

Sabine Lautenschläger: European banks - the quest for the best business model

Speech by Ms Sabine Lautenschläger, Member of the Executive Board of the European Central Bank and Vice-Chair of the Supervisory Board of the European Central Bank, at the ECB Forum on Banking Supervision, Frankfurt am Main, 7 November 2017.

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The banking sector is going through tough times. Having emerged from a major crisis, it faces challenges and change. But one thing has not changed, and it never will. A bank needs a sustainable business model. It has to earn revenues; it has to keep its costs in check; and it has to keep its risks under control. How all this is done has changed, however. Many things that still worked a couple of years ago no longer work today.

Let me quickly highlight a few points.

Profitability is low for many banks.

First, for a long time, economic growth was low. Together with low interest rates, that has put a brake on a traditional source of revenue. Banks, in particular those that have not found a profitable market niche, need to diversify their sources of revenue. Digitalisation might offer a solution, but it is certainly not the only one.

Second, some national banking markets in Europe are overbanked and therefore overly competitive. So there is a need for consolidation – consolidation which leads to stronger banks with viable business models.

Third, many banks still have high costs, partly because of their large branch networks. But how large do these networks actually need to be in this age of digital banking?

Fourth, some banks are still weighed down by impaired balance sheets. They need to get rid of legacy assets such as non-performing loans.

Fifth, some banks could improve the way they handle risks. They need to establish a strong risk culture, set up adequate risk governance and integrate it into their overall structure.

And finally, all banks have to adapt to more stringent rules. It is true that they come at a cost, but in the long run, their benefits are greater. Society benefits in any case, but so do the banks. Strong rules help to win people's trust, and that is an important asset for banks.

A few banks still have some way to go – they still need to adapt their business models; they need to find their competitive advantage. Those banks which want to prosper in the future need to act now.

And it is indeed possible to prosper, even in tough times. Across the euro area, we see about two dozen large banks which constantly outperform their peers. They are based in different countries, they are of different sizes, and they have different business models.

So it is not about a single successful business model. It is about the whole set-up of how to do banking today. And, as these banks show, it is possible to succeed – that is encouraging, for us and for the banks.

These are challenging times for banks; there is no doubt about that. One thing is clear, though: tomorrow's business models will look different from today's.

But hasn't that always been true?

Thank you for your attention.