

25.09.2018 – 09:06 Uhr

Unsustainable profits, increasing market share from financial intermediaries and poor market valuations puts UK and European banks at risk, warns new study



London (ots) -

A new study of the 50 largest banking groups in the UK and Europe has revealed that although profits have increased, future profitability is at significant risk.

The UK & European Banking Study (EBS), launched today by zeb, one of the leading strategy and management consultancies in financial services, shows that banks are operating in unstable market conditions fuelled by unsustainable profit-taking, crisis level valuations and dwindling market share.

While profitability (RoE) improved throughout 2017 (from 3.9% to 7.1%), the report states that the ability is highly unlikely for banks to repeat these gains going forward. Profit improvements from reduced non-litigation and extraordinary costs have allowed net profits to surge, but it's hiding the fact that maintaining sustainable recurring profits will be nearly impossible.

Banks are also losing market share to other financial intermediaries including shadow banks and non-banks. These intermediaries now hold almost half of the assets in the European financial sector moving from 22% in 2008 to 48% in 2017. Add-in insurers and pension funds, and this grip on what were bank assets increases to 63%, according to the study.

Bertrand Lavayssière, Managing Director UK at zeb, says: "While these profit results may look positive, they are, for most institutions, superficial and hide the reality. With unsustainable profit-taking and non-banks continuing to gain market share, banks have built profits on a windfall situation. The time has now come to shift towards operational improvements and to decouple those aspects of the value chain that no longer enhance value for customers.

"A decade after the banking crisis, we have now reached a tipping point and banks urgently need to switch from "recovery mode" to "action mode".

The study outlines four strategic options banks can choose to combat market conditions and produce value with true differentiation. They include: pursuing M&A, focusing on product specialisation, breaking up the value chain and participating in financial ecosystems or platforms.

Mr. Lavayssière commented: "Top performing banks will be those who are most capable of selecting a path of true differentiation while simplifying and standardising the rest."

About the UK & European Banking Study:

The study is the industry's leading research for understanding issues impacting the Top 50 European Banks.

EBS 18 profiles and ranks every top 50 European bank, based on analysis of capitalisation, total assets and return on equity. The study will show why recent profitability improvements may only be a short-term gain and how market shares are under attack.

Industry executives will also gain insights to address consolidation, regain market share and improve profits by focusing on areas like customer relationships, product specialisation, disintermediation and ways to simplify and standardise for greater operational

profit improvements.

To learn more and obtain a copy of the new report, please visit <https://zeb.eu/ebs18> or email publications@zeb.eu.

About zeb

zeb is a strategy and management consulting firm specializing in the banking and financial services sector with 18 offices across Germany, Austria, Denmark, Italy, Luxembourg, the Netherlands, Norway, Poland, Russia, Sweden, Switzerland, the United Kingdom and the United States of America. With more than 1,000 employees, zeb is one of the leading consulting firms for banks, savings banks, insurance companies and other financial institutions in Europe. www.zeb.co.uk

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