Business model resilience

COVID-19 impact on the EU Banking sector

As highlighted in KPMG's recent article, the banking landscape in Europe is changing, partly due to disruptive digital innovation and the threat of competition from both banks and non-banks. As competition continues to intensify and pressure persists on profitability, a new period of banks' consolidation is expected.

Banks must therefore establish their path to sustainable and viable business model to remain in the market, and the winners must ensure their model can sustain an increased volume of business. Next to substantial market pressure, banks must also prepare for intensifying supervisory dialogues on topics such as profitability, automation and digitalisation, risk management frameworks and controlled transition following banks' consolidation.

Benchmarking is at the centre of how banks navigate through these supervisory expectations and is a valuable source of information and best practice for supporting strategic decision making.

Leveraging on data from the EBA Transparency Exercises, KPMG Peer Bank can support banks and investors to perform comparative benchmarking and help them gain a clear understanding of key drivers impacting a bank's performance and profitability.

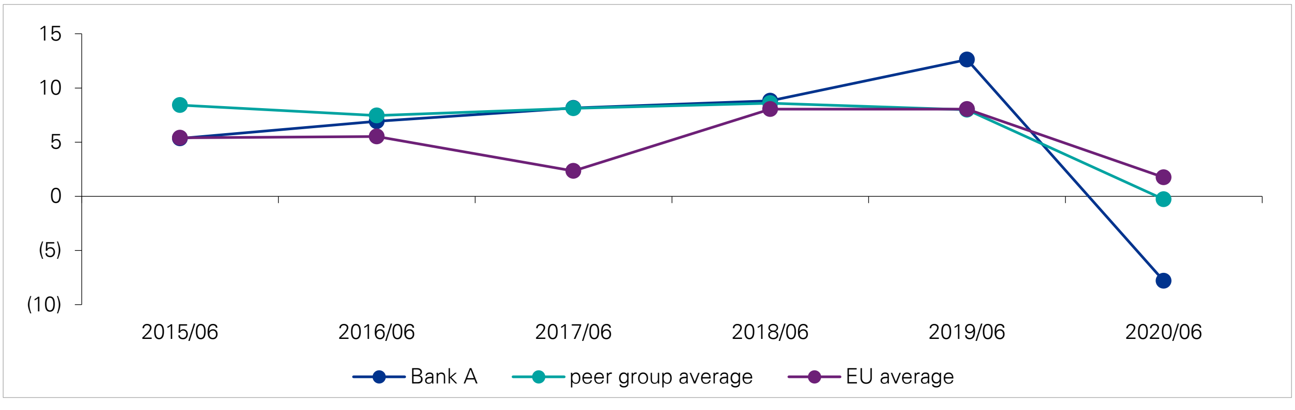
We demonstrate in a simplified example below how KPMG Peer Bank may help banks perform such analysis.

Case study question: How did the bank's return on regulatory capital compare to its peers during the height of the COVID-19 pandemic?

In this example, we start with comparing Bank A's return on regulatory capital (RoRC) with a defined peer group sample of 15 large European banks across six countries, including the overall EU average. Subsequently, we compare Bank A's RoRC with selected key ratios affecting profitability, such as net interest margin (NIM), cost to income ratio (CIR) and non-performing loans (NPLs).

Figure 1: Return on regulatory capital (RoRC) comparison

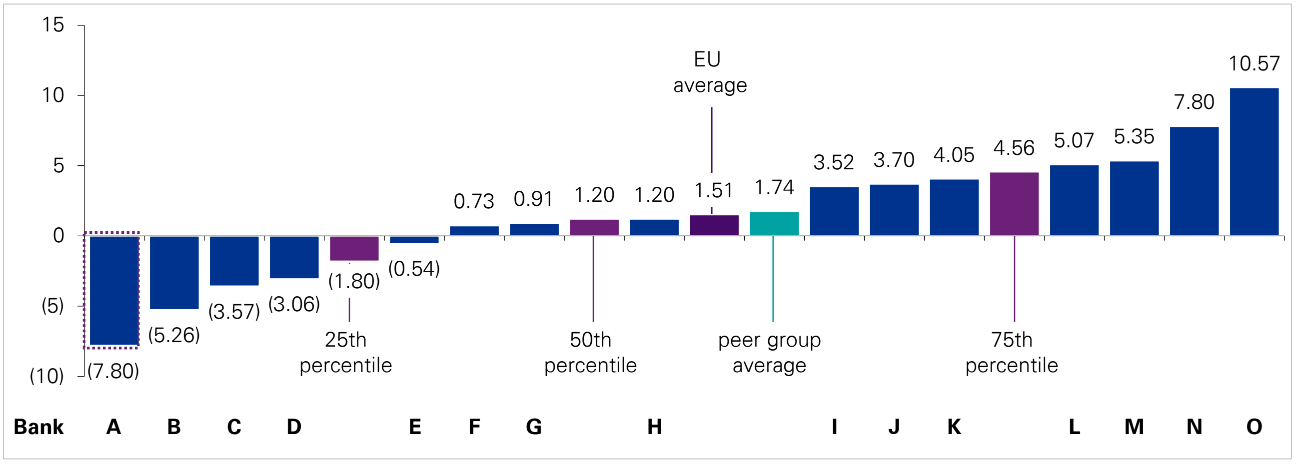
RoRC (%)



We observe in Figure 1 that, as of 30 June 2019, Bank A's RoRC was greater than both its peer group and the EU average, though faced a sharp decline from the start of the COVID-19 pandemic.

Figure 2: Return on regulatory capital (RoRC) peer group*

RoRC (%)



As shown in Figure 2, as of 30 June 2020 Bank A's RoRC was negative at - 7.8%, significantly below its peer group average of 1.51% and an EU average of 1.74%.

Many reasons could explain this decrease in RoRC for Bank A. Looking the NIM in Figure 3, we observe that Bank A's NIM decreased more drastically than both its peers and the EU average following the start of the pandemic.

In addition to the pre-defined graph and charts available in KPMG Peer Bank, users can easily extract data to run further analysis outside of the tool. For this example, we used the peer data to create regression analysis to compare RoRC with selected key variables. Figure 4 demonstrates that Bank A was an outlier to its peers with regards to RoRC versus NIM, with peers having a higher RoRC for a similar level of NIM.

Figure 3: Net interest margin (NIM) comparison

NIM (%)

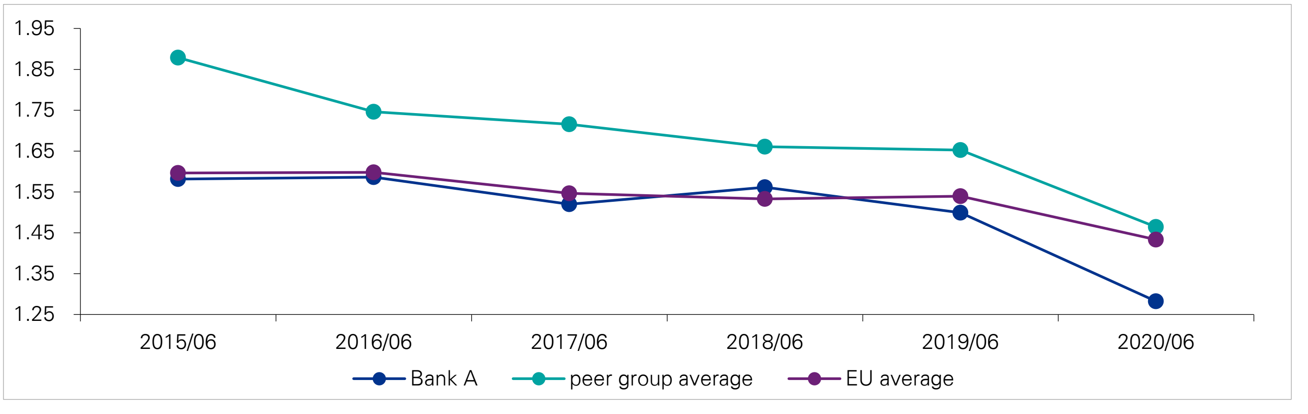
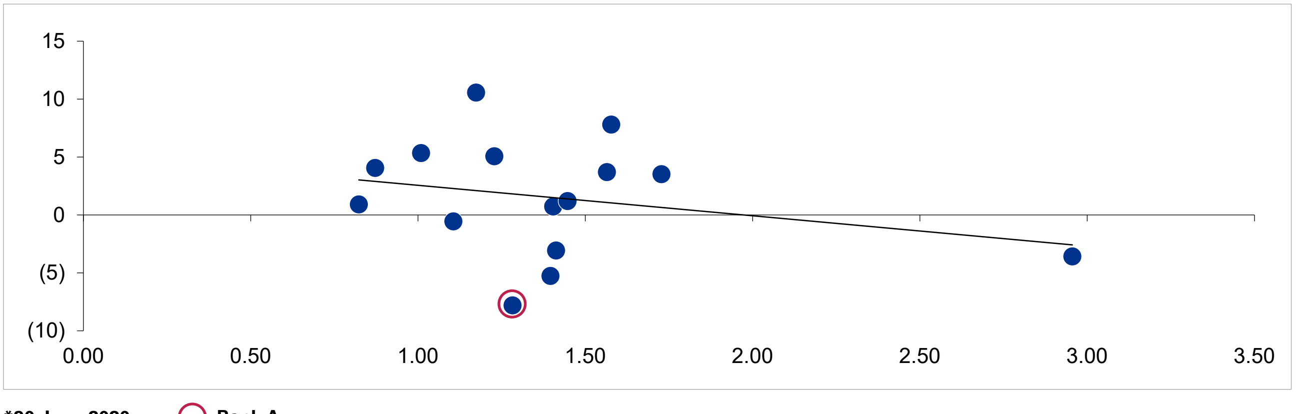


Figure 4: Return of regulatory capital (RoRC) vs. net interest margin (NIM)*

RoRC (%) vs NIM (%)

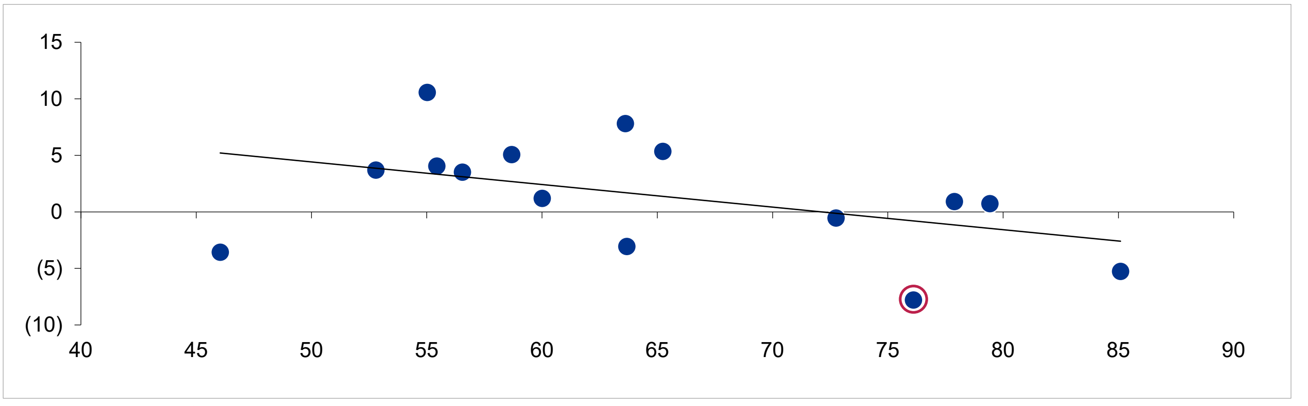


***30 June 2020** ◯ **Bank A**

Similarly, Bank A has also RoRC below its peers of similar CIR (figure 5) and NPLs (figure 6).

Figure 5: Return of regulatory capital (RoRC) vs. cost to income (CIR)*

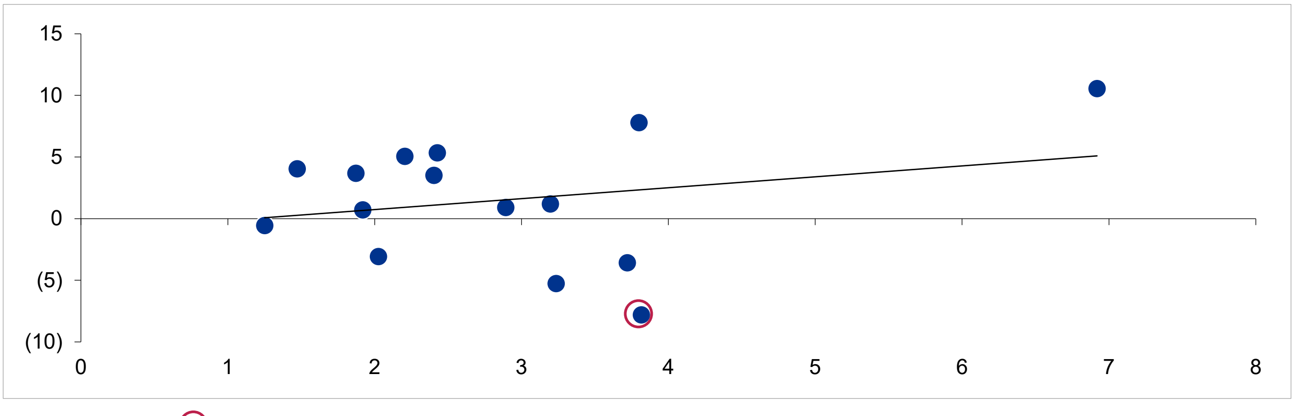
RoRC % vs CIR %



***30 June 2020** **Bank A**

Figure 6: Return of regulatory capital vs Cost to income*

RoRC % vs NPLs %



***30 June 2020** **Bank A**

Although these examples of indicators do not provide the full story alone, they may indicate persistent flaws in Bank A which need to be strategically addressed. Bank A could use this analysis to further investigate how these different ratios interact with each other, how they evolve over time, and how they compare with peers. Ultimately, Bank A should strive to move its key relevant indicators closer to the stronger peers' clusters to help strengthen its business model and improve profitability.

With just a few clicks you can…

— Create your own peer group in any scenario. A user may define a peer group by using their own criteria or recommendations provided by KPMG.

— Compare your bank against EU average, as shown in the analysis above, or against country level.

— Download the data and use the insights to run further ad hoc analysis.

Contact us

Want to see how KPMG Peer Bank works in a live demo session? Click here to request

Data source: All data has been extracted using KPMG Peer Bank. Data can be downloaded to run ad hoc analysis.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/peerbank