



**AIM FOR REVIVAL. NOT JUST SURVIVAL.**



# INTRODUCTION

Europe's banks are set to take a large financial hit from the COVID-19 crisis, both in credit losses and in several years' worth of weaker earnings that are expected to follow. After a decade of strengthening balance sheets, however, the industry looks sufficiently robust to sustain the economic shock and expected credit losses. Banks have worked hard to maintain their operations and to support their customers during the lockdowns thus far, and they are partnering with governments to protect the economy. Some goodwill, in short supply for years, is being replenished.

In this European Banking report, we therefore look at whether this is a moment that could bring about more far-reaching and much needed changes to the industry.

In the first section we examine the financial outlook for Europe's banks. In the second section we then look at how banks are responding and what steps will be taken to manage the upcoming credit environment and to rebuild financial returns. Lastly, we look at the banking system that Europe needs, and the collective effort required to get to there from management, employee groups, shareholders, regulators, and policymakers over the next few years.

# SURVIVING BUT NOT THRIVING

Europe's banks are entering a period of high credit losses in both corporate and retail portfolios, combined with a slowing of new business and compressed margins. By 2022, the fortunes of banks will vary more than today and the industry as a whole will still be suffering from weak economics.

In our central case, where there is no rapid rebound, but where governments manage to prevent a second wave of sustained and comprehensive country wide lockdowns (our adverse scenario), we forecast around 70 percent of banks in the European Union and United Kingdom will maintain a core tier-one equity (CET1) ratio of greater than 12 percent. Considering the size of the economic shock, this can be considered a success for banks and a validation of post-financial crisis prudential reforms. However, only 17 percent of the industry will be generating returns on equity greater than 8 percent in 2022, a level that would generate enough earnings to cushion against a future downturn. Around half of the rest of the industry will be in a limbo state, with sufficient capital but weak returns, and the remainder will either be troubled or facing a lengthy rebuilding process.

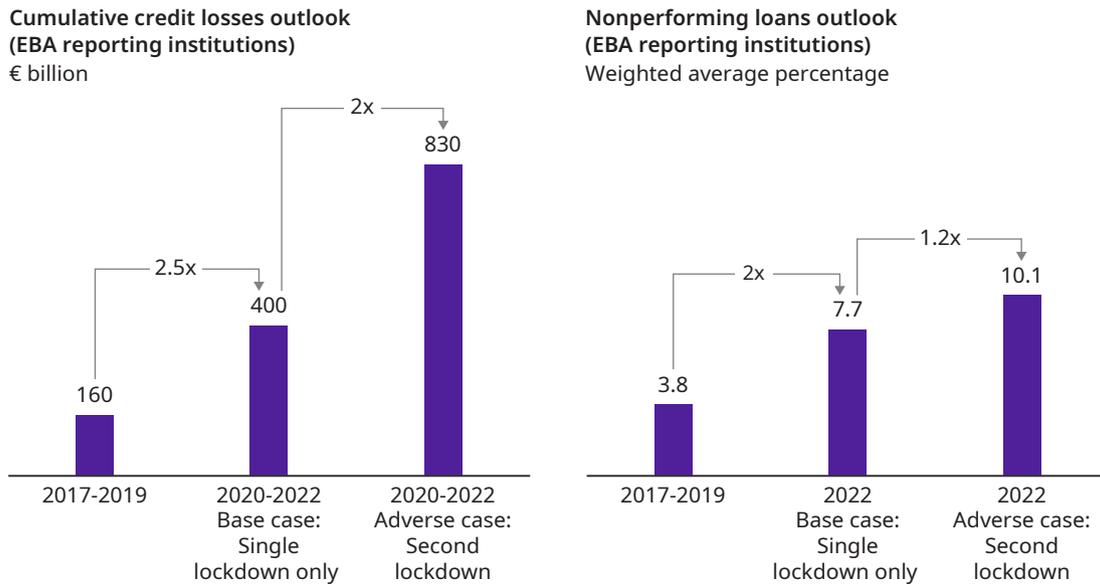
## CREDIT LOSSES LOOK MANAGEABLE

We estimate that European banks, defined as those reporting data to the European Banking Authority (European Union, United Kingdom, Norway), face more than €400 billion of credit losses in the next three years. This is two and a half times the total provisions made over the previous three years, a period of relatively low losses. Losses from COVID-19 would be less than 40 percent of those experienced during the global financial crisis of 2008-10, and a similar overall level to the Eurozone crisis of 2012-14.

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**European banks face more than €400 billion of credit losses, double recent levels, but less than half those seen during the global financial crisis**

### Exhibit 1. European banking credit losses outlook



Source: Oliver Wyman analysis; scope based on EBA Transparency Exercise (include EU, UK and Norway), excludes development and smaller institutions

This loss estimate includes the impact of the major support measures put in place by governments. In some cases, this support has prevented up to one third of potential corporate defaults, reducing expected credit losses and pushing back the timing of the increase in nonperforming loans. The support measures have also built confidence, encouraging companies to raise funds in public markets or to take out new bank loans. The quick recovery in asset prices following central bank action have further supported bank earnings over recent months.

In our adverse case, losses would more than double to €800 billion across Europe, with renewed pressure on the same sectors (such as transportation, hospitality and recreation) and the nonperforming loan ratio rising to 10 percent. In this scenario the industry would come under more severe strain, particularly if governments — already loaded up on debt from the first outbreak — were unable to continue to extend support to companies. While this threat looms, banks will remain cautious in their risk appetite and planning.

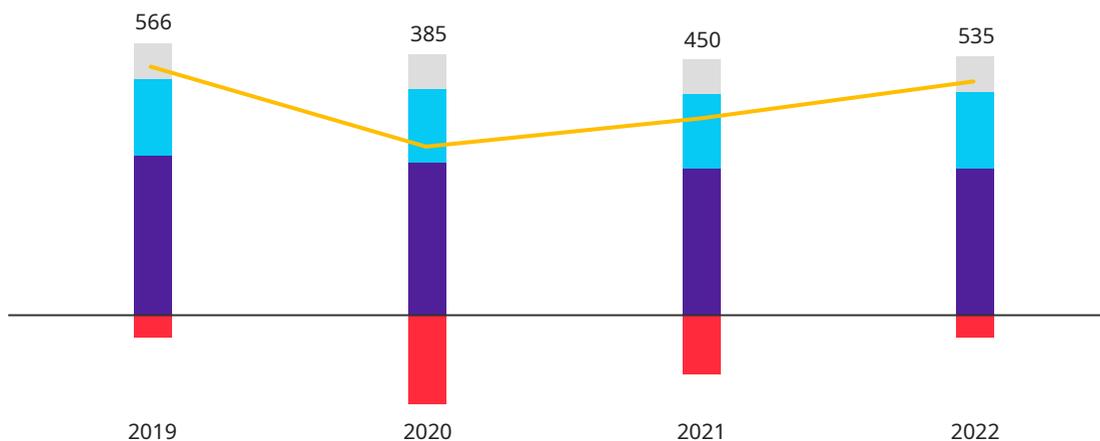
## ULTRA-LOW EARNING POWER

Europe’s banks face a period of lower earning power as net interest margins and fee income go into reverse at the same time in retail and commercial banking. This will be compounded by the crowding out of private debt by government schemes and borrowers looking to repay debt as the economy recovers. We expect net interest income to be 8 percent lower in 2021 than it was in 2019, and fee income to be 3 percent lower.

The timing of the earnings impacts varies by business line. Some — particularly corporate and investment banking divisions — have experienced a revenue boost linked to volatility and immediate financing demand from corporates. But these benefits will be short-lived, and at the same time other large business lines that are more pro-cyclical, such as payments, trade finance, and consumer credit, are trending downward as economic activity stalls, consumer spending is reined in, and balances on personal loans and cards are paid down.

**Exhibit 2. European bank revenue forecast (central case)**

€ billions



**Percentage of year on year change**

	2019-2020	2020-2021	2021-2022
Pre-credit losses	-5	-1	1
Post credit losses	-32	17	20

■ Net interest income ■ Fee income ■ Other income ■ Credit losses — Total

Source: Oliver Wyman analysis; scope based on EBA Transparency Exercise (include EU, UK and Norway), excludes development and smaller institutions; 2019 adjusted for one-off restructuring charges

**Exhibit 3. Banking business line outlook over time (assuming no further major lockdown)**

Business line	Revenue (2019)	Immediate impact (Q1-Q3 2020)	Medium term outlook (Q4 2020-2022)
Retail mortgages	15%	Reduction in fee income as housing markets essentially stopped Interest income largely unaffected due to duration and delayed defaults	Weaker demand squeezes fee income and new lending volumes and prices remain subdued
Retail other, including product distribution	25-30%	Significant reduction in consumer borrowing impacting fee and interest income Unsecured lending impacted by some customers able to deleverage and rising nonperforming loans by those more heavily impacted	Rising nonperforming loans as government support is withdrawn and unemployment materializes Lower levels of new lending but at better margins Some offset from bancassurance, investment, and protection products distribution fees
Business and small- and medium-sized enterprises	20-25%	Increase in lending driven by government guarantees boosted volumes (2-5%) and interest income Gradually rising impact of debt moratorium and nonperforming loans	Spike in nonperforming loans as government support is withdrawn and some industry sectors struggle Crowding out of new lending by government loans (at lower margins) Growth in working capital management to support deleveraging an opportunity
Large corporates	10-15%	Modest boost to lending and deposit volumes in Q1 Slowdown and net interest margins quickly starting to erode revenues in transaction banking and trade finance	Bankruptcies partially offset by the volume of government support, external financing and equity raising — losses will occur over 12-24 months Weaker economic growth and global trade harming payments businesses and new lending Environmental, social, and governance (ESG) investing, better use of data, and supply chain products set to remain growth areas
Capital markets/ investment banking	10-15%	Trading, issuance and advisory businesses all benefiting from high volatility, clients repositioning their portfolios, central bank action and corporate activity Growth more than offsetting losses on individual positions (e.g. equity derivatives)	Low interest rates, slow growth, and reduced volatility driving a return to “doldrums” of 2015-2019 Macro businesses and equities franchises likely to face biggest challenges; credit and restructuring and advisory could see a boost Strategic opportunity for mid-tier players to enter partnerships in execution and back office
Wealth management	5%	Fee income relatively stable — modest impact from reduction in wealth given quick recovery of asset prices	Some reduction in growth of net new money due to bankruptcies and muted executive pay Rate pressures impacting net interest income Sustained structural pressures to fees and commissions, and trading margins
Asset management	5%	Immediate decline in assets under management, recovered in many markets by fiscal and monetary stimulus and subsequent market rebound	Lower retail and sovereign wealth inflows given economic conditions Continued pressure on returns and fees in active management ESG and private markets expanding as a share of wallet

Outlook ■ Positive ■ Mixed-negative ■ Negative ■ Stable

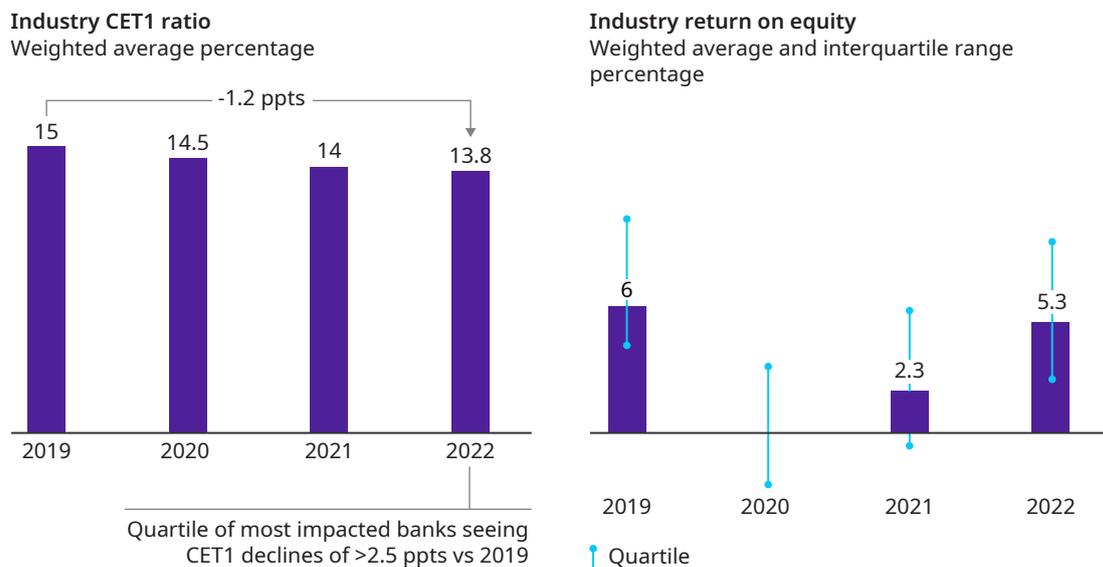
Source: Oliver Wyman analysis

## EARNINGS AND CAPITAL HIT

The combination of credit losses, nonperforming loans, and weaker revenues will gradually cut through bank earnings and balance sheets, which, combined with risk-weighted asset inflation, will drive capital ratios down by an estimated average of 120 basis points over three years.

The good news for stability is that, for the industry overall, this gradual erosion of capital ratios gives banks time to rebuild capital through retained earnings. For shareholders the picture is bleaker, with average returns on equity collapsing this year and not recovering by 2022.

### Exhibit 4. European bank capital and earnings outlook (central case)



## A HIGHLY DIFFERENTIATED LANDSCAPE

Distinct groups of banks will emerge based on their financials.

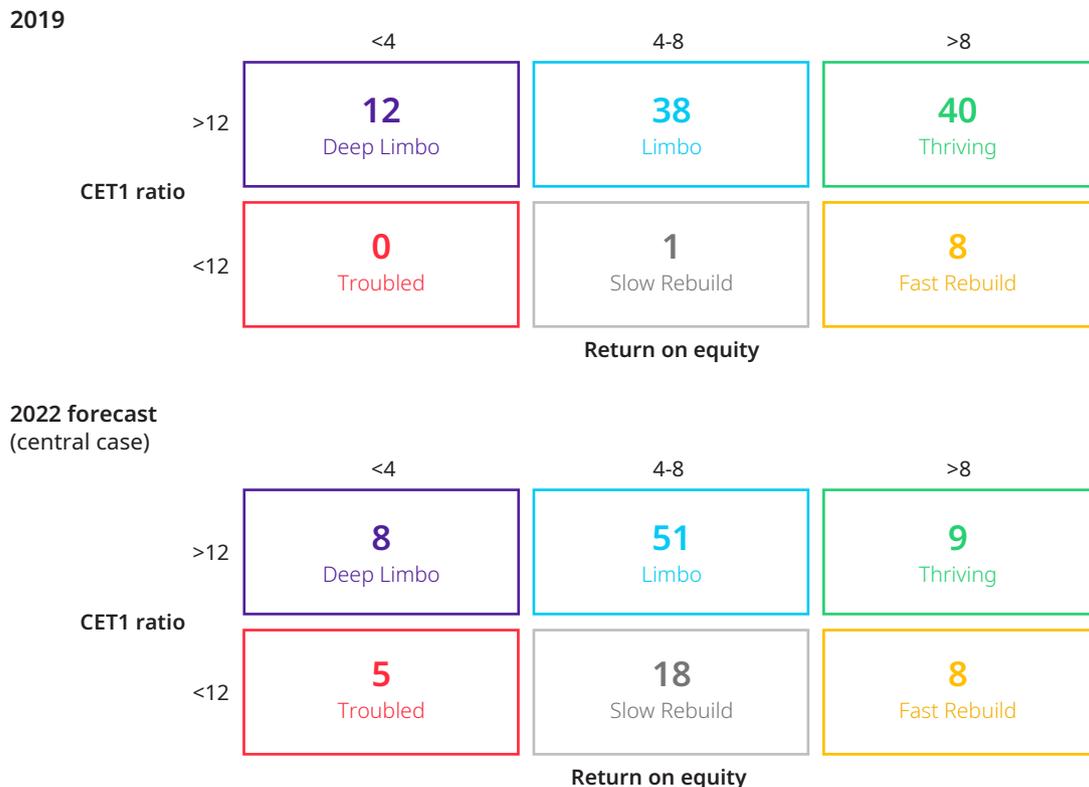
Nearly 25 percent of the industry's capital will sit in institutions with core tier one equity below 12 percent and returns below 8 percent. They face immediate challenges driven by weakened balance sheets and an inability to rebuild organically. A fifth of these banks are most troubled, with returns likely to be below 4 percent. Many of these institutions will need to go through a round of restructuring, with market concentration in a subset of the countries affected hindering consolidation, adding to the challenge.

## More than half of the industry capital base will be in institutions in a kind of “limbo”

There is also going to be a set of institutions — potentially making up more than half of the industry capital base — that could be considered to be in a kind of “limbo.” These banks are set to emerge from the crisis with enough capital to meet regulatory requirements but will be generating returns on equity of less than 8 percent. They will be vulnerable to further capital hits, tend to be risk averse in lending, and will struggle to fund transformation efforts. One in 10 of Europe’s banks will be in a “deep limbo,” adequately capitalized but generating returns of less than 4 percent in 2022.

Low profitability is not just a problem for shareholders. A subsequent crisis — potentially a second pandemic wave, or another shock — would cause losses to flow straight through into the capital bases of these banks. This would turn the story of relative resilience into one of severe stress and in some cases the need for intervention from governments already under financial pressure.

**Exhibit 5. Distribution percentages of total industry capital by returns and capital level**



Source: Oliver Wyman analysis; scope based on EBA transparency exercise (includes EU, UK, and Norway), excludes development and smaller institutions

## COUNTRY-LEVEL DIFFERENCES AMPLIFIED

The banking industry structure varies hugely between European countries, and COVID-19 looks set to widen rather than narrow those gaps. Country-level impacts are driven by the industry mix, government proficiency in managing the pandemic, and the leverage of corporates and consumers. These factors are already observable in the market data informing these loss estimates.

German banks are likely to face lower credit losses due to the healthy German economy and unrivalled fiscal support. But at the same time, the German banking system enters the crisis as one of the least profitable across the continent, and with a number of restructuring efforts already underway. Lower-for-longer interest rates will make it even harder to climb out of that position. In the United Kingdom and France, there is a smaller group of large banks with varying degrees of international scale. Banks had high capital ratios and operating margins entering the crisis, but their economies have been hard hit by the pandemic, leading to spikes in credit losses in key parts of their business. Nordic banks are in a similar position and are benefitting from strong government support to the economy.

Banks in Italy and Greece, already with some of the highest levels of nonperforming loans, are more exposed to the effects of the pandemic, and their governments have had less capacity to mitigate the impact on their economies.

**Exhibit 6. Country outlook, central case — market weighted averages percentages**

	2019 Pre-COVID-19				2022 Outlook				Concentration
	RoE	Cost income ratio	NPL ratio	CET1 ratio	RoE	Cost income ratio	NPL ratio	CET1 ratio	Scope for in-market consolidation
France	7.2	71	3.4	14.9	6.0	74	8.1	12.9	Low
United Kingdom	7.1	61	2.1	15.4	5.7	63	6.8	14.6	Low
Germany	1	85	2.2	14.4	3.7	78	4.2	14.1	High
Spain	9.1	53	4	12	7.4	55	8.4	11.6	Medium
Netherlands	6.7	58	2.6	16.5	5.6	62	6.5	16.5	Low
Italy	5	65	8.9	13.7	5.5	66	13.2	10.2	High
Sweden	11.3	47	0.6	17.6	9.7	48	3	17.6	Low
Greece	3.3	50	40.1	13	4.2	54	47.1	7.7	Low
Portugal	2.8	61	8.3	13.5	4.1	63	11.7	11.4	Low

Source: Oliver Wyman analysis; ECB Statistical Warehouse on market structures; scope based on EBA Transparency Exercise (excludes development and smaller institutions)

# A NEW LEVEL OF AMBITION

For leaders of Europe's banks, much of the change agenda will be familiar: more of the same actions they have been looking to execute for the last five years. To be added to this will be managing the workforce through the rest of the pandemic and ramping up resources and processes to manage credit losses.

Given that industry growth is expected to be low, improved returns will need to come from reducing cost or capital intensity. Cost reduction is not a new theme for European banks, and many have been working on this with varying levels of intensity over the last decade. Actions have included "low hanging fruit" initiatives such as employee expenses, selected branch closures, cleaning up management pyramids, and changes to compensation. Despite numerous cost programs, systems replacement efforts, and many banks exiting significant business lines, costs for the industry overall were flat over the last decade. This is only partly explained by upward cost pressures, for example meeting regulatory demands and investments in digital.

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**During the 2010s costs were held flat — that will not be enough this time around**

## WHAT NEEDS TO BE DIFFERENT

Some markets, such as France and Germany, can still pursue significant physical network optimization without major customer detriment, and the COVID-19 lockdown has prodded another cohort of customers to begin to use digital channels in all countries.

A new level of ambition can be set, however, on operational efficiency. For the banks considered "in limbo" to reach 8 percent return on equity will on average require costs to be cut by 15 percent and the balance sheet to be reduced by 10-15 percent.

Neobanks have demonstrated that simple products built on new technology platforms with a digital-first approach can operate at a fraction of the marginal and unit cost of the incumbent banks. This approach will need to be replicated. Work is needed to deliver improved investment and project management discipline, particularly around technology delivery. Business lines will need to work far more closely with technology teams and execute a major simplification of products and processes. Without this, the automation of back office tasks and decommissioning of systems that actually release value will not be possible.

At the bank level, being a follower in terms of customer experience and functionality will tend to be enough to slow customer attrition. Investment in upgrading the customer experience should be disciplined and aim to drive earnings growth also through cost savings, with greater digital functionality allowing further branch optimization and streamlining of the back office. Outside of a small number of leading banks, budgets for projects intended to build long-term competitive advantages and create new businesses will come under further pressure as value is prioritized over vision.

**Exhibit 7. European management agendas — before and after COVID-19**

	2010s Progress made	2020s Scope to build back better	At stake of €350 billion cost base
<b>Footprint and where to compete</b>	<ul style="list-style-type: none"> <li> Some limited carve outs and business exits to raise capital</li> <li> Scope of capital markets activities redefined</li> </ul>	<ul style="list-style-type: none"> <li>Country exits and sales based on risk appetite, balance sheet savings</li> <li>Prioritization of fee-based businesses</li> <li>Immediate in-market consolidation, then cross-border</li> </ul>	<ul style="list-style-type: none"> <li>€5 billion</li> <li>1-2% of the cost base cut through withdrawals (though offset by revenue foregone)</li> </ul>
<b>Operational efficiency and overhauling legacy technology</b>	<ul style="list-style-type: none"> <li> Several rounds of cost cutting but costs overall flat</li> <li> Large branch reductions in some markets</li> <li> Major tech investment but limited savings released, many still facing systems challenges</li> </ul>	<ul style="list-style-type: none"> <li>Invest in lockdown successes e.g., digital channel usage</li> <li>Renewed program of regulatory change</li> <li>Tighter link between investment and value release</li> </ul>	<ul style="list-style-type: none"> <li>€20 billion</li> <li>Cost savings if the industry can reach a cost/income ratio of 55-60%</li> </ul>
<b>Growth, new customer offerings, and pricing</b>	<ul style="list-style-type: none"> <li> Focus on improved customer journeys to keep pace with fintech and big tech experience</li> <li> Very uneven spend on innovation, few breakthrough value propositions</li> </ul>	<ul style="list-style-type: none"> <li>Greater discipline on pricing and customer-level capital allocation</li> <li>Right-sizing of spend on user experience to avoid attrition</li> </ul>	<ul style="list-style-type: none"> <li>€0-5 billion</li> <li>In aggregate limited growth — at stake individual share vs. other banks and fintechs</li> </ul>
<b>Credit loss mitigation and capital management</b>	<ul style="list-style-type: none"> <li> Ongoing management and reduction of nonperforming loans, levels, large nonperforming portfolios remaining in some markets (particularly Italy)</li> </ul>	<ul style="list-style-type: none"> <li>Build-up of collections and workout capacity and greater use of automation and data insights</li> </ul>	<ul style="list-style-type: none"> <li>€40 billion</li> <li>Potential for 5-10% improvement in realized credit losses (and operating cost saving)</li> </ul>

 100% complete      No progress

Source: Oliver Wyman analysis

## **MORE CREATIVE CHOICES ON THE BUSINESS MODEL**

The universal bank model — with retail and commercial banking, a transaction bank network, and capital markets presence — will be sustainable only for a handful of players. Even Europe's largest banks have been damned if they do and damned if they don't when it comes to footprint. Their steady withdrawal from activities in capital markets and insurance freed up balance sheets and streamlined businesses, but also left them with less scale and more reliance on lower-margin activities.

Beyond the small number of banks looking to build a universal bank across Europe, more creative participation decisions will be needed. For a sizable subset of banks, their starting point, lack of scale, and market context makes it difficult to generate growth or make the leap in productivity needed. These organizations will struggle to invest and fall further behind the market in terms of innovation, growth, and service levels.

An option for a small number will be to build more specialist business lines at scale where there is an existing strength, whether in asset finance, payments processing, asset services, or by opening up their platform to provide technology and back-office services. The second option might involve a radical transformation in the operating model, a partnership, or innovative approaches to payments, data management, or sales and trading platforms.

The third structural choice will be consolidation, both in-market and cross-border, which the European Central Bank is now seeking to encourage. Barring distressed situations in 2007, in-market mergers have been on a downward trajectory since 2001 and cross-border deals almost nonexistent. The COVID-19 situation will not have altered shareholder skepticism about mergers — doubt lingers about cost savings through platform consolidation and a lack of revenue synergies, and capital benefits, for instance shifting mortgage books to advanced models, have not been enough.

Spain has shown how a complete restructuring can be achieved at a more systematic level following the real estate crisis in 2008. The banking sector consolidated into just 12 midsized to large banks from a starting point of more than 40, most of this happening over a period of five years. Consolidation has proven more effective than forced resolution of distressed entities and has helped a dense branch network to be cut by more than 50 percent and €3 billion of costs to be taken out to date, 10 percent of the total.

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**Bank mergers have been on a downward trajectory since 2001 — this trend will need to reverse**

## **HARNESS THE LESSONS OF THE CRISIS**

The speed at which COVID-19 unfolded stressed banks' operations almost to the breaking point as staff rapidly switched from being fully onsite to fully remote. "Crisis adrenalin" kicked-in and decisions got made rapidly, critical actions were prioritized by teams often operating with lower capacity, and new ways of interacting with clients were developed. Except for a few notable and largely short-lived interruptions, the banking sector continued to deliver critical services to its clients.

The shock of operating through the lockdown and sense of change now provides a window to "build back better." We see banks already building on what were emergency changes, including around customer engagement, applying new "minimum thinking" to the operating model, accelerating digitalization efforts to meet specific customer needs and back-office efficiencies, growing awareness of resilience and cyber risks, and taking new approaches to fraud and broader operational risks.

New ways to maintain productivity will be needed as lockdowns are slowly eased and the new, hybrid phase of the crisis evolves. What was a productive way of working will not be sustainable, with the combined toll of remote working, lack of social contact, and fatigue from being "always on" now kicking in. Managing teams that are partially remote and partially in-office at any one time requires new ways of working and decision-making. Firms should be honest about the uncertainty ahead and avoid setting a false endpoint capped by a return to normal. Higher frequency of contact, more real-time feedback, coaching, and setting of priorities will be needed to rebuild the resilience of teams and individuals.

**The biggest mistake we can make is to go back to our former business model; what I have learnt is we can do the same (or even more) with much less**

*CEO of a leading global bank*

## AMPLIFYING DISPARITIES

The steps outlined above need to deliver significant cost and capital savings, in addition to the small reductions that will come from lower levels of activity over the next two to three years. There are few banks that have no levers at their disposal, but some banks are under far more pressure and others have more scope to deliver efficiencies.

Across the banks in the “troubled” and “deep limbo” segments cost savings of over 20 percent and a similar capital release would be needed to get most back to a sustainable position. The capital released from balance sheet reductions will often be needed to fund the transformation, including asset and tax write-offs, severance, and terminating vendor contracts. For perhaps half of these banks, these savings will be almost unachievable given business mix and market headwinds. These banks will need to take decisive actions to rebuild a credible equity story or be forced to look at structural solutions.

At the other end of the spectrum, thriving banks can use these gains to invest in their platforms, accelerate dividends, or even drive attractive consolidation opportunities, further widening the gap in performance and valuation with the remaining (majority of peers). As we emerge from the crisis and the threat to capital levels abates, we could see pressure grow to release capital to shareholders — we estimate that if banks in the “thriving” group halved the buffer over regulatory thresholds it could unlock around €4 billion of capital.

### Exhibit 8. Distribution of bank capital under restructuring scenarios

	No further management action	Traditional cost programs	Restructuring	Radical restructuring
<b>Program targets</b>				
Balance sheet and capital reduction	0%	0%	10%	20%
Cost reduction	0%	5%	5%	20%
	↓	↓	↓	↓
<b>Distribution of bank capital in 2022</b>				
● Limbo	51%	51%	34%	10%
● Deep limbo	8%	7%	7%	4%
● Troubled	5%	3%	3%	1%

Source: Oliver Wyman analysis; scope based on EBA Transparency Exercise (Includes EU, UK, and Norway)

# A COLLECTIVE ENDEAVOR

Banks on their own will not deliver the banking system Europe needs. This will take collective endeavor: from management and shareholders, but also employee groups, regulators, and policymakers. Individual bank transformation programs will not be successful without broad stakeholder support, and broader reforms are also necessary outside of individual institutions.

## THE BANKING SYSTEM EUROPE NEEDS

A bold vision for Europe's financial system can be imagined: robust, providing great services for customers, built on modernized infrastructure, and governed in Europe's best interests in the vanguard of social challenges.

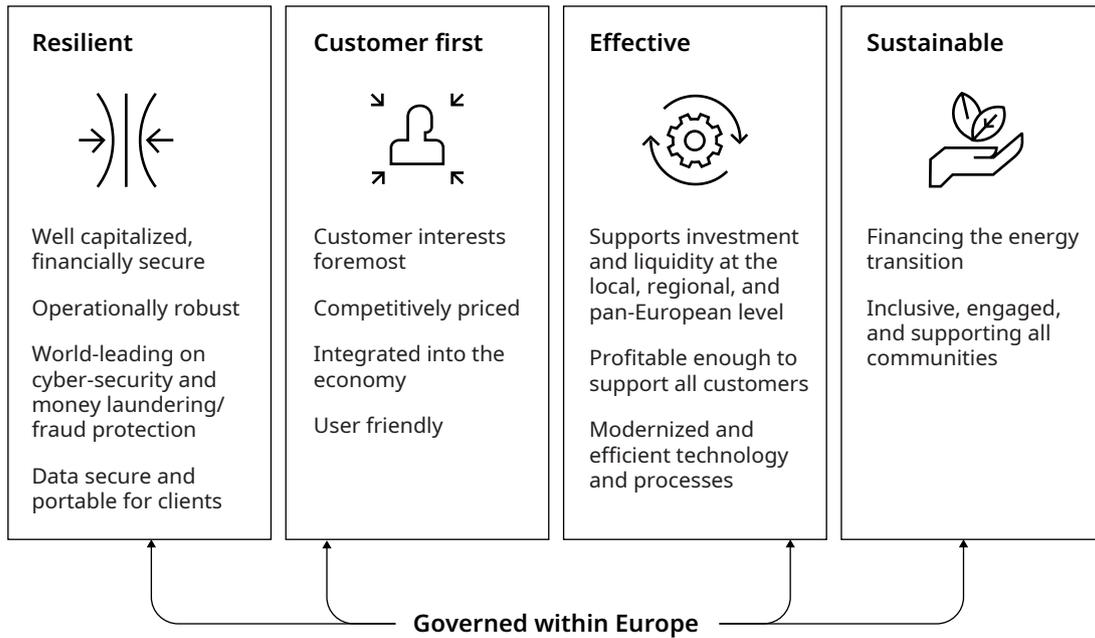
The banking system is also now ripe for reinvention. Banks have shown the positive role they can play in the economy during the COVID-19 crisis, working alongside governments to support the economy through the initial liquidity crisis. Banks are benefitting themselves from that support, as government and central bank interventions have insulated them from credit and market risks. Nonetheless, goodwill, in short supply for years, is being replenished.

As we enter the longer-term insolvency crisis, support for communities most heavily impacted by COVID-19 will be needed and the green transition accelerated. Increasing geopolitical pressures and varying approaches to personal data are making governance of the financial system much more sensitive. The risks in the emerging structure of the financial system have been starkly demonstrated by the Wirecard failure. Brexit, shifting global trade patterns, and the entrance of big techs into financial services at scale are just a few further catalysts for change, with choices faced by both the European Union and the United Kingdom on the kind of financial system they want.

Perhaps most fundamentally, ultra-low interest rates and massive liquidity programs challenge the core role and business model of commercial banks. Liquidity transformation is of less value in a world where central banks provide a wash of liquidity and money is free.

An alternative scenario is possible. Any goodwill built up could be quickly lost as unemployment and bankruptcy cases start to be processed. Over time, banking could become almost entirely a utility-like activity, protected by regulation in core deposit and lending activities, fragmented across Europe and within many markets, with aging technology, weak returns, resilience challenges, reliance on government whenever times turn bad, and ceding value-adding activities around the customer interface and large parts of payments to fintech and big technology companies.

**Exhibit 9. The banking system Europe needs is ...**



Source: Oliver Wyman analysis

## A GRAND BARGAIN

The first task is for the industry and government to continue to work together to manage the liquidity and solvency challenges of corporates and consumers as a result of the crisis. There is a risk from banks being under pressure to overly protect their capital base or to be driven by short-term shareholder considerations. There are positive examples of the industry working together, for instance to define new standards on collections. Banks and authorities have worked together in a number of countries, including France, the Netherlands, and the United Kingdom to develop solutions or joint codes of conduct for collections. This approach should be widespread to avoid conduct issues and give banks confidence they are following widely accepted guidelines.

**Making this “grand bargain” will take leadership from the highest levels**

Private-public collaboration in the form of recapitalization platforms might be needed to avoid highly indebted companies becoming a big wave of nonperforming loans after their liquidity runs out, maximizing the number of businesses that can be saved.

Alongside the immediate credit challenge, a mutual understanding could be built on the future of banking. Banks would fast-track transformation plans to drive greater efficiency and consolidation and set out an ambitious role in the social and environmental challenges of the next 20 to 30 years, even if this is not always aligned with shareholder value. Policymakers would engage with institutions to agree on any transition period required, create a more efficient regulatory system, eliminating costly overlaps and automating compliance, and ensure proportionality of oversight based on riskiness of activities. Work on integrating European banking and capital markets would move forward at far greater speed with committed milestones, to support scale and a banking system as efficient as those in other markets. Bold plans to build cross-industry infrastructure, solutions and approaches would be agreed, for instance the European Payment Initiative, a new broad retail payment solution which Oliver Wyman is supporting. Finally, political acceptance would be needed that national control over the banking system will be reduced.

Making this “grand bargain” will take leadership from the highest levels to overcome the inertia inevitable in a Europe with more than 300 banking institutions, national regulators, European-level regulators, central banks, and fragmented political responsibility. Any agreement reached will need resourcing and teeth to ensure delivery on the commitments made.

# CONCLUSION

COVID-19 is not likely to knock over the banking sector, but it will push much of it even further into a “limbo” state, with institutions that are unprofitable and highly susceptible to further shocks. This could act as a long-term drag on economic growth, particularly in markets where post-financial-crisis restructuring was still underway.

Even in areas of the system with fewer structural issues, bank management teams have a challenging agenda. It will be critical to harness the momentum coming out of the lockdown period to be bolder, deliver change faster, and build back better.

Europe’s banks will not, however, be able to deliver a high-functioning sector alone. That will require governments, policymakers, and regulators on the national and EU levels to encourage restructuring and consolidation, allow transformation to happen quickly, and accelerate the banking union and single-capital-market efforts. The alternative is a banking system that cannot support the economy to the extent possible and falls behind the rest of the world.

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