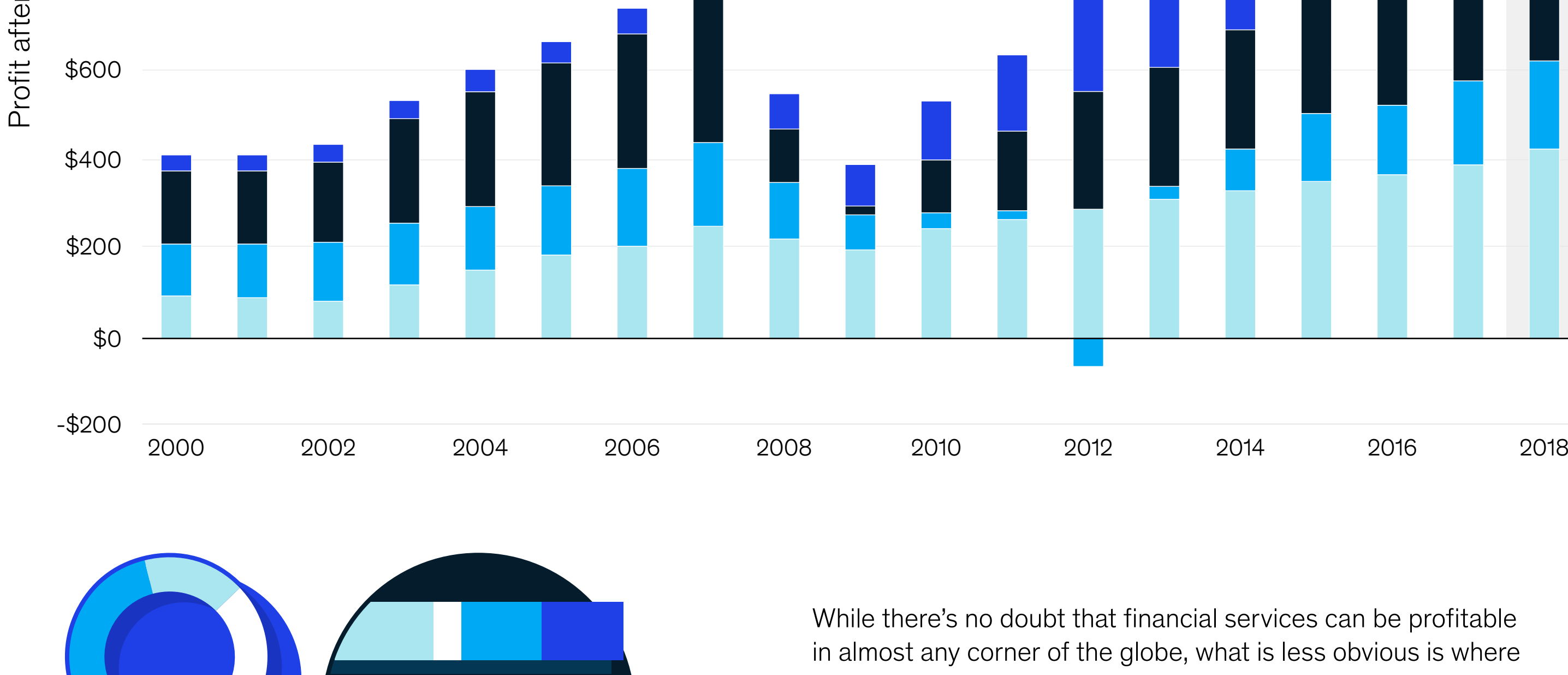




Banking around the globe: Where's the money?

In 2018, the global banking industry cashed in over \$1.3 trillion in after-tax profit.



While there's no doubt that financial services can be profitable in almost any corner of the globe, what is less obvious is where this profit comes from.

The truth is that banking can vary greatly depending on location.

What drives value for banks in Singapore may be completely different from what drives value in the United Kingdom.

Let's dive deeper into how the world's banks make money, while also taking a glimpse at where the best future potential opportunities in banking may lie.

Taking it to the bank

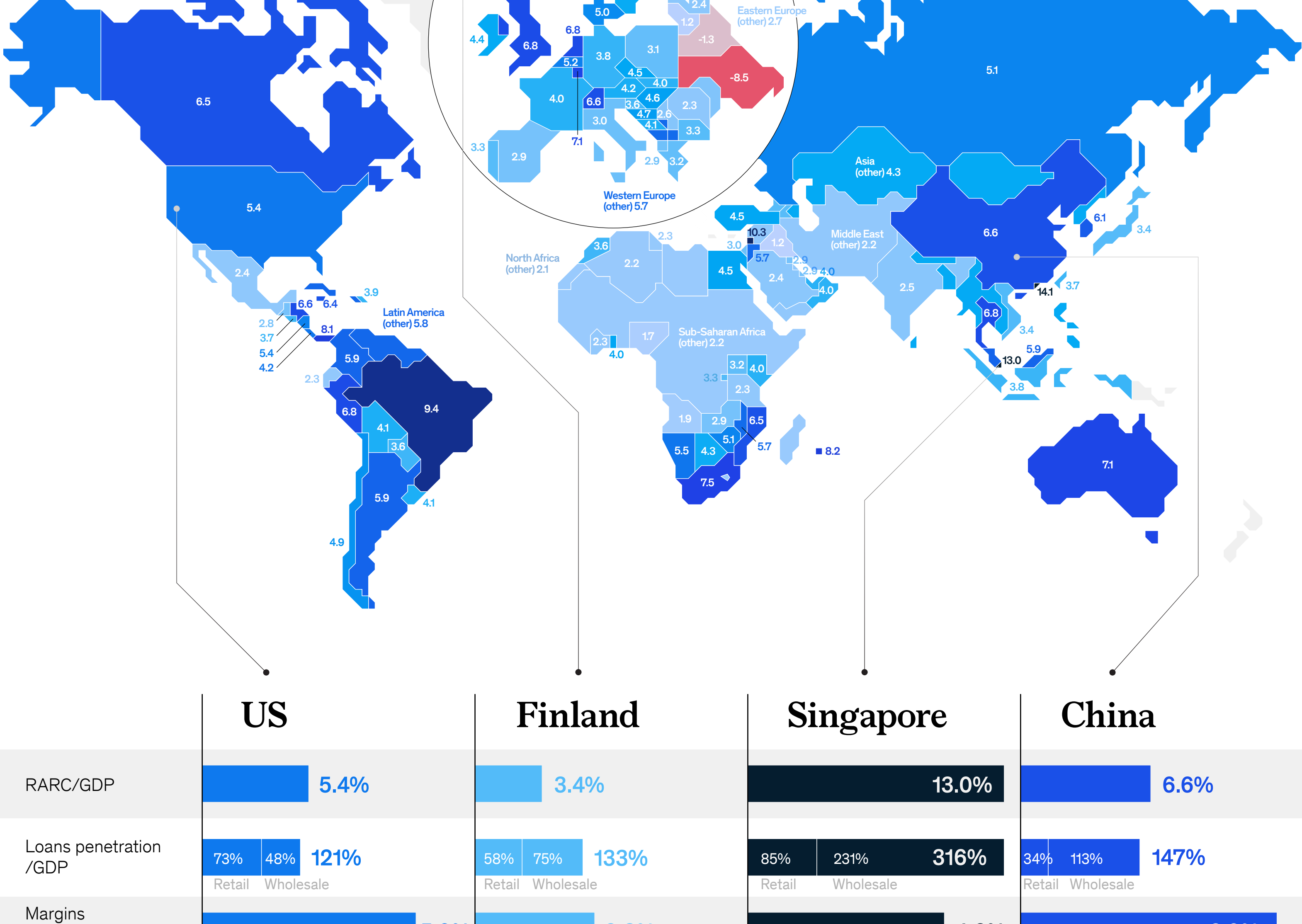
To evaluate banking revenues, there needs to be an even playing field for measurement. For this reason, we can use RARC/GDP to compare countries around the world.



RARC/GDP shows the ratio between a country's banking revenues and overall economic production, giving a sense of how important banking is in the economy.

$$\text{RARC/GDP} = \frac{\text{Revenues after risk costs}}{\text{Gross domestic product}}$$

Globally, the average RARC/GDP ratio is 5.1%—but this number can vary significantly across regions, indicating how the role of banking changes from economy to economy.



	US	Finland	Singapore	China
RARC/GDP	5.4%	3.4%	13.0%	6.6%
Loans penetration / GDP	73% Retail, 48% Wholesale, 121%	58% Retail, 75% Wholesale, 133%	85% Retail, 231% Wholesale, 316%	34% Retail, 113% Wholesale, 147%
Margins (Revenues before risk cost / Total loans)	5.0%	2.8%	4.6%	6.0%
Risk cost margin (Risk cost / Total loans)	0.4%	0.2%	0.4%	1.4%
Notes	After only netting \$19 billion in profit in 2009 during the financial crisis, the U.S. is again the world's most lucrative banking market, bringing in \$403 billion in after-tax profit in 2018.	Finland banks get the highest share of retail revenue from digital banking in Europe.	Large financial centers like Singapore tend to have higher-than-average RARC/GDP and Loans / GDP ratios, while having lower margins.	China's banking industry, which generated \$333 billion in after-tax profit in 2018, is driven largely by wholesale loans, which primarily go to corporations.
U.S. banking profits	Bar chart showing profits from 2009 to 2018.	Online banking usage rate: Finland 89.1%, Europe 65.0%	Share of retail revenue from digital (after risk cost): Finland 48.8%, Europe 29.2%	2018 banking profit per capita (per person): Singapore \$3,142, Australia \$1,201, S. Korea \$545, China \$242

Future opportunities

As countries get richer and need more financial services, the potential opportunity for banking grows. Here are some places that could see major growth in the banking sector:

Sub-Saharan Africa

By comparing emerging African economies with more developed nations on the continent, it's possible to see untapped potential in banking:

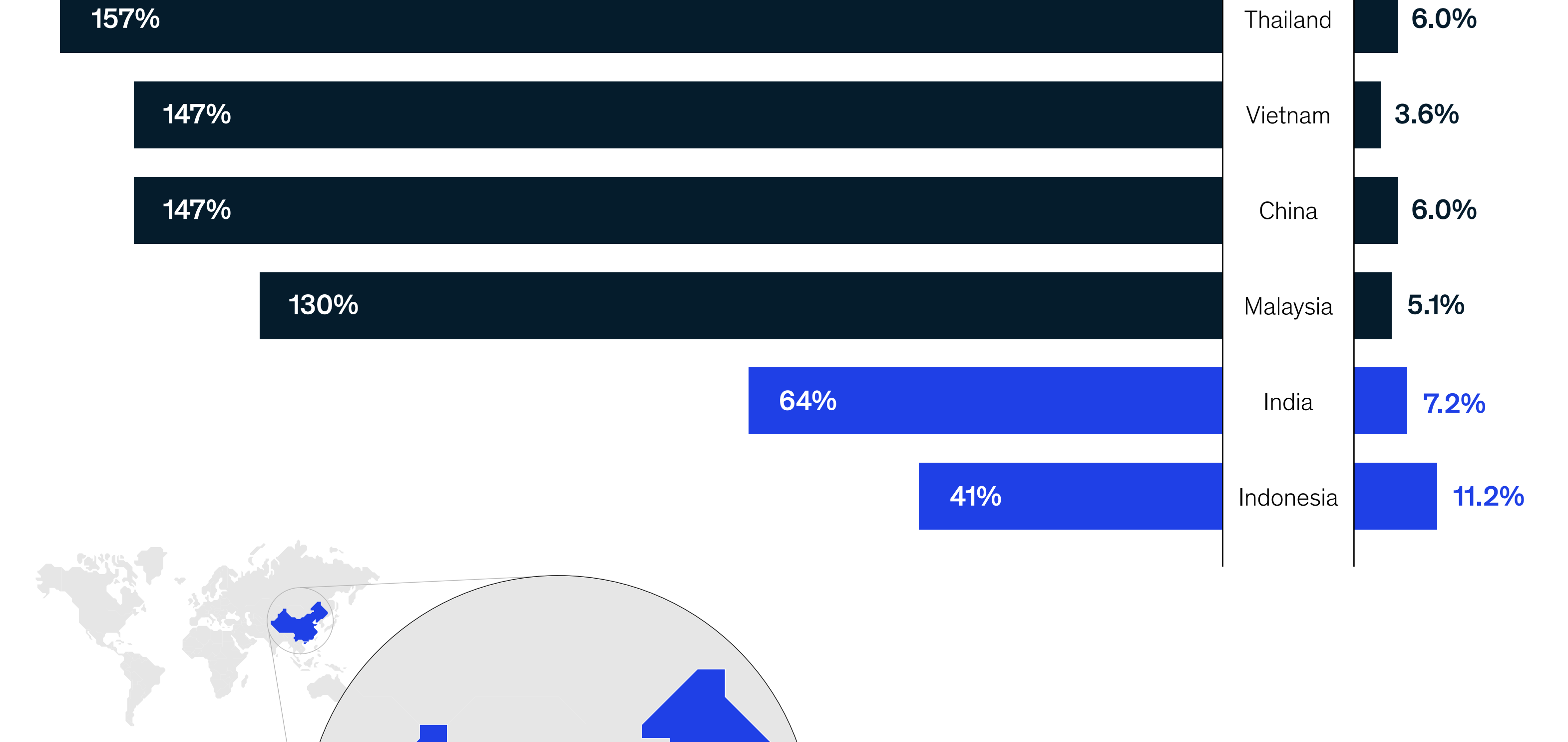
	Sub-Saharan Africa	South Africa
Population	937 million	57 million
GDP per capita	\$1,307	\$5,674
RARC/GDP (Revenues after risk costs / GDP)	2.2%	7.5%
Loans penetration (Total loans / GDP)	6% Retail, 17% Wholesale, 23%	38% Retail, 40% Wholesale, 78%
Profit after tax	\$8.1 billion	\$9.6 billion

Despite having 16x the population of South Africa, the banking industry covering the rest of Sub-Saharan Africa generates fewer profits.

However, with far lower loan penetration rates and a fraction of the revenues per capita, there is still significant potential found throughout the continent.

India and Indonesia

Compared to other economies in Asia, both India and Indonesia present interesting opportunities, given their high margins and low loan penetration rates:



China

While China has a high overall loan penetration rate, it is buoyed by corporate (wholesale) lending.

	China	Hong Kong
Loans penetration / GDP	34% Retail, 113% Wholesale, 147%	70% Retail, 244% Wholesale, 313%

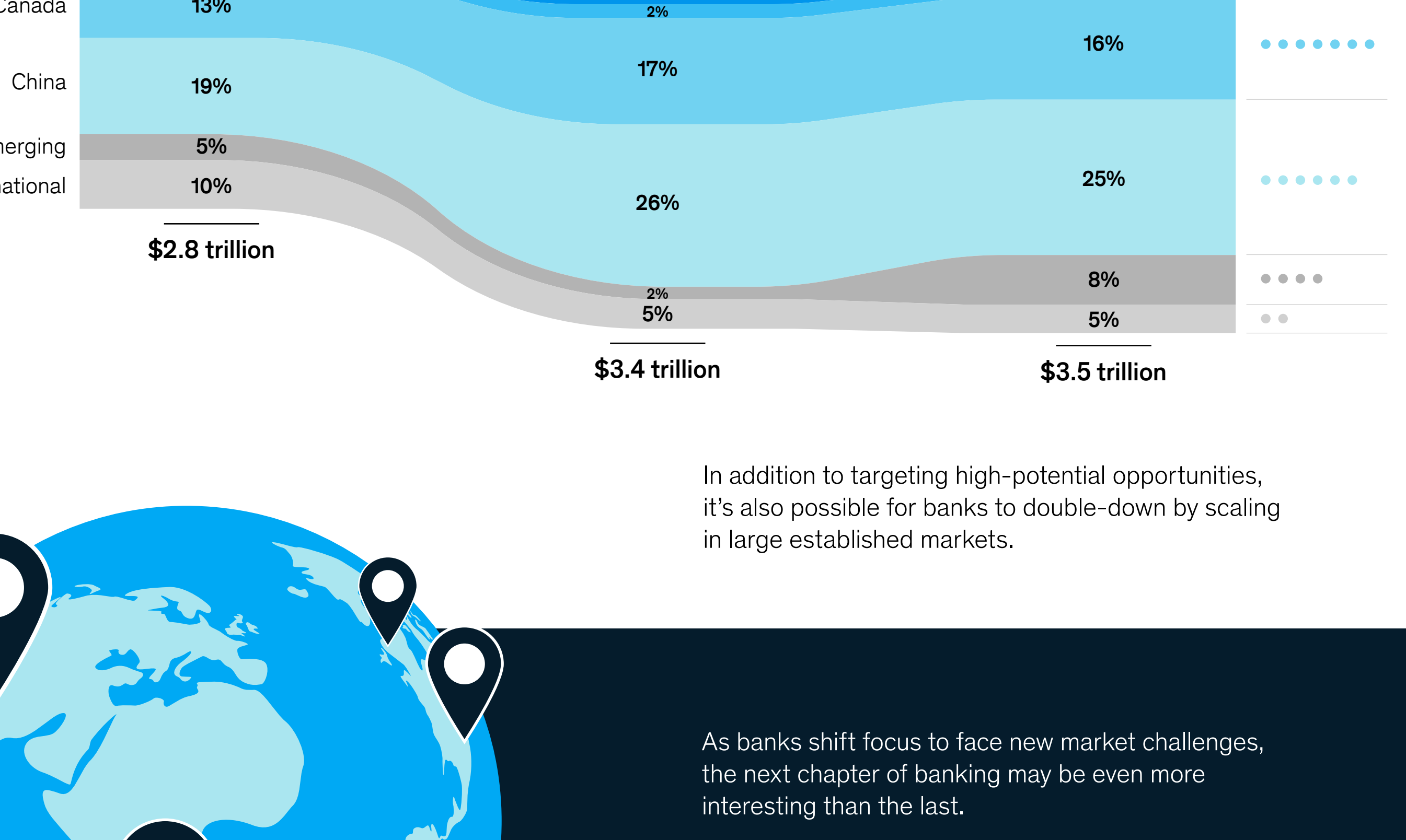
Given that Mainland China has 1.4 billion people, this makes the retail loan space a significant opportunity going forward. Even a double in penetration would bring it up to match Hong Kong.

A changing landscape in banking

In the decade following the financial crisis, the makeup of the banking landscape has shifted dramatically.

The world's top 30 banks by market capitalization

(% share of top 30 banks / total in U.S. dollars)



In addition to targeting high-potential opportunities, it's also possible for banks to double-down by scaling in large established markets.

As banks shift focus to face new market challenges, the next chapter of banking may be even more interesting than the last.

Add in the high stakes around service transformation, aging populations, and new digital opportunities, and the distance between winners and losers could lengthen even more.

Where will the money in banking be in the future?