interviews with industry experts and practitioners, as well as findings from our retail banking modelling and simulations. While acknowledging sometimes significant local differences and varying starting points, our goal is to provide a view of the evolving economics of retail banking and to support decision makers in plotting a course that will help them perform and compete effectively.

A Trillion Dollar Re-Alignment

Major retail banking trends, including increased revenue fluidity and the rising impact of technology, are set to cause a global realignment of **$1 trillion** in bank P&Ls by 2030, according to our models. In this new reality, the gap between leaders and laggards will widen, albeit in the context of an expanding global wallet.

Our trillion-dollar estimate was generated by data-driven simulation, fueled by BCG's revenue pool analysis, Retail Banking Excellence (REBEX) Benchmarking, and consumer survey insights. The analysis of global retail banking focuses on three nominal regions: (i) the US, (ii) other developed countries, and (iii) developing markets where retail banking remains more nascent. We acknowledge the localized nature of retail-banking and the significant differences between regions. But for the purposes of conciseness, we mainly refer to global insights, as well as the developed world, incorporating regional specifics selectively.

To set the scene, we will examine trends from recent decades that have enabled retail banks to take a glacial approach to innovation. We will first model a world in which banks fail to act by 2030 and current trends continue to shape banking performance. We then will examine the opportunities that can be unlocked by leveraging the two game-changers identified above.

Persistent Trends Will Continue to Hurt Banking Profits

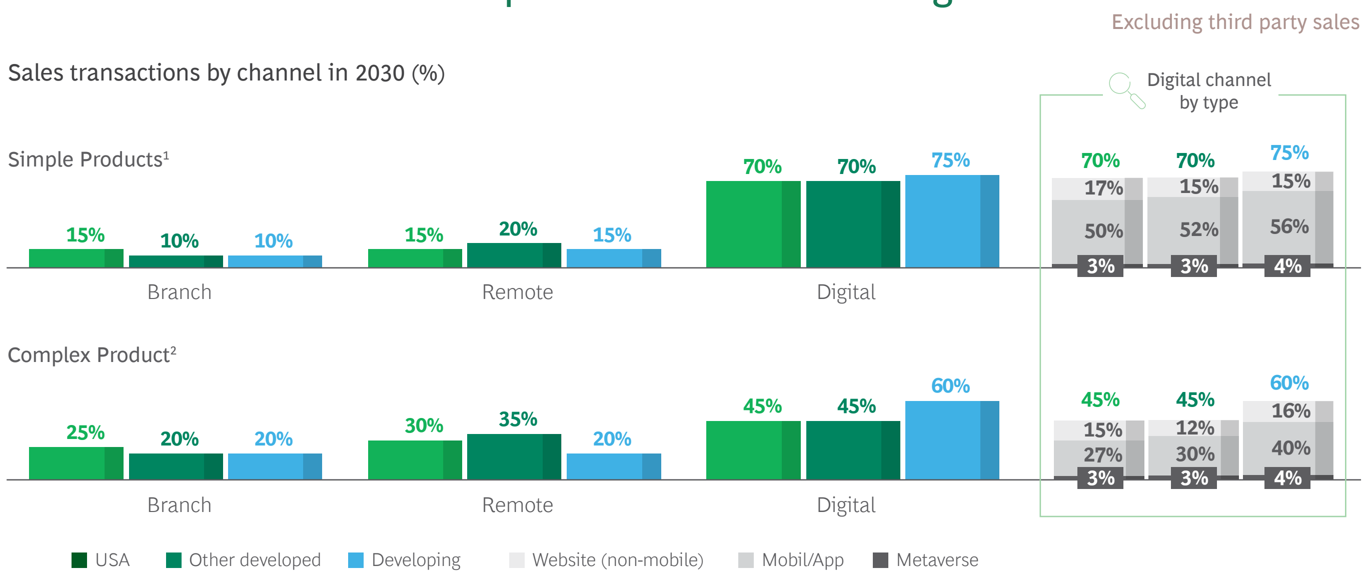
As recently as the early 2000s, the total number of bank branches in developed countries was still rising. Some markets even demonstrated growth in physical sales infrastructure until 2009, with the US standing out as a noteworthy example.

Today in the US, there are still 30 branches per 100,000 American adults, down from 41 in 2008. Mirroring that glacial rate of change, branch closures in developed countries remain in the range of just 3%–5% per year, with notable exceptions including the Netherlands, where today there are only 2.1 branches per 100,000 adults.[1]

The continued presence of branch networks stands in stark contrast to clients' increasing preference for digital channels, and many banks' claims that they are truly digital. But change has been slow. In many cases, branches still own client relationships and have the associated revenues attributed to them. Nonetheless, we expect digital to be the predominant sales channel for simple and complex products in all regions by 2030. (See Exhibit 1.)

The increased move to digital should not be surprising. Even for physical goods like apparel and footwear, up to 75% of sales in the US are already online, according to our research. The number of cars sold online in Germany has increased more than tenfold since 2019. Even online sales of groceries, including perishable goods, have doubled across markets in recent years.

Exhibit 1 - Channel mix for product sales across regions



Source: BCG analysis.

[1] Simple products e.g., current account, credit card & installment loan.

[2] Complex products e.g., mortgage & investment advice.

1. We note inherent difficulties with cross-country definitional consistencies and refer to World Bank figures here.

We also expect commodification and margin erosion to be a persistent and challenging trend for retail banks through 2030, with the recent respite of higher interest rates slowly coming to an end. Intense competition for deposits is already starting to put pressure on bank margins while funding costs rise.

Regulatory pressure is another trend that can be expected to persist. Regulatory attention to date has been focused on capital requirements, limitations on fees that banks can charge to clients, and other issues such as data protection.

Partly as a result of increased regulation, significantly higher numbers of fines have been issued over the recent period. The global banking system saw a twenty-fold increase in fines from US regulators between 2008 and 2022, compared with the yearly averages between 2000 and 2007, according to our analysis. Increased regulatory scrutiny also directly drives up banks' legal and compliance costs, with a 2023 Reuters study finding that ~35% of banks expected their compliance teams to grow in the following year.

Looking ahead, 60% to 70% (depending on the region) of industry experts we surveyed for this report expect an increase in mandated climate protection measures. Additionally, further capital requirements are expected to come into effect under the latest and upcoming Basel regulatory frameworks.

What if Banks Fail to Innovate by 2030?

If we extrapolate these trends and banks do not prioritize a step change in innovation rates, the profitability of the retail banking industry could suffer significantly. In this business-as- usual scenario, we see only modest revenue growth of about 4% per year until 2030, bringing global revenues to roughly $3.7 trillion. The revenue increase, however, would be eaten up by rising costs along retail bank value chains.

Front office costs would increase at roughly 4% globally per year as cost savings stemming from 3%–5% branch closure rates in developed markets are outweighed by other factors. These could include inflation, the continued increase in mobile banking spend across the world, and the build-up of branch networks in many developing countries. An overall rise in middle office costs would also be driven by increased need for channel management, particularly in developing countries where physical and digital channels are being established in parallel.

Finally, the most significant cost increases are likely to come from back-office functions. Banks will struggle to maintain ever more complex applications with legacy technology, while support functions, including legal and compliance, will continue to grow as they deal with more complex regulatory requirements.

Overall, we would expect the global bank cost-income-ratio (CIR) to rise to approximately 74% by 2030 if banks continue to operate as they are, compared with 63% in 2023. In short, the outlook for retail banks would be bleak.

Two Game-Changing Factors

Fortunately, we do not believe this scenario will come to pass. Two factors will create opportunities for banks that act now but will threaten those that do not. First, there are unmistakable signs that client mobility is set to increase dramatically, with potentially 15% to20% of revenues in motion and up for grabs by 2030. Second, we are about to see technology-driven unit cost implosion for the first time, presenting a truly disruptive opportunity for those that move swiftly.

Increasingly Fluid Revenue Streams

We see many signs that banking clients are becoming less loyal, a development echoed in other industries. Clients can unbundle their banking relationships and switch between providers more easily, thereby increasing the fluidity of retail bank revenue streams.

A study conducted by Plaid and The Harris Poll determined that approximately 80% of online-active clients in the US and UK are fintech users, indicating that customers are no longer choosing only between incumbents. Similarly, BCG's REBEX consumer survey revealed that almost 80% of US clients, and more than 60% in other developed countries, are demonstrating awareness of neobanks and are increasingly willing to switch to them.

Customers are also becoming more conscious of, and sensitive to, fees and conditions. As our REBEX survey shows, the top five reasons customers in the US switch banks relate to terms and pricing. For instance, over 40% of respondents stated that they would be likely to switch if a digital challenger offered them better deposit rates. The increased use of comparison sites to purchase banking products indicates the same behavior. In Germany, around 40% of mortgage sales are already being conducted through online platforms, up from just 13% in 2010.

We also see retail banking clients demonstrating a higher degree of comfort when making financial choices, as we see from the continued boom in stock trading apps since pre-COVID times. Finally, increasing fluidity is supported by regulators working to reduce existing barriers to switching. PSD2 (and PSD3) are set to reduce client lock-in effects, making it easier for customers to transfer their banking relationships and access competitive offers.

Retail banks that prioritize the right technology capabilities today will be equipped to efficiently offer more innovative services at a cheaper price. They will also have a larger, more mobile pool of customers to offer their services to.

Cost Implosion Driven by Technology

According to the OECD, financial sector productivity growth was minimal between 1995 and 2015, and was outpaced by other sectors including manufacturing and energy. In fact, clear examples of productivity gains beyond the rate of inflation are hard to find. In the US, the inflation-adjusted credit volume per bank FTE has increased by less than ~2% per annum since 1991, according to our analysis. Findings from the same period in Germany reveal a productivity increase of only ~1% per year.

We believe the era of minimal productivity gains is over. The production and management of banking products involves little more than processes and workflows, involving IT systems and handovers between employees and other manual tasks. We are already seeing in our client work how end-to-end digitalization, together with (Gen)AI, can massively accelerate digital processes along and across value chains, scaling them more than previously possible. Depending on the product, we estimate that technology can already enable savings of at least 20% (for current accounts) to more than 50% (for mortgages).

GenAI is on track to drive a true unit cost implosion in the back-office, while also unlocking productivity gains in the front-office by helping relationship managers (RMs) work with clients more effectively. Relevant tools will include adaptive scripts and better product recommendations. Automating more menial tasks like document filling will also compound the advantages offered by emerging technologies.

Ushering in the New Economics of Retail Banking

As we look to 2030, the two game-changers will unfold simultaneously. Retail banking will be more competitive but also more profitable than today. As outlined below, the increased profitability will be driven mainly by technology-driven productivity gains in the US and other developed countries.

The cost-effect will outweigh further margin reductions as banks pass on some of their productivity gains to clients. As a result, global CIRs will improve slightly from 63% today to 61% in 2030, representing a massive improvement from the projected 74% in the business-as-usual scenario. (See Exhibit 2.)

In the US, the average CIR will fall from 64% today to 57%, while pre-tax return on equity (ROE) rises to 36%, from 35% in 2023. CIR gains will be even more pronounced in other developed countries, decreasing to 59% in 2030 from 68% in 2023, with pre-tax ROE rising from 12% to 13%.

Four key effects will drive economic change compared to the business-as-usual scenario:

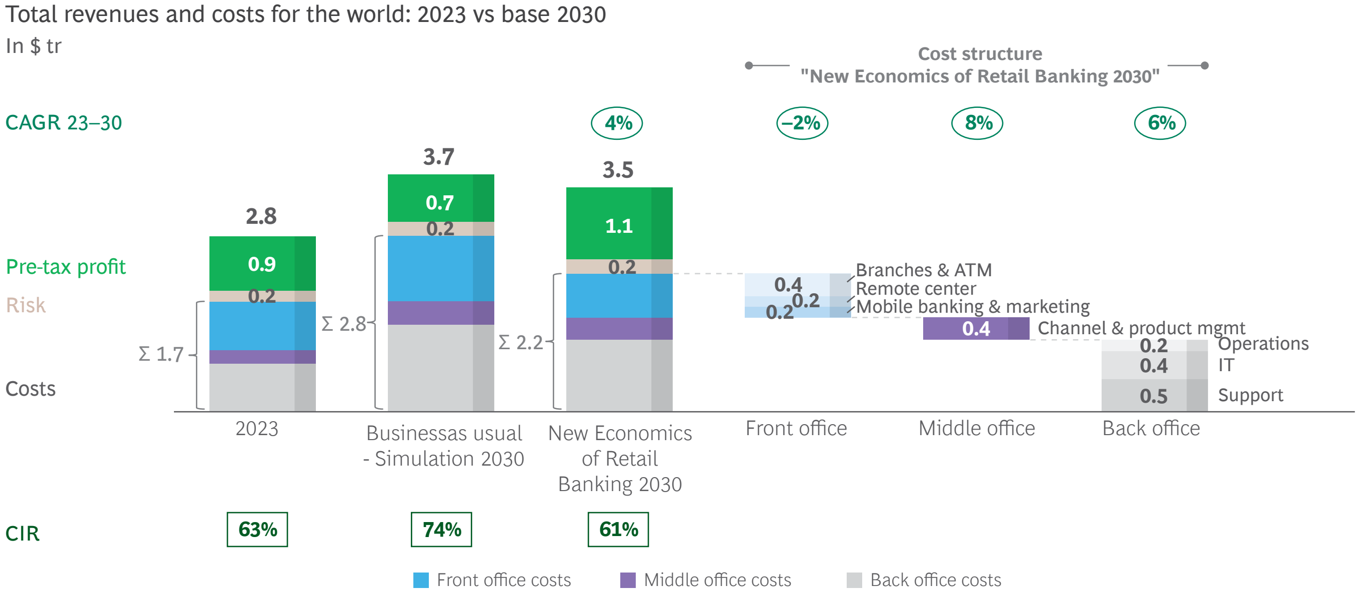
- **Banks will re-build their sales infrastructure** in line with increasing client preferences for digital and remote channels. We expect banks to close approximately two thirds of their branches in the US and other developed countries while simultaneously building out their digital and remote sales capabilities. Doing so has the potential to save banks in the region of ~$355 billion.

- **Banks will try harder to attract and retain more mobile clients.** Strategic marketing efforts will be crucial, as will remote hubs that are adequately staffed to handle higher outbound call volumes that drive cross-selling among existing and prospective clients. Productivity in these areas will improve thanks to GenAI, but we anticipate an overall increase in marketing spend of $10–15 billion.

- **The unit cost implosion will shrink back-office costs.** In the US and other developed markets, operating costs will likely be cut by 40% to 50% compared to the business-as -usual scenario, driving down costs by ~$80 billion overall. Support functions are also expected to shrink by ~20%, creating savings of $130 billion.

- **Margins will narrow further across** products as banks compete for clients. Globally, we expect this to result in a revenue reduction to the tune of ~$225 billion, as banks pass on part of their productivity gains to attract or retain clients.

Exhibit 2 - The new economics of retail banking will be more profitable than today



Source: BCG Banking Pools, BCG analysis.

If retail banking has historically been relatively stable, the game changers will create a 'winner takes (almost) all' scenario. This will mean that some players reap the benefits of the new economics of retail banking while others become unprofitable as they lose clients and continue to incur the same costs.

The Evolving Competitive Landscape

The new economics for the sector will produce fundamental changes in the competitive landscape. For developed countries, we expect that by 2030, **30% to 50%** of today's banks will have disappeared. Fintechs will only slowly gain market share in developed markets, while big tech will eat into incumbents' revenues without becoming contenders in their own rights. We also expect private equity players to invest more selectively than in years past, and non-bank financial investors to become structurally disadvantaged.

Incumbent Consolidation will Accelerate

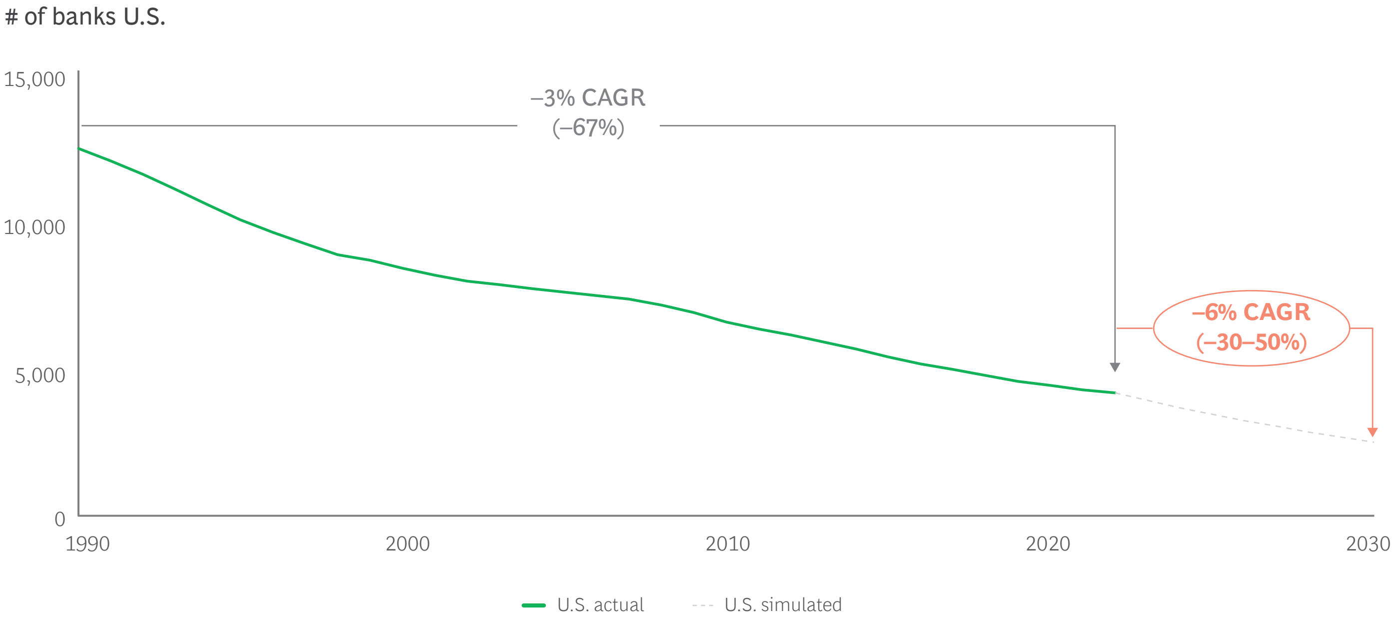
Today, approximately 25% of banks in the US and other developed countries have relatively low profitability (CIR>75%), according to our recent REBEX analysis. The average CIR of US regional banks is around 85% (third quartile almost 95%).

Smaller players among these banks will likely struggle to invest in the technologies necessary to bring about a cost step change. They will thus be less well positioned to attract and retain clients, because of their inability to pass productivity gains onto their customers. These pressures will force many to consolidate, aiming to boost profitability through scale. Regulators will also do their part as pressure for consolidation of community banks and regional banks intensifies.

Multinational banks operating at sub-optimal scale in individual markets where they do not benefit from cross-border synergies may decide to close those operations. Others may decide to double down and build scale to outperform smaller, local contenders. Overall, we expect consolidation rates in developed countries to approximately double between now and 2030, meaning that potentially half of banks may no longer exist by that time. (See Exhibit 3.)

Consolidation will also further uproot clients and send them in search of new banking relationships, adding to more revenue in motion that other players can capitalize on.

Exhibit 3 - Historic and simulated consolidation in the US



Source: BankFind data base of US FDIC banks.

Fintechs to Slowly Win Market Share in Developed Countries

Fintechs have attracted massive funding over the past decade, with investment flows rising more or less steadily from 2012 ($3.8 billion) to 2021 ($121.6 billion), according to BCG's Fintech Control Tower. Funding since 2012 totals more than $245 billion.

But most fintechs have struggled to turn a profit, let alone capture significant market share. As of the end of 2022, just 20 of the world's 432 digital banks were profitable, with 11 based in APAC. Except NuBank in Brazil, all fintech players are struggling to gain and retain market share. On average, the 20 profitable online banks only have a 1.7% market share in terms of lending, with 0.3% of deposits in their home markets. (See Exhibit 4.) This is a sobering reminder that app downloads and users are not the same as revenues.

Despite difficulties in gaining market share, digital challengers present a threat to incumbents. NuBank, Tinkoff, Kakaobank, and mBank have caused a stir in their home markets by achieving operational excellence, capturing active clients, and achieving healthy income per client and per product. In Poland, mBank has captured 15% of total revenues from incumbents, driving up incumbent CIR by 7 percentage points. If a digital challenger in the UK was similarly successful, it would increase the CIR of the top five banks by 6 to 7 percentage points.

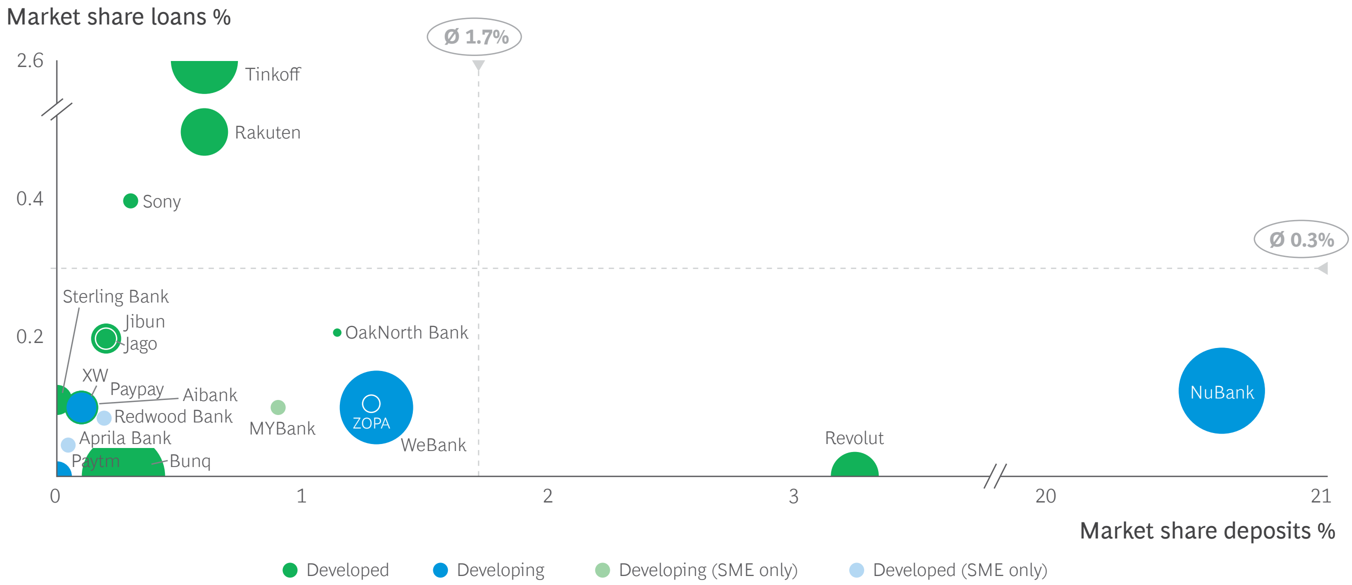
We expect fintech players to adopt two types of strategies moving forward. They will either diversify their product offerings to increase revenue per customer (NuBank in Brazil or Revolut in the UK are good examples) or double down on building stronger customer relationships – or both.

Successful Ecosystem Players Will Remain an Exception

Prime examples of successful ecosystem plays involving banks tend to be found in less developed countries. Examples include Itau (Brazil), Kaspi (Kazakhstan), Goodie Millenium (Poland), SCB Snap (Thailand), LjaBB (Brazil), Bradesco (Brazil), and Santander Esfera (Brazil).[2]

2. There are of course outliers like DBS PayLa in Singapore – a special case given regulatory/government support for the integrated payment services.

Exhibit 4 - Market share and client penetration of 20 profitable online banks in their home markets



Sources: Central banks, public filings, CapIQ, Fincog, CEIC, BCG analysis.

Note: Circle size for developed and developing region indicates total clients in (home) market.

We expect this trend to remain largely intact, as preconditions for success are often not met in developed countries. To name a few:

- The e-commerce market for non-banking products is already saturated - banks in developed countries have few natural advantages in creating or curating platforms.
- Many banks in developed countries still need to build the analytical and sales capabilities to successfully cross-sell banking products, let alone non-banking products where they lack experience altogether.
- Stricter data protection regulations in developed countries already make it difficult for banks to use customer data (e.g., payment transaction data) for targeting. This could become even more difficult with stricter regulation in future.

This does not mean that beyond banking offers cannot be successful in developed countries. The key to success will be a narrow focus on deep integration with banking services. One example could be the integration of mortgage products with sustainability-related advisory services and the provision of other services, such as the installation of photovoltaics or heat pumps.

Big Tech Will Not Become Dominant Banking Players

Despite some attempts by companies such as Google, Apple, and Microsoft to partner with banks, we do not see these players launching their own banks in developed countries. Regulatory hurdles are too high and the ROE too low to be attractive for these companies.

However, we do expect big tech to continue embedding bank-supplied services into their core offerings, with products ranging from credit cards to consumer loans. By doing so, they will make their offerings more attractive while increasing client stickiness within their tech ecosystems. For incumbents, the integration of banking services into big tech offerings threatens margin erosion and loss of client touchpoints.

As always, there are outliers and exceptions. In China, tech companies Alibaba and Tencent have their own banks and are penetrating vertical value chains, enabling end-to-end home buying and end-to-end auto care, encompassing car purchase, maintenance, and used car sales.

Private Equity and Nonbanks

We anticipate that private equity firms will only invest selectively in retail banks, marking a shift from trends in previous years. This new approach will be driven by two key changes.

First, increased interest rates have driven up the value of deposits, which in turn lifts acquisition costs. Second, increased regulatory scrutiny in relation to leveraged finance and the acquisition of loan portfolios further reduces incentives for private equity players to invest.

Increased interest rates are also hampering (other) non-banks that would otherwise look to make inroads into retail banking. While banks have access to cheap funding sources such as deposits, non-banks are structurally disadvantaged by higher interest rates.

Imperatives for Retail Banks

The 2030 banking landscape will be drastically different to the one we see today. Successful, innovative players will disproportionately capture revenue streams as laggards quickly lose clients. While acknowledging local differences and the varying starting points, winning in the new environment will require retail banking players to focus on five primary imperatives:

- **Entirely re-orchestrating sales:** Expansion of digital capabilities for customer acquisition and sales – supported by remote channels where necessary.
- **Ensuring scalability:** Digitalization and use of Gen(AI) to implode unit costs – by more than 50% for leading players.
- **Recomposing the balance sheet and business portfolios to attract investors:** Reduction of capital intensity and management of funding sources.
- **Significantly accelerating time to delivery:** Shortening of change-the-bank (CTB) projects by up to two-thirds through better planning and a more empowered organization.
- **Rethinking talent retention and attraction:** Increased attractiveness to employees and vital technology talent will be required in future.

Entirely Re-orchestrating Sales Toward a “Digital First” Model with Remote Human Support

Branches still dominate the sales organizations of most retail banks. Players that want to profit from more fluid revenue streams will have to change this by sharpening their focus on digital and remote channels. Successfully transitioning toward a digital first approach will require three strategic actions:

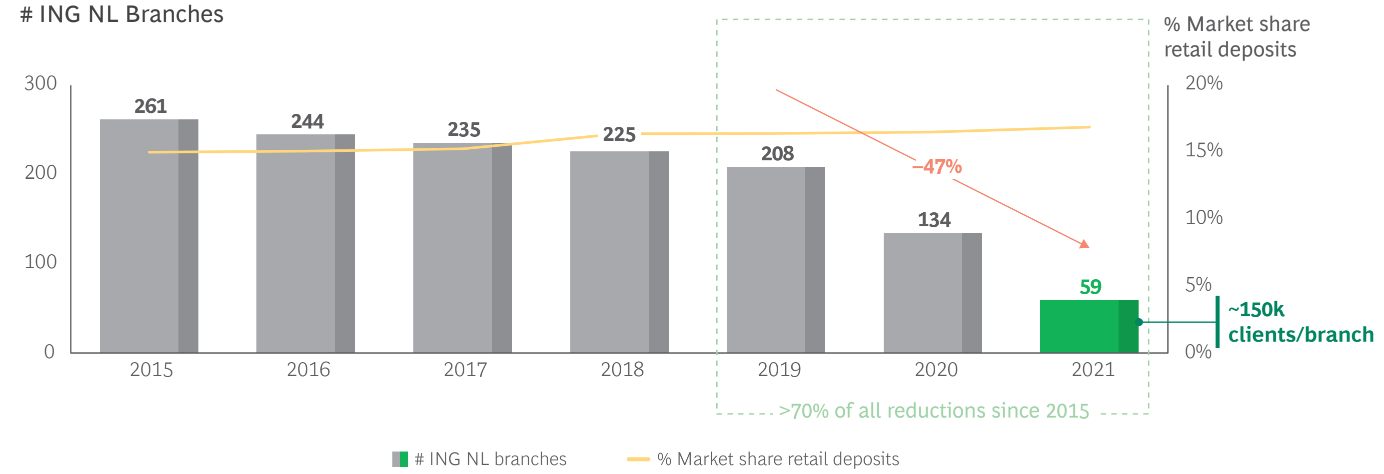
First, banks need to rebuild sales infrastructures by enacting a true step change in the digital client experience and by building new remote advice capabilities. Many retail banking clients already want to purchase banking products online, and this trend will accelerate rapidly in the run up to 2030. End-to-end digital client journeys will be an essential enabler, allowing for easy and unassisted product onboarding, including for complex products.

Today, banks with best-in-class mobile apps are achieving more favorable branch economics and overall outcomes than their domestic peers, as shown by analysis from BCG’s Digital 360 Diagnostic. JPMorgan Chase in the US and ING in Poland serve ~200% and ~100% more customers per branch in their respective markets while outscoring their peers on the mobile benchmark. Both are achieving CIRs 7 percentage points below those of their peers.

But digital should not mean anonymous – human engagement will remain critical for sales and to help clients in moments of truth when purchasing a product. To support clients, access to remote advisors must be seamlessly integrated into onboarding journeys. On the flipside, remote RMs need to proactively reach out to high-value clients with a product need, or those who have dropped off a digital onboarding journey. This will require banks to build entirely new, and more centralized, remote advisory models (or at least remote sales) and units. The highly scalable nature of remote and virtual models also allows greater expansion, enabling banks to drive cross-sell and increase client stickiness in a world of more fluid revenue streams.

Building strong, sales-driven digital and remote channels will facilitate the closure of more than two-thirds of existing branches by 2030, and increased market share. The example of ING in the Netherlands shows that this is much less extreme than it might sound. ING has successfully closed over 75% of its branches since 2015 while increasing its retail deposit market share. (See Exhibit 5.) Today ING has less than 40 branches in the Netherlands.

Exhibit 5 - Number of branches ING Netherlands



Sources: ING, press releases.

Remaining bank branches should focus on customer acquisition and advice. To this end, new branch formats need to be created, with a clear focus on customer meetings for more complex products and on educating customers about the use of digital channels and applications. Customer service itself will be shifted to digital or remote channels.

Second, banks need to gain a better understanding of their clients – crucial for recognizing increasing churn risk earlier and engaging in targeted cross-selling to counteract higher levels of client mobility.

Building next-gen analytical capabilities allowing for micro-segmentation of customers based on behavioral patterns and revenue potential is therefore imperative. Transaction information that retail banks gather will be at the heart of these new capabilities. Identified customers can then be targeted with automatically generated and individualized offers and approaches (generated with the help of GenAI) through digital or direct channels. Key examples include apps, online banking, email, and WhatsApp.

Third, banks need to set up low-touch, high-frequency client engagement models that are highly automated and personalized. This would be to ensure that banks retain and strengthen their relationships with clients.

Effective orchestration is paramount and will require automated decisions regarding which clients to approach, the appropriate product offering, and the channel to use. Automated campaign creation with the ability to learn rapidly will be needed to handle this successfully.

Banks need to build true omnichannel workflows. These need to be leveraged by branches and remote centers alike, providing 360-degree visibility of customer information, including details like current fulfilment journey status. As part of this transition, operating models will need to switch from being channel driven to customer and segment driven.

Ensuring Scalability by Strengthening (Tech) Partnerships

Banking products remain rooted in processes, so computation and digitalization offer a multitude of opportunities to scale. This trend and associated cost savings would allow banks to offer customers more attractive rates, as they increase their ability to gain market share quickly in a world where revenue streams are more fluid.

We are already seeing in our own client work how (Gen)AI can massively accelerate digital processes along and across value chains, scaling them more than previously possible. To name just a few examples, GenAI tools can massively boost front office productivity with RM conversation guidelines that update in real-time based on client conversations. Minutes can be recorded automatically, reducing the burden of more menial and regulatory tasks.

Credit settlement processes can be made over 60% more efficient through the automation of standard tasks. Similarly, we see potential savings of ~50% in credit check processes through adoption of AI and pre-defined rule systems. Depending on the product, we estimate that the technology can already enable savings of at least 20% for current accounts and more than 50% for mortgages. The list goes on. Future advances in AI and GenAI will only increase these potential productivity gains.

To be clear, we believe that by 2030, the adoption of these technologies will be table stakes for banks to be competitive at all, rather than affording them a distinct advantage (like online banking capabilities today). However, this does not mean that all banks will be equally advanced.

The most successful players will take a holistic approach to automation, (Gen)AI, and the use of advanced analytics. Embarking on building a programmable back office, for instance, would enable significant back-office savings while also improving data and lead quality. This could be leveraged to implement the new and primarily digital approach to sales that we outline above.

To be sure, most banks will not become tech players as they rarely have the necessary innovative strength or culture to do so. Successful use of new technologies will require retail banks to partner with technology providers and (B2B) fintechs, instead of building their own capabilities from scratch. This means banks need to learn how to deal with relevant third parties as partners instead of vendors, including re-designing onboarding and management processes. This is something very few banks have been able to achieve to date.

At the same time, unlocking more efficiency-boosting applications over time can only happen in lockstep with the modernization of a bank's overall tech infrastructure. For the many banks' operating with legacy tech architecture and on-premises set-ups, modular upgrades will be critical. Given recent cost rises and other difficulties, we would shy away from big bang migrations to new core banking systems.

In addition to the use of (Gen)AI, scaling can also be driven by outsourcing non-differentiating parts of the value chain, with KYC processes serving as a prime example. A partial reduction of bureaucratic hurdles and the simplification of new vendor onboarding processes will be necessary to make this possible both quickly and efficiently.

Recomposing Portfolios and Balance Sheets

As discussed in detail in our recent banking industry publication[3], bank price to book (P/B) ratios are historically low, while many players are struggling to earn their cost of capital. (See Exhibit 6.) We have already outlined two ways to improve profitability, and therefore valuations, within the new economy. This will involve re-building sales infrastructures and radically reducing costs by introducing more scalable processes and leveraging technology.

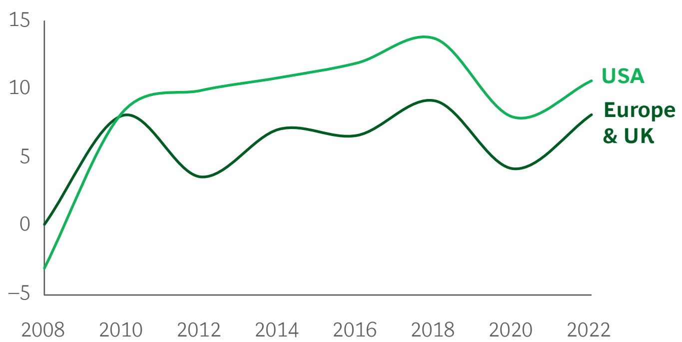
An additional means of improving key financial metrics and valuations would be to recalibrate businesses, activities, and products for higher profitability and lower capital intensity. Banks should exit low-return business lines or, at a minimum, reduce exposure to low-return asset classes. They should also invest in new areas of strategic growth with more favorable levels of return on equity.

Payments players and standalone wealth managers often have significantly higher P/E multiples than banks, as they generate fee income with little or no capital. Banks the world over have recently taken steps toward these business models by launching or purchasing capital-light, scalable digital investment offerings. J.P. Morgan's purchase of Nutmeg in the UK and recent moves from UBS in Switzerland are just two examples.

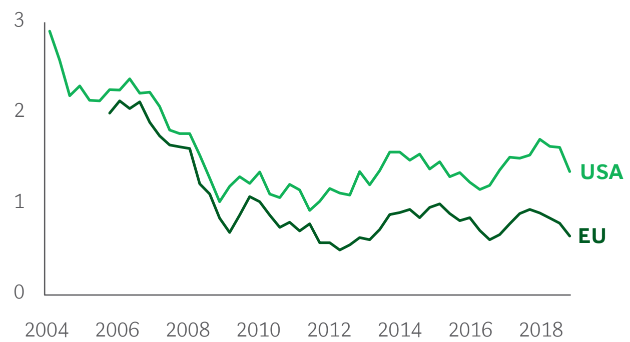
Other options for moving away from balance-sheet-intensive lending activities could include expansion into payments or beyond-banking products, including bancassurance. European insurance leaders have doubled the levels of ROE achieved by banks between 2010 and 2021. For several European banks, insurance already contributes a significant ~30% of their overall earnings before tax.

Exhibit 6 - ROE and P/B ratios since 2008

Banking profitability has continued to be low
Weighted av. pre-tax ROE per region



While investors have been avoiding the industry
Actual P/B ratios in the EU and USA 2004–2019



Sources: BCG FDP, CIQ, ECB, S&P SNL, BCG analysis.

Note: ROE calculated as weighted av. by region on 12/31 of each year on a sample of banks with total assets more than $1B Europe includes Core Eurozone, UK, Switzerland & Nordics.

3. To Seize a $7 Trillion Opportunity, Banks Need Bolder Strategies for Serving Customers and Society.

To be sure, exiting less profitable and more capital-intensive activities and successfully expanding into more attractive activities is no mean feat. Moves of this kind must fit the retail bank's overall strategic goals, and there must be a clear rationale and right to win associated with any specific play. Sufficient scale must also be achievable to increase profitability. In addition, taking a hard look at the business portfolio and making tough choices based on profitability, capital allocations, cost allocations, and contributions to the funding base will be vital to boost valuations.

Managing RWA productivity and funding sources more stringently than during the past decade will also be essential. This is especially relevant now that we are back to higher, or more normal, interest rates. Besides fighting to keep client deposits in the bank through better sales approaches, most banks will need to shed riskier assets and improve overall credit quality.

Significantly Accelerate Time to Delivery

To accelerate time to delivery, retail banks must prioritize two critical levers. First, they need to refine their decision-making processes, particularly in technology-related areas. This would involve integrating skilled individuals with strong technological expertise into senior leadership and executive board positions to ensure more informed and effective decision-making on major CTB projects.

Second, organizational empowerment is key, and retail banks should equip their teams with the necessary resources and authority. Enablement may also involve some reorganization to create smaller, more autonomous delivery units. These could address specific problems with less reliance on other teams.

By addressing these issues, retail banks can not only improve decision-making and organizational efficiency, but also cultivate a more positive culture that clearly defines ownership and accountability. It would also be beneficial for attracting and retaining talent, which is our fifth and final imperative.

Retaining and Attracting Vital Talent

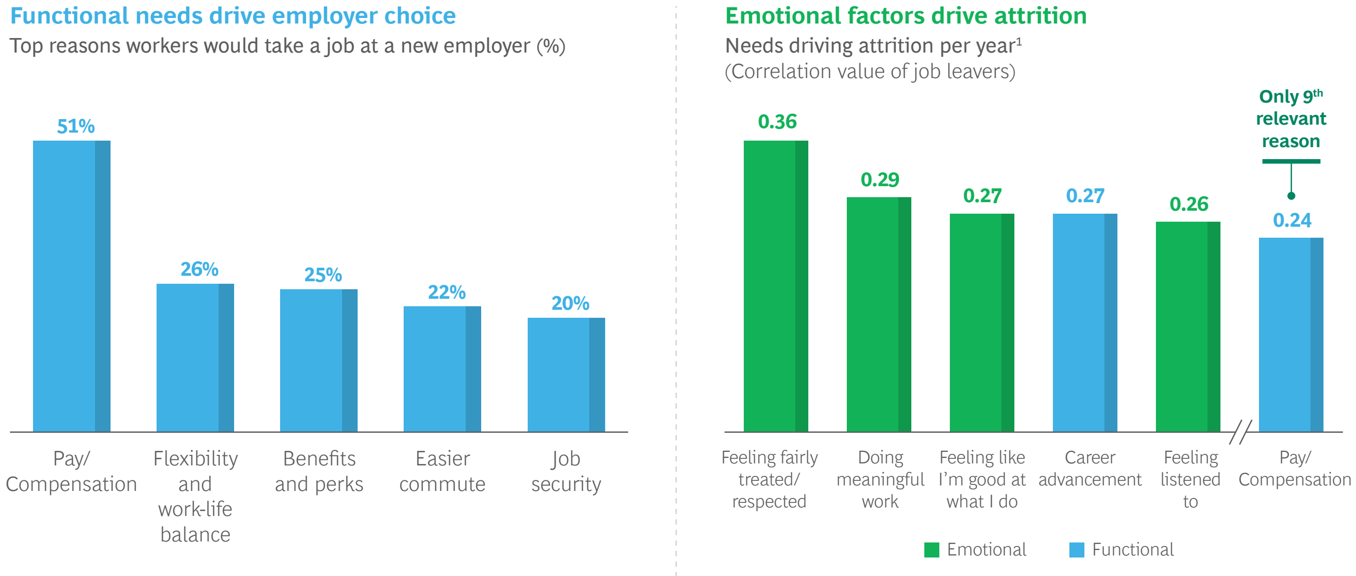
Demographics and the rapidly aging workforce are critical issues. By 2030, ~22% of the population will by 65 years or older in the US, France, Germany, Singapore, and many other developed countries. This can be compared to a range of just ~5% to ~12% in 1970.

While current employees will be retiring at increased rates, the banking sector will need to address recent sharp declines in attractiveness to new talent. In the US, the popularity of finance as a career choice is down by 22% since 2008, and only 10% of Gen Z and Millennials are interested in the sector, according to a recent study by Randstad. In Germany, 66% of bank clerks would advise others against their profession, rather than recommending it, a study by the Hans-Böckler-Foundation reveals.

To approach 2030 with a strong workforce that is prepared for technological challenges, banks need to fundamentally reshape their employee value propositions. They must also increasingly target technology and analytics roles, including product owners, designers, and data analysts.

BCG's current Future of Work survey shows that while compensation is still a driving factor when choosing an employer, considerations such as flexibility and work-life balance are also significant. (See Exhibit 7.) The study also shows what banks need to do to retain talent, including providing fair treatment and meaningful work.

Exhibit 7 - Reasons for choosing or leaving a job in banking



Source: BCG FoW Survey, October 2022 (N=4,668 in the USA, Germany, France, UK, appr. ~1,000 per country, Financial Services N=125).

[1] Correlation between satisfaction with each listed element and attrition risk.

Epilogue

We believe that retail banking is on the cusp of a revolution, driven by changing consumer behaviors and new technologies, as well as the evolving regulatory environment. While acknowledging local differences, we have outlined key imperatives for banks globally that aspire to be successful in 2030.

The success of retail banks is critical for society at large. Only stable retail banks can serve their purpose, which is to help people from all walks of life, occupations, and age groups to secure and invest their savings while building prosperity. Retail banks also exist to help customers realize their dreams, whether they be individual dreams or those of a family longing to live in their own home.

Many retail banks are currently benefiting from income tailwinds caused by increased interest rates, offering them the headroom to change and presenting a unique opportunity to move forward. But the time to act is now. The sooner banks begin their transformation journeys the better, as the changes will require time and challenges must be tackled holistically.

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