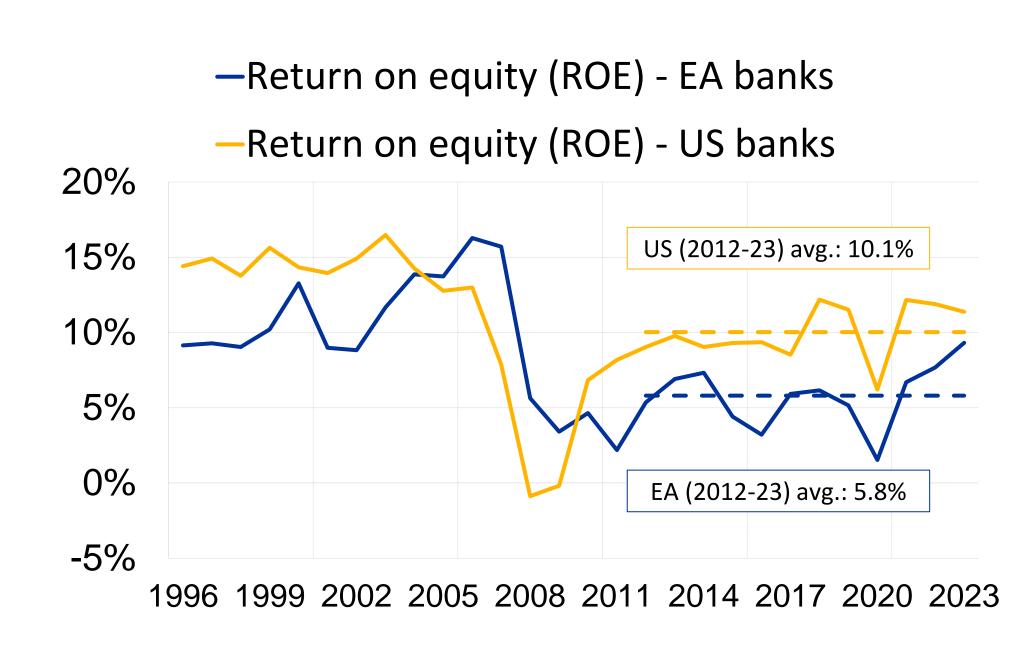
Understanding the profitability gap between EA and US global systematically important banks

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This paper studies the structural factors behind the profitability gap between the euro area (EA) and US G-SIBs, analysing the contributing P&L items for 2021.



Main take-aways

Over the last years, EA banks' profitability has remained well-below US peers. Macro dynamics and differing structural factors across banking systems partially explain the story (e.g., market finance, accounting frameworks, cross-border activity).

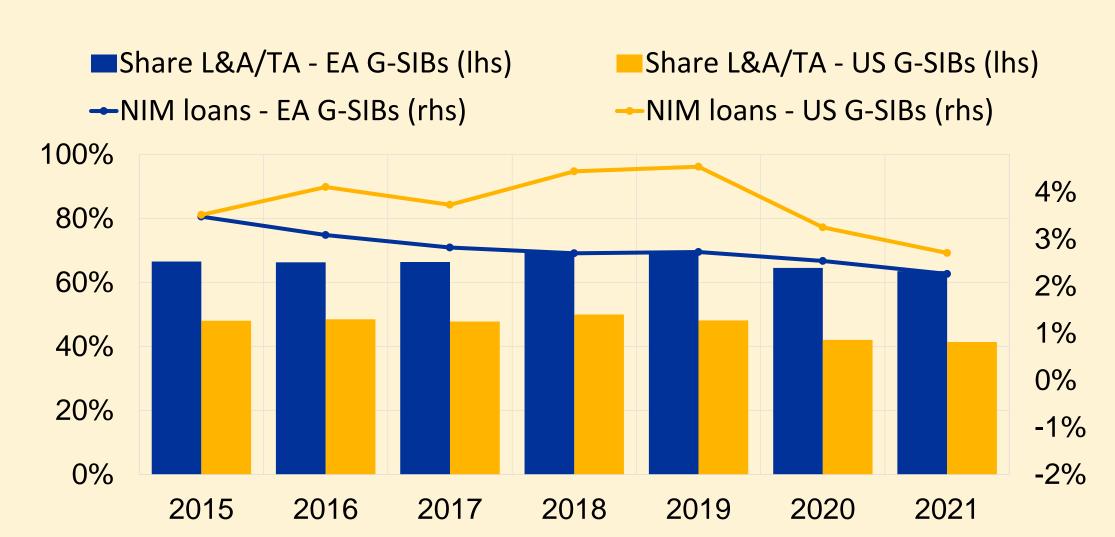
Dissimilarities between business models highlight they are not perfect benchmarks nor should US G-SIBs' strategy be interpreted as a "recipe for success". While EA G-SIBs focus on lending, US peers concentrate on investment and trading.

US G-SIBs' larger profitability in 2021 was driven by their higher non-interest income and lower impairment and provisions. However, profitability is only one of the multiple aspects that define banks' performance. Aspects related to risk taking, business model sustainability and prudential regulation should also be considered for a complete assessment.



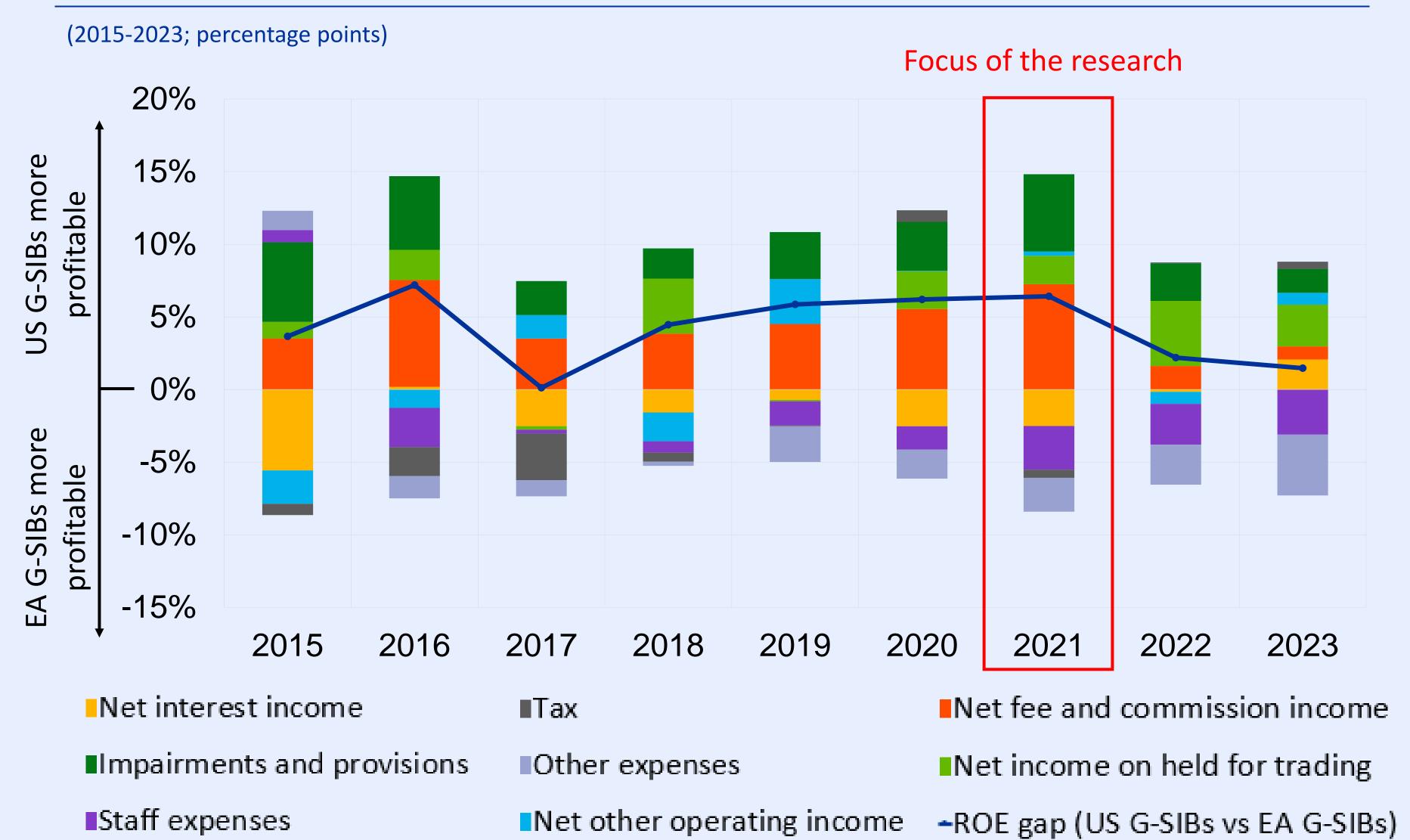
Volatile contribution of net interest income (NII)

More lending-driven EA G-SIBs collected higher NII stemming from loans and advances (L&As). Despite their lower volumes (EUR 5.2trn vs 6.8trn), US G-SIBs earned higher margins.



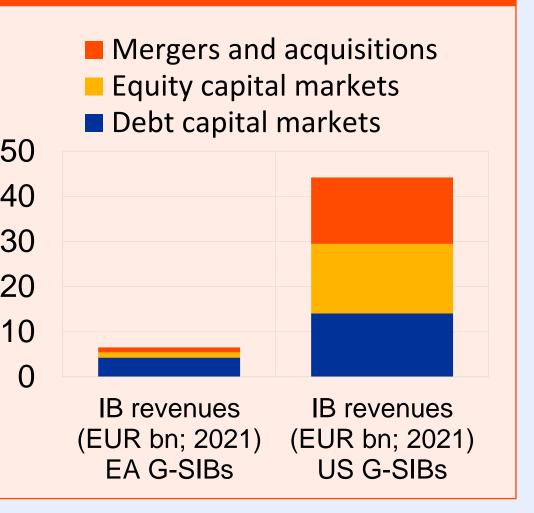
- More sizeable debt (EUR 3.5trn vs 1.2trn) portfolios provided US peers with additional net interest income.
- US G-SIBs present a higher reliance on retail funding, for which they benefitted from slightly lower paid interests, while monetary policy seems to have eased access to wholesale funding for EA G-SIBs.

Evolution of the ROE gap between EA and US G-SIBs



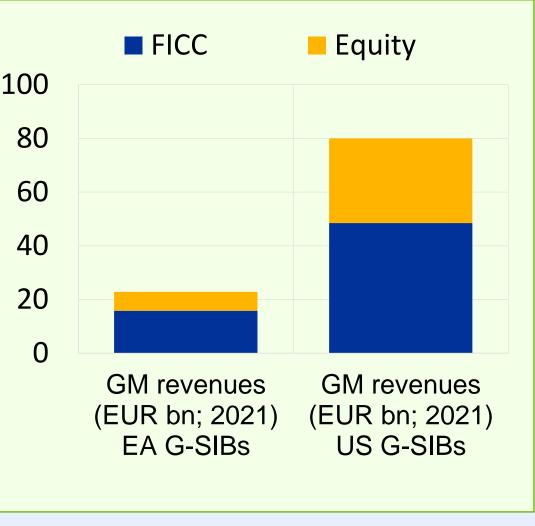
Fee and commission income (NFCI) is a key aspect

- US G-SIBs dominate investment banking (IB) activities globally, with EA peers exiting cross-40 border markets.
- The originate-to-distribute model 20 via securitisation (supported by 10 the US agency scheme) is unparalleled in the EA.



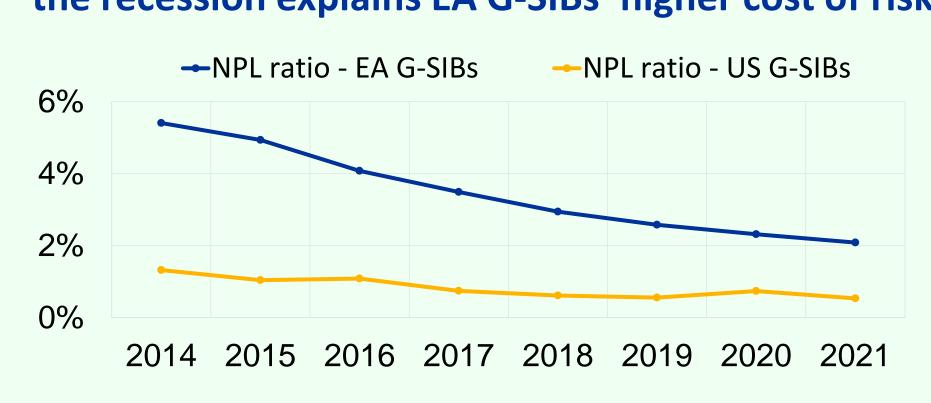
Trading income (NTI) also explains the gap

- US G-SIBs reap higher profit from slightly larger trading portfolios (EUR 2.5trn vs. 2trn), more balanced towards equity.
- US banks' larger and increasing dominance in global markets (GM) is also enabled by cuttingedge technology.



Cost of risk systematically lower in US

 Legacy non-performing loans (NPL) built up during the recession explains EA G-SIBs' higher cost of risk.



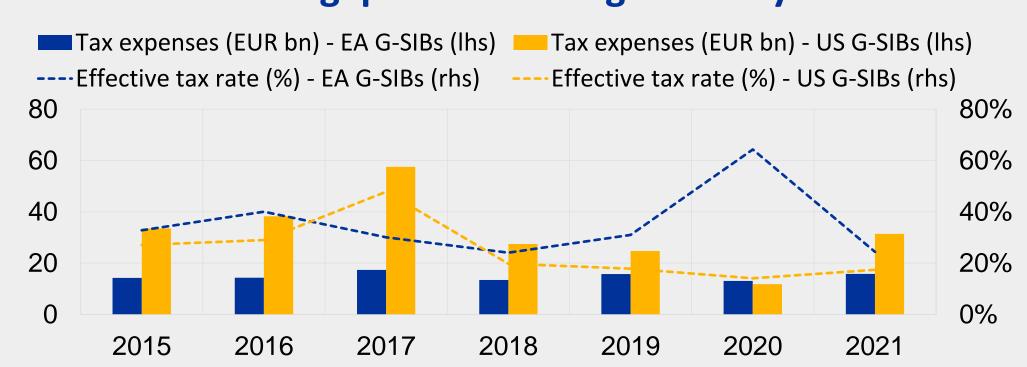
Staff remuneration lower in the EA

• The higher salaries and bonuses offered by US banks seem to allow them to attract and retain talent, making it more difficult for their EU peers to compete for such workers.

	EA G-SIBs	US G-SIBs
Number of employees	916k	1159k
Total staff expenses	EUR 85.0bn	EUR 166.5bn
Expenses per employee	EUR 92.8k	EUR 143.7k

Taxes are not a structural driver

• Despite US G-SIBs' larger tax expenses, the effective rate is below EA peers. A material tax reform in the US caused the gap to narrow significantly in 2017.



EA G-SIBs invest less on technology

• Investment on technological innovation is higher in the US. This may provide a competitive edge to US G-SIBs in an ever-more digitalised banking business.

	EA G-SIBs	US G-SIBs
Total annual IT budget (2019-22)	EUR 22.5bn	EUR 46.7bn
(as a percentage of total assets)	0.36% of TA	0.19% of TA