McKinsey&Company

European Banking Summit 2018

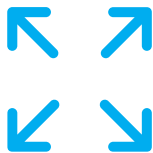DR MAX FLÖTOTTO | PARTNER | MCKINSEY

September 27, 2018

Clear objective: capital markets and banks need to serve the **real economy**

Finance **investments and growth** for SMEs

Help manage **risks** (hedging)

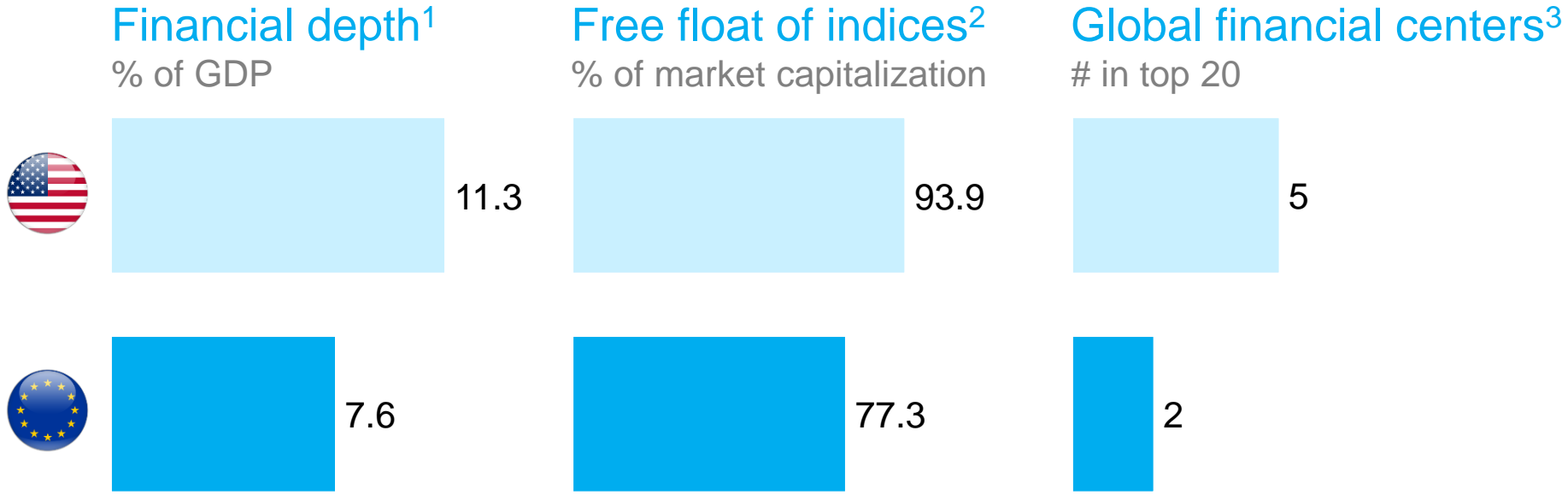Support **international expansion** of mid and large corps

Give **retail investors** access to capital market products

But there is a lot of work to do

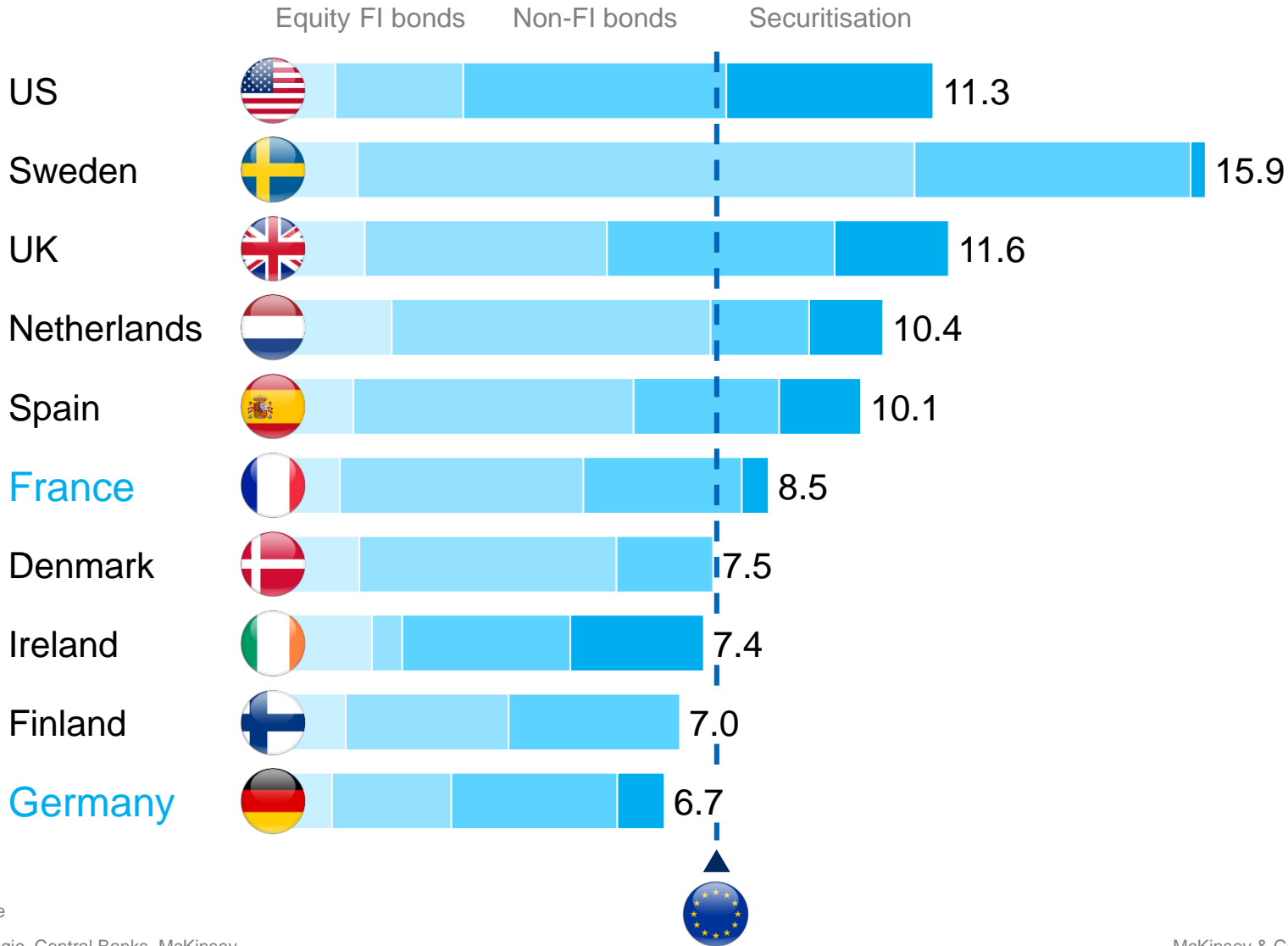# But European **capital markets** trail way behind the US in key metrics

2017

Financial depth[1]
% of GDP

US: 11.3
EU: 7.6

Free float of indices[2]
% of market capitalization

US: 93.9
EU: 77.3

Global financial centers[3]
in top 20

US: 5
EU: 2

1 Issuance of equity, FI and non-FI bonds, government bonds and securitization in relation to GDP
2 Market capitalization of shares readily available in the market, EU: EuroStox50, US: S&P500 Top50
3 As of September 2018, average score

Some **financial markets** in Europe are deep, but large countries such as Germany and France rank way lower
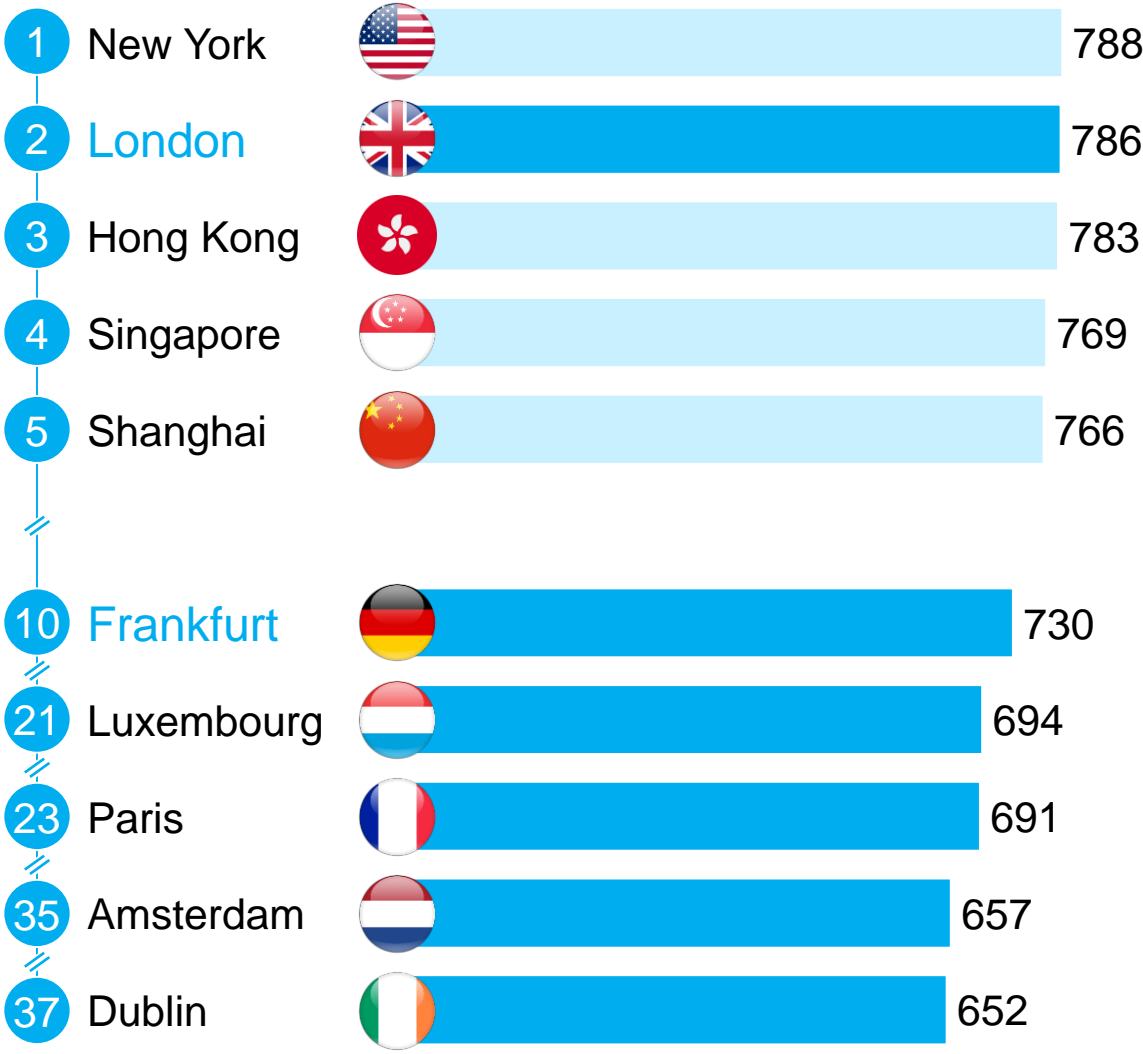
Financial depth 2017[1], %

	Equity FI bonds	Non-FI bonds	Securitisation	
US				11.3
Sweden				15.9
UK				11.6
Netherlands				10.4
Spain				10.1
France				8.5
Denmark				7.5
Ireland				7.4
Finland				7.0
Germany				6.7

1 US and Europe

Only two European cities in Top 20 **financial centers** globally

Global Financial Centers Index, 2018

Rank	City		Score
1	New York	🇺🇸	788
2	London	🇬🇧	786
3	Hong Kong		783
4	Singapore		769
5	Shanghai		766
10	Frankfurt		730
21	Luxembourg		694
23	Paris		691
35	Amsterdam		657
37	Dublin		652

Only **London** and **Frankfurt** rank among Top 20 financial centers globally

New York, **Boston**, **San Francisco**, **Los Angeles** and **Chicago** are among the 20 financial locations with the best reputation

Europe's largest investment **banks are losing share** to their US peers

Market capitalization
USD bn

CAGR 2011-17

	2011	2017	CAGR 2011-17
US [1]	335	1,059	21%
EU [2]	232	416	10%
Total	567	1,475	
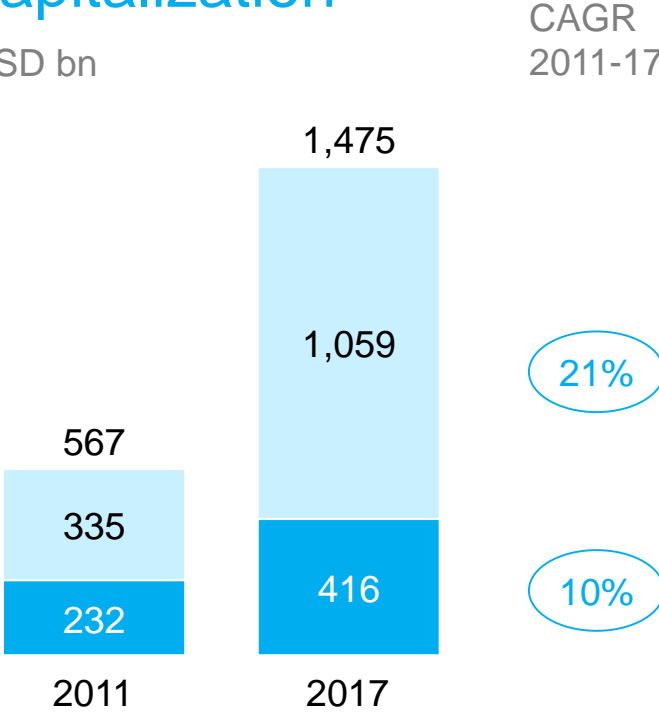
Investment Banking Deal Volume[3]
USD tn

CAGR 2011-17

	2011	2017	CAGR 2011-17
US [1]	4.5	6.0	5%
EU [2]	2.4	2.2	-2%
Total	6.9	8.1	
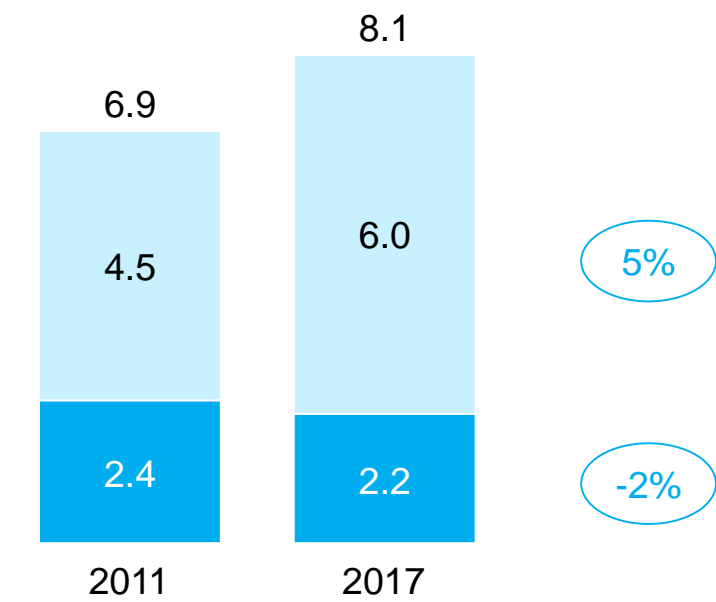
1 Top 5 US investment banks: JPM, Goldman, MS, BAML, Citi
2 Top 5 EU investment banks: Barclays, Deutsche, HSBC, BNPP, SocGen
3 Primary markets, i.e., ECM, DCM and M&A

European banks are leading a **retreat from cross-border capital flows**, while others are expanding overseas

Foreign bank claims, USD trillion

Legend

- Eurozone
- Other Europe
- Developing
- Other advanced

EU

Category	2007	2016
Total	23.3	13.9
Eurozone	15.9	8.6
Other Europe	7.4	5.3

Other

Category	2007	2016
Total	6.9	11.1
Developing	0.1	1.3
Other advanced	6.8	9.8
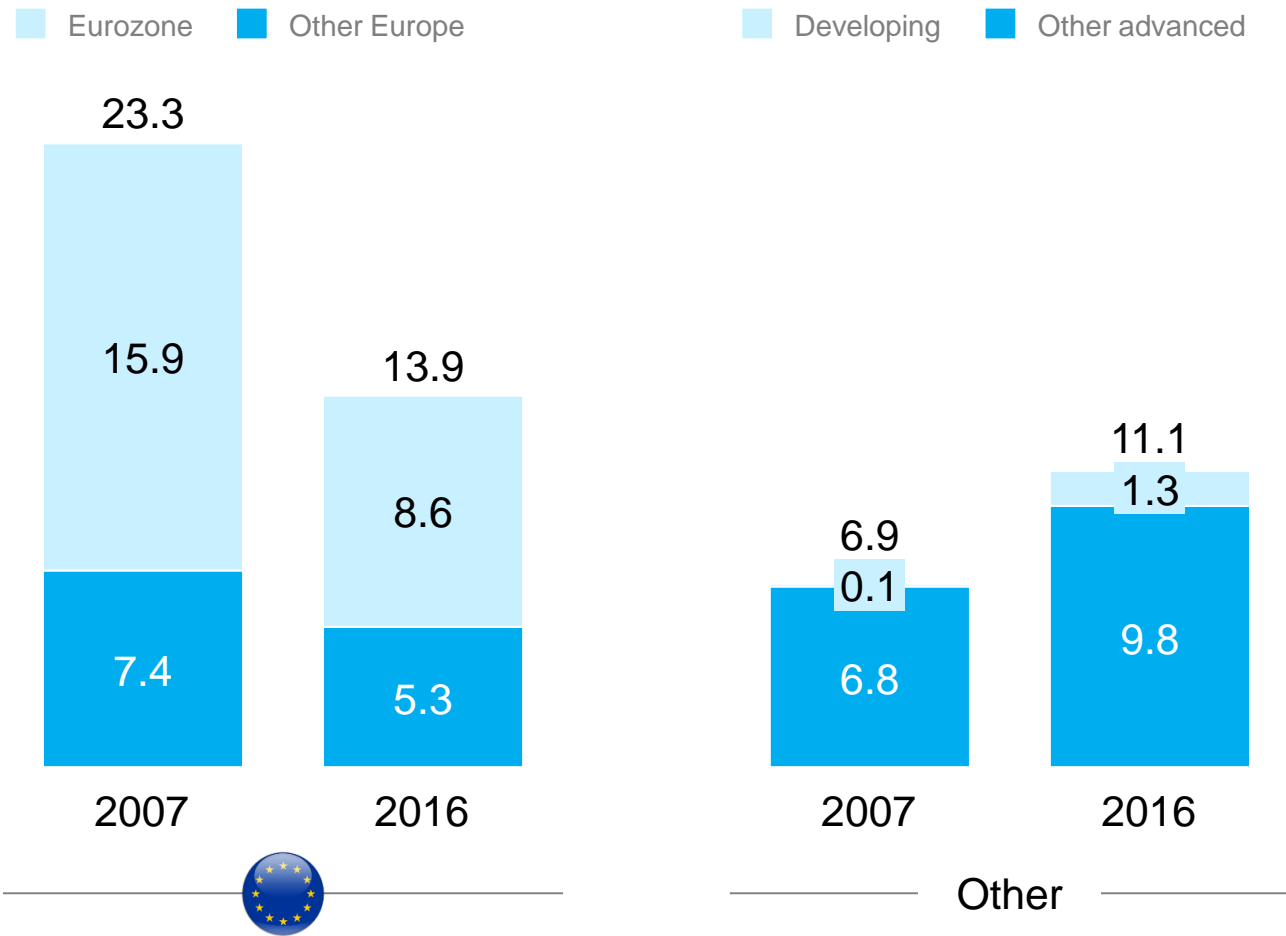
Key drivers

- Reappraisal of country risk
- Low profitability of foreign business
- National policies promoting domestic lending
- New global regulations

US players currently dominate in all **global investment banking markets**

Deal volume 2017 in USD bn

#	ECM		DCM		M&A	
1	Goldman Sachs	69	Citi	501	Goldman Sachs	941
2	Morgan Stanley	67	JPMorgan	479	Morgan Stanley	790
3	JPMorgan	62	Bank of America	440	JPMorgan	725
4	Citi	48	Goldman Sachs	334	Bank of America	611
5	Bank of America	43	Morgan Stanley	325	Citi	522
6	UBS	37	Barclays	314	Lazard	413
7	Credit Suisse	34	Deutsche Bank	257	Barclays	398
8	Deutsche Bank	28	HSBC	257	Credit Suisse	364
9	Barclays	26	Wells Fargo	236	UBS	343
10	CITIC Securities	17	BNP Paribas	203	Evercore Inc	336

How other industries have **successfully restructured**

	Actions	Impact
Telecom 1997 end of monopoly	■ Network cooperation ■ Reduced product portfolio ■ Consolidation ■ Full cost transparency	🔻 40% cost 🔻 30% FTE costs 🔻 50% throughput time
Semiconductor 2001 collapse	■ Postponed upgrades ■ Optimized equipment ■ Introduced target pricing ■ Switched to reverse auctions	🔻 40% cost 🔻 15% FTE costs
Automotive Late 1990s downturn	■ Cost cuts for suppliers ■ Integrated supply chain planning ■ Lean manufacturing ■ Modular toolkit strategy	🔻 20% cost 🔻 15% FTE costs 🔻 30% throughput time

Three types of fintech models

Disrupt the model

- ~20% of FinTechs in CIB looking to **fundamentally disrupt the business model**
- Examples: peer-to-peer lending, bond and equity issuance, securities services

Own the relationship

- ~20% of FinTechs in CIB playing an **intermediary role**, providing **enhanced client experience**
- Examples: FX and payments processing, trade finance

Enable the value chain

- ~60% of FinTechs in CIB have **financial institutions as customers**, enabling efficiency and effectiveness
- Examples: leveraging machine learning, work-flow, distributed ledger, big data and analytics

Happy to share the presentation – feel free to reach out
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