

A person wearing a yellow jacket and a dark beanie stands on a dirt path, holding a glowing lantern in their right hand. The path is covered in mist or fog, and the background shows a hazy landscape with trees under a soft, orange and purple sky, suggesting dawn or dusk.

# READY TO LEAD

How banks can drive the European recovery

## EXECUTIVE SUMMARY

Europe's banks have withstood COVID-19. They now need to take the leading role in driving the recovery of the European economy and development of the financial system which will allow them to thrive long-term.

### WITHSTANDING THE PANDEMIC

The banking system has proven resilient during one of the steepest drops in gross domestic product (GDP) ever experienced. Capital levels built-up after the financial crisis have proven sufficient, while unprecedented levels of government support for corporates have blunted or deferred many of the pandemic's economic impacts. One in three banks already has released credit provisions. Bank revenues and asset bases have of course been hit; in countries with the most stringent lockdowns and heavily exposed economies, revenues dropped up to 11 percent and risk-weighted assets fell by almost 5 percent in the most severe cases. Half of the industry's capital sits in banks with a return on equity of less than 4 percent.

The pandemic has shown banks can be nimble. The banking system has acted as the transmission mechanism for emergency governmental economic policy. Banks have made operating model changes that few would have been willing to try in normal times — branches closed, all staff working from home, processes redesigned overnight. There is now a unique opportunity to lock in new customer and workplace behaviors and drive costs out.

Excess capacity is slowly coming out of the system. Much-needed rationalization has continued, with geographic footprint, segment, and product offerings streamlined. Consolidation has occurred in some countries, and authorities are signaling they expect more to follow.

That is not to say the outlook is benign — from a macroeconomic perspective, the toughest tests are still to come. Asset bubbles are inflating, caused by excessive market liquidity, low interest rates, and a speculative frenzy in digital assets. The specter of inflation has returned, something Europe's banks have not had to deal with for a generation. Interest rate rises may bring much needed top-line growth, but swathes of corporates are still suffering from weak profitability and would be exposed, along with households.

### HELPING TO BUILD A BETTER ECONOMY

Europe's banks have a once-in-a-generation opportunity. By supporting the recovery from the pandemic and helping to tackle some of the big issues facing Europe's economy, the sector can gain a strong sense of purpose, increase profits, and ensure its ongoing relevance. The alternative is being gradually sidelined, pushed into a diminished role by a combination of public policy measures and new ways of delivering payments and credit.

Banks need to address five challenges as Europe moves into the recovery.

First, as the pandemic period ends, it will fall to banks to help unwind emergency lending programs while minimizing insolvencies and the number of “zombie” companies. Standardized approaches should be delivered across the industry, with government buy-in. Banks and other private-sector financial providers may need to invest in equity-like instruments for viable but overly leveraged companies. A successful glide-path out of emergency support could ensure losses do not reach the peaks predicted in 2020, saving 40 billion.

Second, the corporate credit market is changing, and banks will need to define their role. The European Union’s Next Generation fund is being rolled-out over the next two years and the Capital Markets Union (CMU) is slowly emerging with a long-forecast shift to market-based financing. Both are material. The €750 billion Next Generation fund amounts to 16 percent of outstanding loans to non-financial corporations in the European Union. The CMU has the potential to drive market-based financing of corporates from 25 percent to 50 percent. Banks will need to be trusted advisors, channel different forms of capital, and help clients navigate the broader range of financing solutions.

Third is the carbon transition and the sustainability crisis. An estimated €1.5 trillion to €2 trillion needs to be invested in the green economy in Europe, more than twice the size of the Next Generation fund. Banks have pledged to reach net-zero carbon emissions across their lending portfolios by 2050, yet their commitments are running far ahead of the transition in the real economy. To hit their targets they will need to be proactive in initiating transition projects. Conflicts between climate goals and financial returns may need to be managed, but if banks don’t take the initiative, a combination of boutique advisors and specialists, data companies, and private equity funds will bridge the gap.

Fourth, the way banking products are delivered in the digital economy is moving closer to customers’ point of need. Over the next 10 years it is possible that new ways of accessing banking products could make up 10 percent of the non-mortgage credit, deposits, FX, and payments markets. Banks will need to be aggressive here to compete with fast-moving fintech and big tech players and develop customer-first services and ecosystems, or settle on one of a number of different partnership approaches providing embedded finance.

Finally, radical changes in Europe’s underlying financial infrastructure are on the horizon. Central bank digital currencies (CBDCs) are being initiated as a result of geopolitical and monetary policy control concerns. These currencies could be truly disruptive, with €10 billion to €25 billion of revenue at risk if CBDCs attract 20 percent of total deposits. More broadly, the banking system needs to take a collaborative approach, engaging with policymakers and regulators, and with each other, to identify and deliver system-wide improvements. Payments and financial crime initiatives are underway, and further initiatives across cost efficiency and data can deliver a more resilient and efficient system. Digital identity is another key opportunity where a successful cross-industry approach could strengthen banks’ bond with customers and limit big tech encroachment.

Amid all this, the work of footprint rationalization, consolidation, digitization, and cost reduction must go on. A further cost-income ratio reduction of 5 percentage points should be targeted, saving at least €30 billion.

Across these new opportunities and shifts in existing businesses, the equivalent of 25 percent of current bank revenue is on the table. If banks can rise to the challenges it will reinforce customers' trust and banks' central position in the economy. If they don't, banks will be coerced into supporting the public agenda and face the same shareholder activism recently experienced in the oil sector. Embracing change and leading the recovery is the best way for banks to thrive and avoid being sidelined.

### Exhibit 1: European banking challenges

	Challenge	Potential impact	Action needed	Indicative revenue equivalent
Short term (2 years)	Transition from emergency support funding	Ensure credit losses do not reach peaks predicted in 2020	Standardized approaches and collaboration to minimize solvency issues and further support businesses	€20 billion in 2022 and 2023
	Collaboration with EU Next Generation fund	Complementary financing and cross-sell	Lead on coinvesting in recovery	€20 billion
Medium term (5 years)	Financing the carbon transition	Substitution; new opportunities including in savings and investment	Finding the opportunities, leading on the change agenda	€25-50 billion
	Overcapacity and rationalization	Cost reduction	Consolidation and radical cost out	€30 billion
Longer term (>5 years)	Enabling the digital economy	Retail and SME flows shifting to emerging ecosystems	Banking as a service partnerships, closing the customer service gap, Beyond Banking offerings	€40 billion
	Role in the Capital Markets Union	Shift from lending to advisory	Strengthening corporate finance advisory, moving to co-investment model	€15-20 billion
	New financial infrastructure	Deposit and payments at risk; efficiency opportunities	Design and build the solution — expand the positive role of banks	€10-25+ billion
<b>Total with overlap removed</b>				<b>€160 billion</b> ~25% of revenue today (€645 billion)

Outlook    — Upside    — Upside and downside    — Downside

Sources: Climate change: Three imperatives for financial services, S&P Global Market Intelligence, Bank of England — New forms of digital money white paper, Oliver Wyman analysis

## INTRODUCTION

In Oliver Wyman's 2020 report, "Aim for revival. Not just survival." we found Europe's banks on track to survive the consequences of the pandemic but not yet positioned to thrive in its aftermath.

Twelve months on, consumers have faced fundamental changes to their daily lives. Whole sectors of the economy have been shut down for months at a time, with those remaining open having to adapt to entirely new ways of working. Banks have had to react at breakneck speed to various public sector-led initiatives and have faced real disruption.

As the remaining parts of the economy start to reopen and banks shift their focus from dealing with the immediate crisis to looking to the future, our 2021 European Banking report examines what has changed, and what is next for banks.

## WITHSTANDING THE PANDEMIC

Unprecedented levels of government support for corporates have meant that the credit impact of the pandemic, rather than being borne solely by the banks, has been distributed across several market and public sector entities, or deferred. This has provided time for banks to continue the hard work of rationalization and efficiency savings.

### IMPACTS DEFERRED

The one-year decline in GDP has been worse than during the global financial crisis in many geographies, and particularly pronounced in areas more reliant on the tourism and entertainment sectors. In the United Kingdom the recession has been the steepest in 300 years.

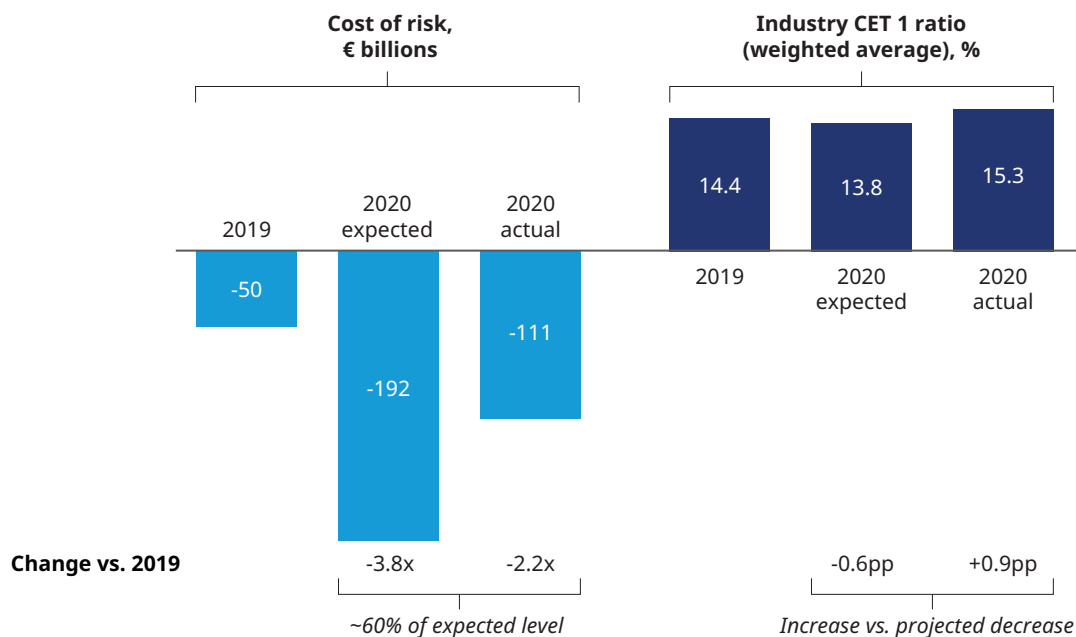
What might have been an unprecedented hit to the banking system has been dampened by enormous levels of government support for corporates and individuals. There has been extensive public-private collaboration to provide loan repayment moratoria, rent payment deferrals, staff furloughs, and many other measures.

Industry consensus last year was that single-year credit losses would be approximately €190 billion in 2020 across European Banking Authority-reporting institutions. Actual 2020 figures came in at €110 billion, 2.2 times greater than 2019 but only 60 percent of what was expected. Since then 30 percent of the banks analyzed with quarterly reporting have released provision, on average 12 percent each, and more will follow.



Capital ratios have remained robust, in large part due to lower than expected provisions and dividend freezes. Less than 1 percent of total industry capital sits in banks with core tier-1 equity (CET1) ratios below 12 percent.

**Exhibit 2: European banks — cost of risk and capital ratios**



Source: S&P Global Market Intelligence, Oliver Wyman analysis

## READY FOR A SPIKE

There remains a risk that the expected credit impact has been deferred rather than abated. As governments begin gradually withdrawing support measures, some of the impacts could emerge. Bank's individual exposures vary significantly, depending on sector, segments, and geography. In the medium term, there is a risk of zombie companies that fail to grow and could go under with an interest rate rise. There are also asset bubbles caused by excessive market liquidity, low interest rates, and a speculative frenzy in digital assets that could burst, which could severely impact banks.

With credit losses yet to fully materialize, banks have had time to prepare for the potential spike in restructuring, with differing levels of proactivity observed. Some have developed strategies to deal with increasingly complex and sensitive customer circumstances, and created tools to ensure consistency and fairness. Others have not yet finished putting the required tools, processes, and resources in place, and need to take immediate action.

## SQUEEZE ON EARNINGS

With parts of the economy effectively closed, consumers' borrowing and spending habits have fundamentally changed. With fewer options to spend money, up to 70 percent of consumers have reduced their nonessential spending, and 10 percent or so have reduced their essential spending as well. With overall expenditure down, many have paid off outstanding debt and bolstered their savings. While positive from a consumer-indebtedness perspective, this of course has a negative impact on bank revenues.

Low-cost government lending schemes have also crowded out the usually highly profitable small- and medium-sized enterprises (SME) lending segments. Revenues in 2020 took a big hit, falling by 4 percent in an already challenging environment.

As a result, over half of industry capital sits in banks with a return on equity of less than 4 percent. The speed of the recovery will determine if many of these banks are able to bounce back, or if they fall into limbo — where they can meet regulatory requirements, but have to be risk averse in lending and struggle to fund transformation efforts.



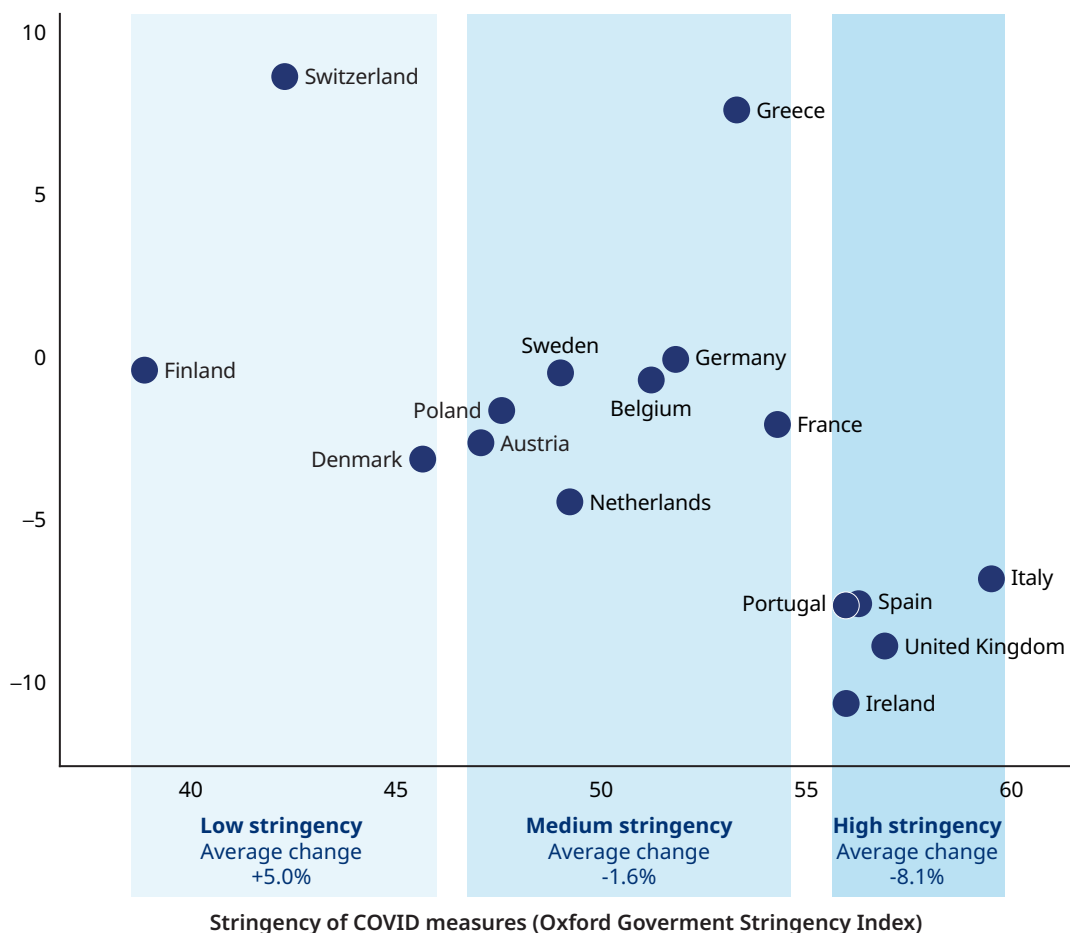
**Revenues in 2020 took a big hit, falling by 4 percent in an already challenging environment.**

## IMPACT OF PANDEMIC RESPONSES ACROSS COUNTRIES

In general, countries where more stringent COVID-19 measures were adopted have experienced the biggest drop in bank revenue. In the countries with the most stringent lockdowns bank revenues declined by 8 percent, while in other markets revenues were flat or increased. Tourism and entertainment sectors have suffered 60 percent revenue declines, and banks in countries with a major reliance on these sectors, such as Spain and Portugal, have been particularly hard hit. Banks in Switzerland have benefitted from global wealth increasing, while Greek banks recovered from an even more challenging 2019.

**Exhibit 3: Change in revenue relative to government COVID measure stringency**

% Change in bank revenue (2019-20)




















Sources: S&amp;P Global Market Intelligence, Oxford COVID-19 Government Response Tracker, Oliver Wyman analysis

While credit provisions have gone up almost everywhere — ranging from 2.5 percent to 43 percent — the biggest increases have happened in economies that were shut down the most, as banks anticipated increased default rates among consumers and businesses. Changes in risk-weighted assets and return on equity have followed a similar pattern. Banks in the most stringent markets suffered a bigger drop, due to borrowers paying down debt with excess savings, and substitution of traditional lending with government-backed alternatives.



**Exhibit 4: European bank trends by geography**

COVID-19 government measure stringency	Country	Change in loss provision % of revenue (ppt)	Change in revenue (year on year %)	Change in RWA (year on year %)	Change in return on equity (ppt)
High	 United Kingdom	14.7	-8.9	1.1	-3.2
	 Spain	11.1	-7.6	-4.7	-9.5
	 Italy	10.3	-6.8	-0.2	-5.7
	 Ireland	43.4	-10.7	-1.5	-11.6
	 Portugal	11.4	-7.6	-3.5	-4.2
	<b>Group average</b>	<b>13.6</b>	<b>-8.1</b>	<b>-1.2</b>	<b>-5.7</b>
Medium	 Greece	11.3	7.6	-3.8	-7.2
	 Netherlands	9.6	-4.5	-4.1	-4.4
	 Austria	13.4	-2.6	-0.1	-4.0
	 Belgium	12.0	-0.7	2.0	-2.1
	 Sweden	4.4	-0.5	1.6	-2.7
	 Poland	8.6	-1.6	6.5	-11.5
	 Germany	9.0	-0.1	-0.2	0.4
	 France	6.7	-2.1	2.8	-2.2
	<b>Group average</b>	<b>8.0</b>	<b>-1.6</b>	<b>1.2</b>	<b>-2.3</b>
Low	 Norway	15.3	2.6	0.6	-3.0
	 Denmark	11.1	-3.1	2.6	-4.5
	 Switzerland	2.5	8.6	3.1	1.2
	 Finland	6.7	-0.4	4.7	1.4
	<b>Group average</b>	<b>5.3</b>	<b>5.0</b>	<b>3.0</b>	<b>-0.4</b>
<b>Overall average</b>		<b>9.8</b>	<b>-3.6</b>	<b>0.4</b>	<b>-3.5</b>

■ Top 5 countries
 ■ Bottom 5 countries

Sources: S&P Global Market Intelligence, Oxford COVID-19 Government Response Tracker, Oliver Wyman analysis


**NEVER LET A CRISIS GO TO WASTE**

COVID-19 prompted banks to run an experiment: “Let’s close all our branches and offices for six months and see what happens.” In large part this has been successful, with remote management systems driving both increased efficiency and customer satisfaction. Banks will look to lock in new customer behaviors where they can and capture ongoing efficiency savings. Hundreds of processes and activities that have been performed the same way for 20 years in many banks can now be automated.

Banks have continued to rationalize their footprint during the pandemic, with twin mantras of “stick to what you’re good at” and getting to scale. Nordic banks are simplifying their geographic footprint. Others are exiting business lines that are hard to manage and compete in without scale, such as equities, capital markets, and international payments.

Market consolidation is progressing in Spain — with Bankia and Caixabank, as well as Unicaja and Liberbank, undergoing mergers — as well as in Italy with Intesa and UBI. The Single Supervisory Mechanism has given a clear signal that it is looking for further sustained consolidation to take capacity out of the system. Once dividend restrictions are lifted, there is an expectation that this might accelerate in 2022.

Beyond footprint rationalization, cost-savings remain reliant on the management and deployment of technology. The crisis provided a good opportunity for banks to learn how to build new applications fast — for example, government-backed lending — but these often fell into the trap of being bolt-ons that weren't built in sustainable ways. Progress in separating data from applications and decommissioning legacy system remains slow.



**Banks will look to lock in new customer behaviors where they can and capture ongoing efficiency savings. Hundreds of processes and activities that have been performed the same way for 20 years in many banks can now be automated.**

## HELPING TO BUILD A BETTER ECONOMY

Banks have been out of the spotlight during the pandemic — not being part of the problem has been an improvement — and they have regained some goodwill. Now there is an opportunity to help lead the recovery, cement a position of ongoing relevance, and push back against continued threats to the role of banks. In doing so, a stronger sense of purpose in banking can be established and the bottom line protected, helping banks to thrive.

This work will need to be done against a challenging backdrop, likely with sustained low interest rates, anti-inflationary rate increases notwithstanding. We point to five challenges for the banking system to tackle head-on. Collaboration will be key to success in many instances — both with the public sector and with other banks.

### Challenge 1

#### TRANSITION FROM THE EMERGENCY

<b>Action needed</b>	Standardized approaches and collaboration to minimize solvency issues and further support businesses
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<b>Indicative revenue equivalent</b>	€20 billion in 2022 and 2023
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As the pandemic period ends, it will fall to banks to ensure the emergency government programs they have supported can be unwound while minimizing the number of insolvencies and zombie companies.

Policymakers will inevitably want to remain involved and ensure that the solvency support delivers the intended bounce-back. Standardized approaches delivered across the industry with government buy-in will be needed. Spain has been a good example of this. Banks played a key role upfront, ensuring that access to funds was made available not just to large companies but also small and medium-sized entities, and in vetting eligibility and avoiding fraud. This public-private partnership in Spain is entering a new phase, creating new instruments to support overly indebted companies, and developing early stage collections strategies to minimize the number of insolvencies as the economy returns to normal.

Banks and other private sector financial providers have an opportunity to support firms that have a viable business model but are now carrying excessive financial leverage. In some cases, it will be difficult to find outside sources of equity and existing lenders will need to be willing to convert some of their loans into equity and quasi-equity. Helping viable companies to survive should be feasible on economically advantageous terms for

all parties, including the banks. Where it is not, close cooperation with government will be required to fill financing gaps or make changes to bankruptcy and workout regimes.

Banks can also play a supporting role to central banks and policymakers in the recovery. Asset bubbles are inflating, caused by excessive market liquidity, low interest rates, and a speculative frenzy in digital assets. The specter of inflation has returned, driven by pent-up savings and supply chain challenges, something Europe's banks have not had to deal with for a generation. Interest rate rises may bring much needed top-line growth, but swathes of corporates are still suffering from weak profitability and would be exposed, along with households. Banks can assist Europe's central banks' macroprudential stability objectives with analyses of consumer and corporate exposure, and potentially through regular interest-rate scenario stress tests. Banks will also need to deal with second order effects such as front-line pricing strategies on both the asset and liability side, product substitution, and interest rate hedging.

## Challenge 2

### ROLLOUT OF NEW PUBLIC SECTOR-BACKED LENDING APPROACHES

<b>Action needed</b>	Lead on coinvesting in recovery, strengthening corporate finance advisory, moving to co-investment model
<b>Indicative revenue equivalent</b>	€20 billion (Next Generation) + €15-20 billion (Capital Markets Union)

Some of the emergency measures are still gaining steam. As the European Union's Next Generation fund rolls out from 2021-23, banks will need to define their role and value-add to ensure the fund poses an opportunity rather than a threat. It is hugely material; the €750 billion total — just over half in loans, the rest grants — equates to 16 percent of the €4.8 trillion in outstanding EU lending to non-financial corporations.

#### Exhibit 5: Bank capabilities to establish themselves as an instrumental part of the recovery through the rollout



Distribution network to reach SMEs and individuals



Viability assessment capabilities



Financing capabilities



Controlling and monitoring capabilities

Source: Oliver Wyman analysis.

Given the high level of public-sector involvement in this scheme, banks will need to demonstrate the value they bring in the rollout. They will want to ensure the banking relationship is at the heart of the corporate-Next Generation fund relationship, becoming the channel for different forms of capital. Without properly structuring the disbursement of funds, and the balance of grants vs. loans, there is a risk the fund's huge ambitions won't be met. The robustness of this structuring is also critical for banks, given that the Next Generation program will make up a significant part of their credit book in the coming years. Adopting a more client-centric approach to helping navigate a broader range of financing solutions is critical — and has similarities with what banks already do for their biggest clients today.

Banks are also uniquely placed to provide monitoring and reporting for the fund and to provide additional funding on top. If done well, banks have the potential to generate €20 billion of additional revenue through “crowding in” with complementary financing, working capital, and provision of services. The winning banks in countries receiving the greatest share of the fund will be able to generate €1 billion or more in revenue apiece, while having a major positive impact for their clients.

Likewise, the Capital Markets Union is slowly emerging with its long-forecast shift to market-based financing. While it has been in the making since 2015, the adoption of the New Capital Markets Union Action Plan in September 2020 by the European Union signals a change of pace. The explicit linkage of the CMU to the objectives of “supporting a green, digital, inclusive, and resilient recovery” underlines the strong political will to make the CMU an integral part of the post-pandemic financing market landscape. The CMU has the potential to drive market-based financing from 25 percent to 50 percent, in other words replacing a third of today's bank-based financing. Banks will need to become trusted advisors helping clients navigate a broader range of financing solutions, or risk being sidelined as €15 billion to €20 billion of business shifts.

### Challenge 3

## FINANCING THE CLIMATE TRANSITION

**Action needed**                      Developing the financing opportunities, leading on the change agenda

**Indicative revenue equivalent**      €25-50 billion

Delivering a greener economy in Europe will require an estimated €1.5 to €2 trillion in capital, more than double the size of the Next Generation fund.

Most European banks have pledged to reach net-zero carbon emissions across their lending portfolios by 2050. However, these commitments are running ahead of the transition in the real economy — as things stand, not all banks will hit their stated targets, and to deliver they will need to be proactive in initiating transition projects.

The new offerings across investments, financing, advisory, data and analytics and risk transfer, represent a €25 billion to €50 billion revenue opportunity — a quarter of which is net new, with the rest replacing existing business. Savings and investing products are a big driver of the opportunity. If banks don't take the initiative, a combination of boutique advisors and specialists, data companies, and private equity funds will bridge the gap. The most sophisticated banks will build expert teams in areas like hydrogen investment or carbon capture and will make principal investments, becoming more like operators. Banks will have to consider if they are comfortable playing in this space, and if they want to position their balance sheet more clearly as a bet on climate transition.

While there will be some win-wins with growing green businesses, there will also be conflicts between green and financial objectives. Climate transition and carbon will need to form part of a double bottom-line, a concept much discussed but representing a profound shift in direction that needs incorporating into all key processes. Lots of hard-to-collect data are needed, and they will need meshing together to support scenario analyses, risk reporting, stress-testing, net zero tracking, regulatory reporting, policy exclusion compliance, and more. There are multiple external bodies involved, with challenging deadlines to meet.

It will become increasingly transparent who the true leaders are, and they will see the reputational benefits. The Task Force on Climate-Related Financial Disclosures will lead to easy comparisons between institutions, as will commitments under the Net Zero Banking Alliance and reporting of emissions financed across banks' portfolios. Growing interest from analysts and investors means it will be increasingly clear who is making real progress (engaging with clients, reshaping the balance sheet) and who is stuck in the complexity of measurement and has initiatives on paper only.



## Challenge 4

### ENABLING THE DIGITAL ECONOMY

**Action needed** Banking as a service partnerships, closing the customer service gap, Beyond Banking offerings

**Indicative revenue equivalent** €40 billion

Europe has experienced a slower shift to [modular banking](#) than in Asia, but nonetheless banking is moving closer to customers' point of need and is increasingly being delivered by a broader range of providers in digital ecosystems serving a wider set of customer requirements.

There is growing trust in e-commerce platforms and more customers are considering financial services from non-traditional sources. For instance, buy now, pay later (BNPL), once an instrument appealing to Gen-Z customers who disliked traditional forms of credit, is gaining broader adoption, with the likes of Klarna now having 73 million active users outside the US, spending €44 billion across 17 geographies in 2020. Despite increased regulatory scrutiny, this rapid growth looks set to continue.

Over the next 10 years it is possible that new ways of accessing banking products could make up 10 to 15 percent of the non-mortgage credit, deposits, FX, and payments markets for retail and SME customers. Given that these new ecosystems tend to provide shorter term, higher margin products this could equate to €40 billion in revenue.

Banks have been grappling with this environment for several years. They still have advantages: millions of clients, trust, payment data, and distribution channels that everybody needs to use. The ambitious response has been to build on these and compete to provide customers with tailored products and services that go beyond banking and fit their need, life stage, hobbies, and values. In Russia, banks have successfully taken the lead, providing a range of low-cost services to help customers save money such as utility switching and mobile tariffs, which have made customers more loyal and helped to capture borrowing needs.

For other banks the response will be pragmatic, such as acting as a provider of other companies' embedded finance offerings. There will be a scramble to be the best partner for big tech, but they will also be a supplier and a competitor all at once. These relationships will need to be managed at the C-suite level, with the most successful banks helping to orchestrate broader ecosystems, not just being a great 1:1 partner.

## Challenge 5

### BUILDING A NEW FINANCIAL INFRASTRUCTURE

**Action needed**                      Design and build the solution — expand the positive role of banks

**Indicative revenue equivalent**      €10-25+ billion

Radical changes to the underlying financial infrastructure are on the horizon, starting in payments, and with major effects rippling out from there.

Consideration of central bank digital currencies (CBDCs) are gaining traction in the European Central Bank, the United Kingdom, Sweden, and internationally, driven by geopolitical and monetary policy control concerns. This will not happen soon but is increasingly likely and could be truly disruptive — a recent Bank of England white paper scenario assumed a 20 percent drop in bank deposits, putting €10-25 billion of revenue at risk.

The banking system needs to be on the front foot, engaging with policymakers and regulators and with each other to identify and deliver system-wide improvements for customers, and thereby shape the future financial infrastructure. Payments and financial crime initiatives of this sort are underway, and while challenges in aligning the interests of all parties are evident, authorities have been prepared to provide support. Further initiatives across cost efficiency and data, or even management of distressed assets, can deliver a more resilient and efficient system, and could act as a first step toward consolidation.

The other key piece of infrastructure where collaboration between banks and with governments is needed is digital identity. Jurisdictions across Europe are taking different approaches to development and oversight and the European Commission has proposed a trusted and secure digital identity for all Europeans. In many countries, such as Italy, Norway, Belgium, Denmark, and Sweden, banks are playing a leading role. This is an opportunity that banks must seize to limit big tech encroachment into financial services, strengthen their bond with customers, provide efficiency savings in day-to-day processes, and generate new revenues from authentication services.

## CONCLUSION

Banks have the opportunity to take an important leadership role in the economy in a way that is vastly different from the recent past. This has the potential to reignite a stronger sense of purpose, with banks being part of the solution on big issues. This can reinforce the level of trust in banks, allowing them to forge stronger and deeper relationships with their customers and serve a broader set of their needs — enabling banks to truly thrive. But banks need a new mindset and capabilities to deliver this change. In the transition there will inevitably be a tension with the narrow goal of maximizing shareholder value in the near-term. Banks that do not step up risk either being marginalized or coerced into doing governments' bidding anyway — but without the benefits of being on the front foot.

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