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Five big shifts shaping a new world for corporate and investment banks

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Executive summary

The performance of the corporate and investment banking (CIB) sector has been positive on aggregate. In 2022, CIB organizations generated $2.9 trillion of revenue and achieved an RoE of about 12 percent at a 54 percent cost-to-income ratio. In doing so, the industry covered its cost of equity after a decade of restructuring following the global financial crisis and more recent pandemic-driven volatility. Those fundamentals have persisted in 2023 despite liquidity issues and other challenges.

However, these average figures mask wide variations in performance, with a spread of 700 basis points or more in ROE between the top and bottom performers in any given segment. This variation prompts questions from boards, investors, and regulators—questions made more pointed by the increasing shift of value to nonbanks in direct lending, market making, and wholesale payments.

This variation also reflects the underlying complexity of the industry. The unique nature of each organization—in terms of specific clients served, the particular mix of products, the precise geographic footprint, and responses to date to the nonbank threat—means that each should be thought of as a segment of one.

In how they approach value creation, each CIB organization must therefore disaggregate its businesses into highly granular underlying client and product franchises. This analysis inevitably reveals underlying pockets of excellence that even the most challenged franchises can use as a foundation for future plans and that the leading franchises can build on to deliver the next wave of growth.

But as they develop those plans, all organizations will have to contend with five major shifts that are fundamentally transforming the environment in which they have operated for the past 15 to 20 years.

Each CIB organization must therefore disaggregate its businesses into highly granular underlying client and product franchises.

- *Shift 1: A radically different macroeconomic environment.* As a result of ongoing economic and geopolitical issues, CIB organizations will need to cope with at least three major changes. First, higher rates have changed lending dynamics—increasing profitability going forward but creating challenges in legacy portfolios (for example, commercial real estate). Second, there is a renewed focus on commercial deposits and on the liability side of the balance sheet. Third, deal, trading, and cross-border patterns have been fundamentally disrupted. CIBs can respond by developing new underwriting criteria and taking a disciplined approach to credit monitoring and workouts of legacy portfolios; building next-generation deposit gathering, pricing, and analytics capabilities; and repositioning affected businesses.

- *Shift 2: A new, technology-led 'art of the possible.'* New technologies have changed the ways in which CIB organizations can engage with their clients. Organizations can now offer a truly digitally enabled front office and take advantage of a new wave of generative AI use cases. To capitalize on these opportunities, CIB businesses can make targeted investments that will drive productivity tailored to their unique client and product franchises. They will need to pay particular attention to choosing the right gen AI use cases, building capabilities that can scale, and managing the associated risks.

- *Shift 3: Changing regulatory and risk management environment.* Factors such as the finalization of foundational capital regulation and higher interest rates have resulted in increased volatility and risk exposure for CIB portfolios. The right risk management practices can build institutional resilience and competitive advantage, as well as driving regulatory compliance. CIB organizations should focus on building awareness of—and preparing appropriately for—new capital regulations, treasury and liquidity regulations, counterparty credit risk, nonfinancial risk, climate risk, and gen AI.

- *Shift 4: New market structures.* Increased lending by private credit players and the rise of tokenized assets—a trend that is less established but could be equally disruptive—have significant implications for CIB organizations. CIB organizations looking to respond to the rise of direct lenders should consider revisiting their on-balance-sheet lending approach and taking advantage of off-balance-sheet partnerships and funds, while monitoring and managing the associated risks. CIB organizations that are attracted by the potential of digital assets and tokenization should build their understanding of these technologies before making selective bets, which might include building relationships within the existing ecosystem and participating in standard-setting efforts.

- *Shift 5: Long-term trends in certain sectors and products.* Many trillions of dollars will be needed to finance the net-zero transition,[1] and CIB organizations are already beginning to take note, with the focus shifting from risk and compliance toward the broader commercial opportunities linked to financing the next wave of green businesses. There are also massive financial needs in other sectors, including infrastructure, energy, unfunded pension liabilities, and life sciences. To successfully pursue these opportunities, CIB organizations will need to focus on select areas where they can build the right product capabilities and serve clients end to end. Finally, CIB organizations are also becoming keenly aware of the substantial value embedded within cash management businesses and should consider reimagining their existing offerings or launching stand-alone attackers to unlock this potential.

[1] See "From poverty to empowerment: Raising the bar for sustainable and inclusive growth," McKinsey Global Institute, September 18, 2023.

CIB organizations will require new playbooks to successfully navigate these five major shifts. While these playbooks will vary by organization, each must outline the necessary actions to secure the near term, build foundational capabilities in the medium term, and make selective, decisive bets for the longer term.

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CIB today: Varied performance across segments of one

To understand the future of corporate and investment banking, one must first understand the present. And that picture varies dramatically across firms.

Overall CIB revenues reached $2.9 trillion globally in 2022, and analysis of the results of a sample of CIB organizations whose performance could be disaggregated from that of the parent bank showed, on average, about a 12 percent return on equity at a 54 percent cost-to-income ratio.[2] This implies that the industry on average is covering its cost of equity after a long period of restructuring following the global financial crisis and more recent pandemic-driven volatility.

However, average figures inevitably mask variations in performance—and the variations are wide. The spread in ROE between the top and bottom performers in any single segment was more than 700 basis points in 2022, reflecting the underlying complexity of the industry and the uniqueness of each individual organization. Each organization focuses on a specific set of clients concentrated in a particular set of geographies, makes different product portfolio choices, and has responded differently to the threat posed by nonbanks in the industry. And even the most challenged organizations benefit from unique strengths within their operations—firm-specific pockets of excellence—that serve as the basis for future sustainable growth. Each organization is truly a segment of one.

[2] Analysis based on a sample of 40-plus banks in McKinsey and Tricumen revenue pools where CIB performance can be cleanly disaggregated.

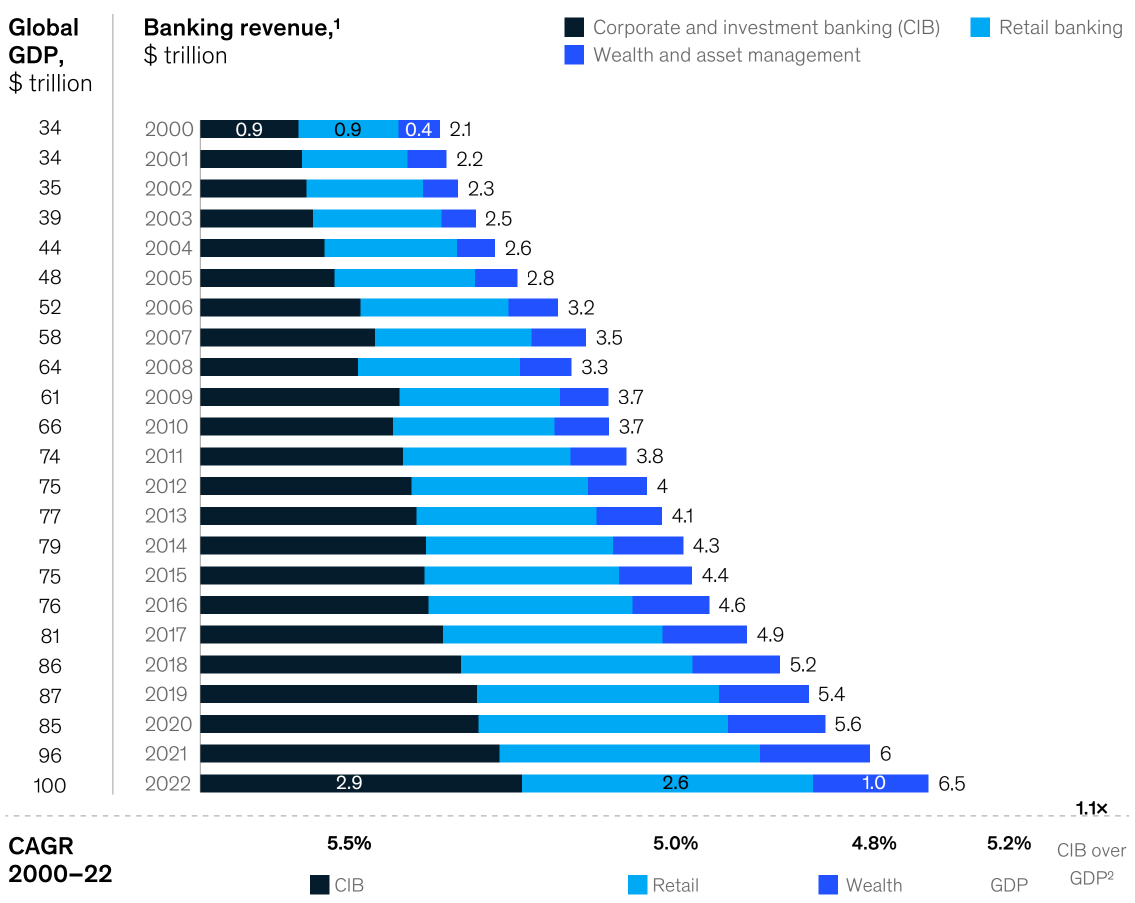
Consistent, resilient revenue growth over time

CIB revenues represented 44 percent of the global banking revenue pool in 2022, having grown at an average rate of more than 5 percent per annum since 2000.

Given the multiple challenges CIB organizations have faced over the past two decades, that is a consistent and resilient result. They weathered, and ultimately recovered from, multiple downturns—including the technology bust of the early 2000s, the global financial crisis of 2008, and the more recent COVID-19 pandemic. Despite short-term volatility in specific verticals (for example, sales and trading and investment banking), revenue growth has moved largely in line with global GDP growth (at 1.1 times the rate) and reflects the sector's tight link to the real economy (Exhibit 1).

Exhibit 1

Corporate and investment banking revenue growth has proved consistent and resilient since 2000, growing faster than other banking subsectors.



Note: Figures may not sum, because of rounding.
[1]Payments revenue pools are included. Retail payments are part of retail banking, and corporate payments are under CIB. Figures differ from the Global Banking Annual Review 2023 because capital market infrastructure providers (CMIP), securities services, and alternatives (eg, crypto) are excluded from above.
[2]CIB growth rate divided by GDP growth rate.
Source: Dealogic; McKinsey Global Banking Pool; McKinsey Panorama CMIB Revenue Pools; Tricumen

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The essential role of CIBs in the economy is underscored by the product and client mix of their revenues. The product mix shows core commercial lending and cash management accounted for more than 80 percent of CIB revenues in 2022. These products underpin real-economy activities—such as making wholesale payments, managing working capital, and funding capital expenditure—that are the foundation for everyday commerce. In contrast, more complex and volatile products, such as specialized lending, investment banking, and sales and trading, accounted for less than 20 percent (Exhibit 2).

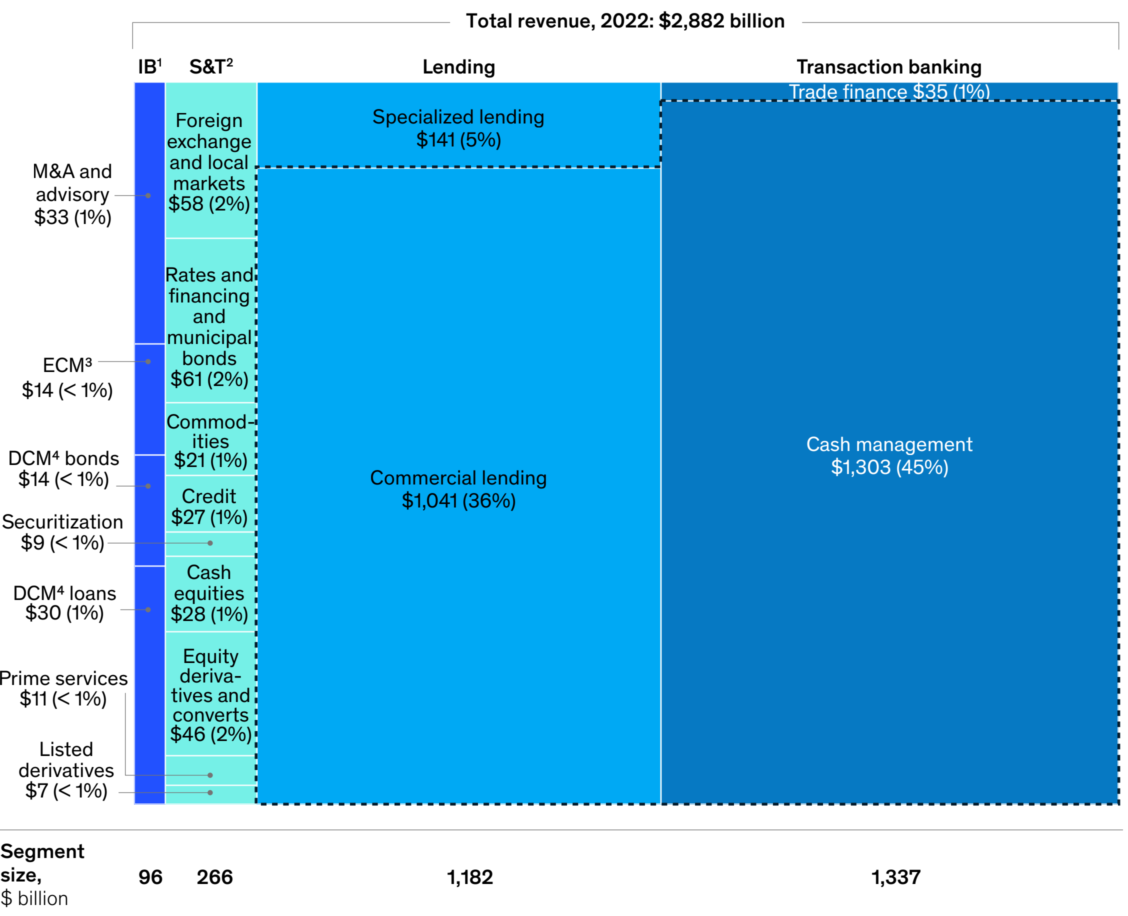
Exhibit 2

Most CIB revenues are concentrated in lending and transaction banking, which underpin everyday commercial activity.

Global corporate and investment banking (CIB) revenue by segment and product

Operational activities

$xx (x%) $CIB revenue in $ billion and % of total



Note: Commercial lending includes straight lending and structured lending. Figures may not sum, because of rounding.
[1]Investment banking.
[2]Sales and trading.
[3]Equity capital market.
[4]Debt capital market.
Source: Dealogic; McKinsey Global Banking Pool; McKinsey Panorama CIMB Revenue Pools; Tricumen

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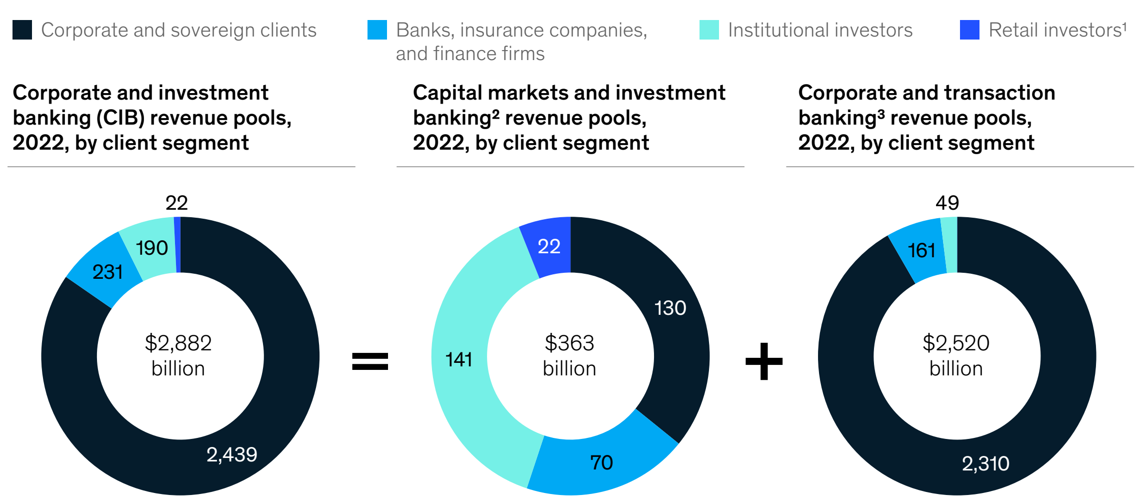
The client mix of CIB revenues also highlights these real-economy linkages (Exhibit 3). Corporate and sovereign clients, whose CIB needs are more tightly linked to the real economy, drove 85 percent of CIB revenues in 2022. Banks, insurance companies, finance organizations, and institutional investors, whose banking activities tend to be more market and trading driven and hence more volatile, accounted for the remaining 15 percent. Only when investment banking and sales and trading revenues were separated from the rest of the revenue pool does the client mix shift, with market- and trading-oriented clients driving more than 58 percent of those revenues.

Exhibit 3

Corporate and sovereign clients account for the bulk of corporate and investment banking revenues.



Note: Revenue split for each product by client segment extrapolated through Dealogic data. Figures may not sum, because of rounding.
[1]The retail category covers revenues ranging from capital markets to wholesale products sold via the bank through a third-party institution to retail or high-net-worth individual clients.
[2]CIB products included are investment banking and sales and trading (fixed income, currency, and commodities and equities).
[3]CIB products included are lending and transaction banking.
Source: McKinsey Panorama Global Banking Pools

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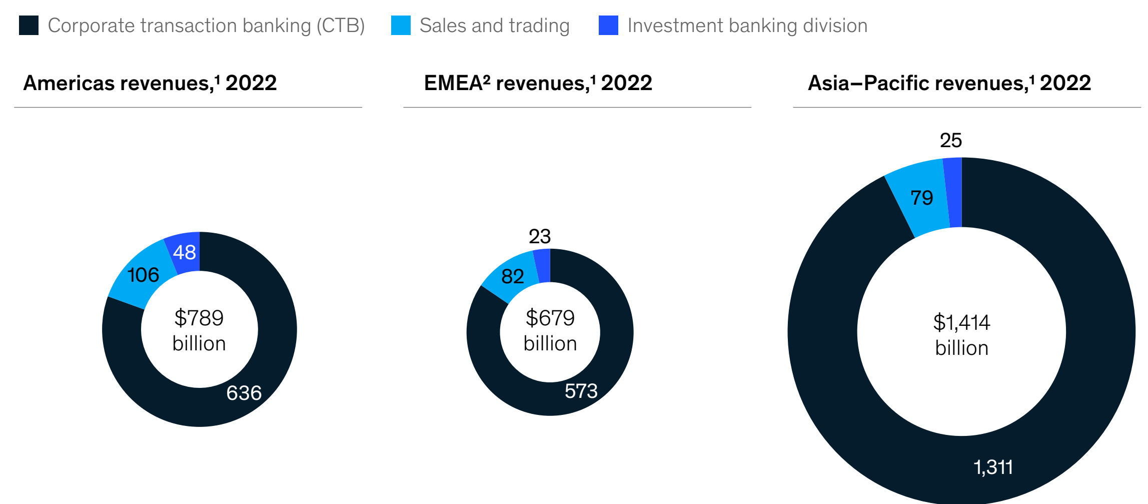
The essential role of CIBs in the economy is underscored by the product and client mix of their revenues.

Finally, revenues are split geographically across the Americas (27 percent); Europe, the Middle East, and Africa (EMEA) (24 percent); and Asia–Pacific (APAC) (49 percent) (Exhibit 4). Within APAC, China is by far the largest geography, though it is not easily accessible to many foreign banks. Except for a handful of large international banks with well-developed cross-border offerings, most CIB organizations earn most of their profits in one or a few home markets—that is, a single country or regions within a country. CIB organizations attempting to enter areas outside of their home markets often face challenges in gaining substantial share from incumbents. There is a real "home field" advantage.

Exhibit 4

The geographic distribution of revenues shows a split across the Americas; Europe, the Middle East, and Africa; and Asia–Pacific.



Note: In some cases, revenue split extrapolated using Dealogic data, IHS Markit data, or a smaller sample of banks. Figures do not sum, because of rounding.
[1]CIB products included are lending and transaction banking.
[2]Europe, the Middle East, and Africa.
Source: McKinsey Panorama Global Banking Pools; Tricumen

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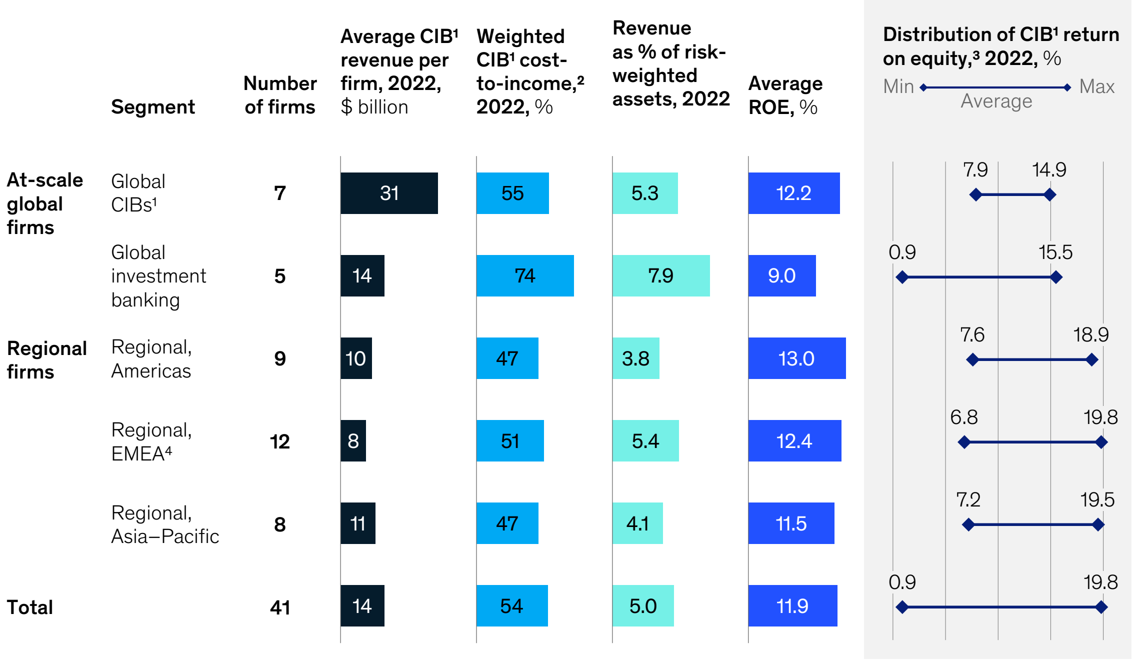
CIB organizations attempting to enter areas outside of their home markets often face challenges in gaining substantial share from incumbents.

Varied profitability

CIB returns are more complex to unpick than revenues. In 2022, the CIB organizations in our sample achieved an average ROE of 11.9 percent, with an average cost-to-income ratio of 54.0 percent. In doing so, they arguably covered their cost of equity. However, these aggregate results mask substantial variation across firms in each segment (Exhibit 5).

Exhibit 5

There is wide variation in the performance of CIB organizations in every segment.



[1]Corporate and investment banking.
[2]Weighted average of cost-to-income ratio (weighted by the relative revenue $ of each institution within its segment).
[3]Average ROE weighted by relative risk-weighted asset of each player within its segment. Individual ROE = (revenue – expenses) * (1–25% tax rate)/ (risk-weighted asset * group tier-1 ratio). Lower end of range excludes bottom performer, which had a CIB ROE of –12.3%.
[4]Europe, the Middle East, and Africa.
Source: Bloomberg; Tricumen

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- *Global CIBs.* These generated an average ROE of 12.2 percent, with a difference of about 700 basis points between the top and bottom performers (14.9 percent and 7.9 percent respectively). High-performing firms successfully offered a comprehensive set of products and capabilities to global clients, leveraged economies of scale, and made ongoing investments in ever-widening technology moats around their core businesses.

— *Global investment banks.* Focusing on a narrower set of advisory, capital raising, and trading activities than global CIBs, these generated an average ROE of 9.0 percent within a range of 1,460 basis points (excluding one outlier). High performers invested to acquire competitive talent to support their more complex, IP-driven activities, and they built out internal and client-facing platforms to streamline and automate more routine trading and underwriting activities.

— *Regional and national organizations.* Those operating in the Americas generated an ROE of 13.0 percent, on average. In EMEA and in APAC, returns were somewhat lower at 12.4 and 11.5 percent, respectively. The difference between top and bottom performers across regions was about 1,120–1,300 basis points. The most successful firms focused on locally oriented corporate and commercial clients, to whom they lent in a disciplined way. They also successfully cross-sold cash management and a focused set of investment banking and capital markets products to these same clients.

Strategy and value creation challenge

The varied profitability within CIB prompts hard questions from stakeholders, especially at firms performing less well. Stakeholders question the value created by units that are barely covering, or unable to cover, their cost of equity. They wonder about CIBs' overall fit within the portfolio of businesses at the bank, especially compared to businesses such as wealth or credit cards with typically higher "through cycle" returns.

Even organizations that achieve greater profitability come under scrutiny. Concerns include the following:

— *The greater volatility of investment banking and trading businesses.* There is also a fear that franchises overly geared toward these businesses produce results that are too uneven.

— *Pockets of consistently lower returns in specific sub-businesses, especially for firms that lack scale.* These include vanilla lending portfolios not benefiting from the effective cross-sell of fee-based products, capital-intensive trading products, and businesses in foreign markets that lack the highly tailored value propositions to win against domestic incumbents.

— *Concerns related to liability and funding.* Recent events have challenged many firms' assumptions about the stickiness of rate-sensitive commercial and corporate deposits.

— *Exposure to specific sectors experiencing challenges.* These sectors range from commercial real estate to cryptocurrency.

— *Interlinkages with other financial institutions facing similar challenges.* Such interlinkages create a risk of contagion.

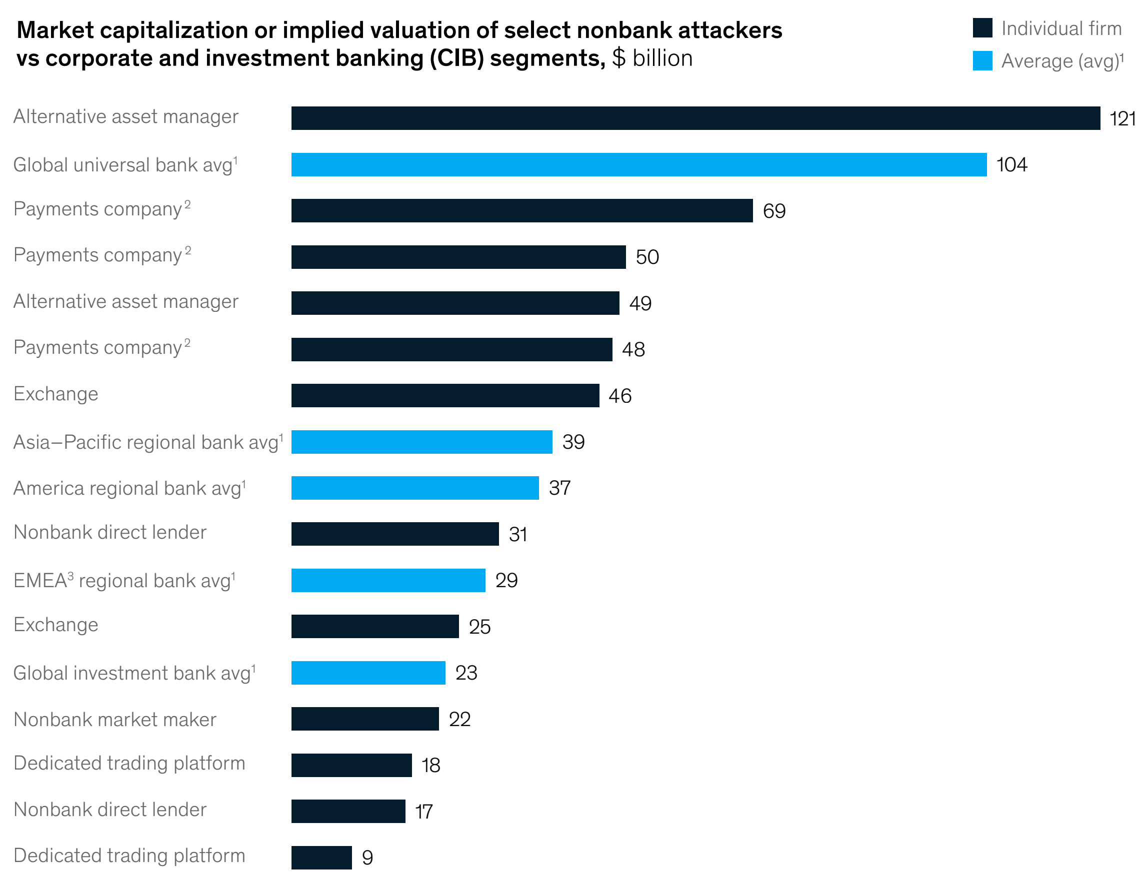
Value shifting to nonbanks

All these challenges are exacerbated by a growing threat from nonbanks in areas historically dominated by CIBs. Originally operating in areas adjacent to wholesale banking—in private equity and retail payments, for example—nonbanks have scaled their value propositions to target some of the same client segments as CIB organizations. They have created substantial shareholder value in the process (Exhibit 6).

Exhibit 6

Nonbanks have scaled their value propositions to target some of the same client segments as CIB organizations, creating substantial value.

Market capitalization or implied valuation of select nonbank attackers vs corporate and investment banking (CIB) segments, $ billion



Note: Market cap for nonbanks calculated as of December 2022 where available or is based on valuation from latest funding round if not publicly traded.
[1]Market caps for average bank segments based on an implied valuation of 8–12x earnings multiple applied to the average earnings for the segment.
[2]Payment companies include some exposure to B2C in addition to B2B.
[3]Europe, the Middle East, and Africa.

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Nonbanks have benefited from focusing on a narrow set of product verticals that tend to have some combination of better economics, a capital-light business model, superior technology, and lighter regulation. Examples include the following:

— *Alternative asset managers engaged in direct lending.* These organizations have steadily taken market share from corporate and commercial lenders in middle-market leveraged finance, backed by long-term investors with a lower cost of capital and a different liability structure from banks. They grew at an average rate of 27 percent per year from 2012 to March 2023 and had nearly $230 billion of dry powder to deploy at the end of 2022.[3]

— *Nonbank market makers.* With technology-enabled, low-touch, highly quantitative and scalable business models, these organizations provide liquidity in a focused set of electronic products. The largest generate annual revenues of more than $5 billion, matching or exceeding those of CIB organizations in the same product set (for example, UST, centrally cleared swaps, and spot FX).

— *Pure-play payment companies.* These organizations leverage scale; feature capital-light, fee-based models; and command earnings multiples of 20x or more. They are increasingly adding B2B and FX capabilities to their strong positions in the B2C space.

— *Trading platforms.* These organizations, which offer a combination of execution, analytics, and post-trade services, have successfully pulled volumes away from CIB organizations' proprietary platforms, compressing trading margins in the process. Employing fee- and subscription-based business models, these organizations can also trade at multiples of 20x or more.

Meeting the challenge through a granular approach

CIBs must take a highly granular approach in responding to the strategic and value creation challenges that many face and to the growth of nonbanks. Most CIB organizations are a complex mix of underlying businesses, each with its own economics and relative weighting in the overall portfolio. They serve specific client bases concentrated in unique sets of geographies. Each organization should therefore be thought of as a segment of one.

Viewing CIB organizations through this lens helps explain the wide differences in profitability they experience today. But it also calls for a more nuanced approach to value creation and how that value creation is communicated. Banks must disaggregate the economics of their CIB organizations into their underlying and highly granular client and product franchises, each with its own dynamics and drivers of profitability. This analysis inevitably reveals pockets of excellence that even the most challenged firms can build on and that the leading firms can scale to deliver the next wave of growth.

[3] Source: Preqin, Reuters.

These pockets of excellence vary across firms and include the following:

— *select large- and mid-corporate client franchises* where banks can consistently achieve top three positions in banking panels by cross-selling a range of products to complement basic lending

— *cash-management platforms* that have high ROEs, benefit from sticky transaction flows, and would command technology or fintech multiples if they existed outside the bank

— *in some cases, focused advisory units* that are nimble, capital light, and highly profitable on a stand-alone basis and are ROE-accretive within a bank by complementing the lending book

— *specialized and high-return lending businesses* linking borrowers with new sources of institutional capital

— *profitable sector propositions* built on tailored capabilities and deep expertise that banks can scale regionally or globally

— *cross-border propositions focused on servicing specific trade corridors* and the associated capital, payments, and foreign-exchange flows

— *at-scale trading businesses* that benefit from deep client franchises, superior technology, and large balance sheets

— *data, infrastructure, and analytical businesses* for corporations and institutions with fee- and subscription-based revenues

For CIB organizations, building a deep understanding of their specific pockets of excellence—where they have a natural right to play—has to be the foundation of any future plans.

This analysis inevitably reveals pockets of excellence that even the most challenged firms can build on, and that the leading firms can scale to deliver the next wave of growth.

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Five big shifts driving a new operating environment and how to navigate them

When it comes to value creation, all CIB organizations have different starting points with different pockets of excellence to strengthen or scale. But all will have to contend with five major shifts that are fundamentally transforming the environment in which they have operated over the past 15 to 20 years (Exhibit 7). The macroeconomic environment is radically different. Technology has dramatically shifted the "art of the possible." Regulations are quickly evolving. New market structures are emerging. Last, long-term sectoral and product trends are creating new opportunities. Each of these shifts has major implications for CIB organizations, which will need a new playbook to navigate them effectively.

Exhibit 7

Five big shifts are fundamentally transforming the operating environment for corporate and investment banking organizations.

Shift	Elements	Implications for banks
1 **Radically different macroeconomic environment**	• Changing lending dynamics • Renewed focus on deposits • Shifting deal, trading, and cross-border patterns	• Develop new underwriting criteria and disciplined approach to monitoring and workouts • Build next-generation deposit gathering, pricing, and analytics • Reexamine affected businesses
2 **A new, technology-led 'art of the possible'**	• Rise of a truly digitally enabled front office • New age of generative AI use cases	• Make targeted investments in front office technology tightly tied to client and product franchises • Prioritize the right use cases enabled by generative AI, build capabilities to scale, and manage risks
3 **Changing regulatory and risk environment**	• New capital regulations • Evolving treasury and liquidity risk management expectations • Increasing focus on counterparty credit risk (CCR) • Higher regulatory attention on nonfinancial risk management • Increasing strategic importance of climate risk management	• Review capital allocations, evaluate pricing and credit strategies, explore risk transfers with nonbanks, refine capital plans, and accelerate capital accuracy efforts • Update liquidity and internal rate of return (IRR) models and assumptions; strengthen scenarios; align capital, IRR, and liquidity management frameworks; improve contingency planning; and increase transparency to asset liability committee and the board • Actively monitor individual and portfolio counterparties, rapidly assess and remediate any gaps in counterparty credit risk management program, launch plans to build next-generation capabilities, and proactively communicate with stakeholders • Strengthen controls and oversight frameworks, improve calibration of risk appetite and limits, improve operational resilience, enhance operational risk capital calculations, and establish appropriate governance • Strengthen climate stress-testing capabilities and conduct portfolio-wide risk assessments
4 **New market structures**	• Shift of lending to private market players • Advances in digital assets and tokenization	• Revisit on-balance-sheet lending approach and consider off-balance-sheet partnerships while monitoring risks • For some firms, build know-how and make selective bets on digital assets and tokenization
5 **Long-term trends in certain sectors and products**	• Substantial transition finance opportunity • Select sectors with massive financial needs (infrastructure, energy, life sciences, healthcare, and technology) • Substantial value embedded within cash-management businesses	• Move from risk and compliance focus to building a net-zero pathway for own portfolio and capturing the broader commercial opportunity • Make selective sector bets with right product capabilities to serve clients end to end • Reimagine existing cash management offers or launch stand-alone attackers

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Shift 1: A radically different macroeconomic environment

The global economy has entered a fundamentally new era. Inflation levels at a height not seen in 40 years have pushed central banks to raise interest rates to a two-decade high. At the time of writing, it's unclear when rates will peak and what the full impact might be on growth and employment.

At the same time, households, nonfinancial corporations, and governments have built up high levels of debt on the back of previously low interest rates, while asset values have risen. In advanced economies, debt now stands at its highest level since World War II, yet any pressure to deleverage could prove challenging given low productivity growth and high interest rates.

Add in the aftereffects of the COVID-19 pandemic, geopolitical conflict, and an evolving economic environment in China, and it is not hard to see why the McKinsey Global Institute (MGI) has concluded that banks (along with other companies) are operating on the cusp of a new era.[4]

This new era has significant implications for CIB organizations, requiring them to cope with at least three key changes. Higher rates have changed lending dynamics, with higher future yields coupled with challenged performance in some legacy portfolios. There is a renewed focus on commercial deposits and on the liability side of the balance sheet. Last, deal, trading, and cross-border patterns have been fundamentally disrupted.

Changing lending dynamics

On the one hand, higher interest rates mean new loan assets can have higher absolute yields that can drive greater profitability going forward, especially if the cost of funding does not increase commensurately. Organizations can now earn returns of 10 percent or higher, even for certain senior secured loans—a yield that was only possible in the previous economic cycle by taking equity or equity-like risk.

On the other hand, rising rates can put pressure on older portfolios underwritten at lower rates. Fixed-rate loan portfolios unable to adjust to higher rates face substantial mark-to-market losses. Loans to highly leveraged companies that may need to be refinanced but at much higher interest rates could also prove challenging, especially if the economy weakens further and these companies' operating performance suffers.

But the greatest focus is reserved for commercial real estate lending. The commercial real estate ecosystem is dealing with unprecedented macroeconomic and behavioral shocks. Rising rates continue to constrain credit markets, increase refinancing risk, and put pressure on asset values. Secular shifts, from the adoption of hybrid working models and remote work to changes in urban migration, have affected the demand for, and use of, space. As our July 2023 research on the impact of the pandemic on real estate notes, change has been substantial. Office attendance has stabilized at 30 percent below prepandemic levels. Office workers less tethered to physical offices have moved out of urban cores and toward the suburbs, reducing retail foot traffic in urban areas in comparison with suburban areas. With urban foot traffic still 10 to 20 percent lower than prepandemic levels, this shift has affected metropolitan retail properties.[5] While the overall end game in commercial real estate remains unclear, at least for now, what is clear is that the assumptions many lenders made when underwriting past loans have been materially upended.

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4 See Chris Bradley, Jeongmin Seong, Sven Smit, and Jonathan Woetzel, "On the cusp of a new era," McKinsey Global Institute, October 20, 2022.

5 See "Empty spaces and hybrid places: The pandemic's lasting impact on real estate," McKinsey Global Institute, July 2023.

The response: New underwriting criteria and a disciplined approach to credit monitoring and workouts
When it comes to new loans, CIB organizations will want to ensure their underwriting criteria reflect changes in pricing, credit quality, and risk driven by the new macroeconomic environment. For existing loans, they could consider a disciplined approach to identifying problematic loans and resolving them. This includes investing in tools and analytics that provide early warning indicators, strengthening workout capabilities, and reevaluating governance.

For commercial real estate specifically, firms need to conduct an asset-by-asset review of underlying collateral to drive differentiated loan actions. This microanalysis may include a review of building quality (for example, amenities and renovations), historical performance of buildings (such as net operating income), convenience (for instance, transit connectivity and proximity to residences), and experience. Based on that analysis, lenders can then decide whether to continue to hold, restructure, or dispose of the loan. Some lenders are even partnering with private equity firms to help with dispositions.

A renewed focus on deposit management and the liability side of the balance sheet
Macroeconomic conditions have significantly affected deposits. In a low interest rate environment, banks could give less consideration to the liability side of the balance sheet. Today, however, they are compelled to reexamine the cost and stability of their commercial deposits, reconsidering fundamental assumptions regarding deposit betas, volatility, and the risk of outflows.

Many CIB organizations have seen material deposit outflows. Clients have moved funds to higher-yielding money market funds or institutions they deem more stable, and operational balances have declined for companies that are struggling to raise fresh rounds of financing. Investors and regulators are increasingly raising concerns about the impact of those deposit outflows and the long-term stability and stickiness of bank liabilities.

The response: Building next-generation deposit gathering, pricing, and analytics capabilities
Organizations facing significant deposit outflows should consider implementing deposit acceleration programs—that is, programs that seek to retain and quickly grow commercial deposits. Key steps include establishing a baseline view of the current state of deposits—its level as well as stickiness—executing quick wins and creating a deposits desk or war room where teams leverage relevant data to make fast, day-to-day interventions. We have seen some organizations grow deposit balances by 8 to 10 percent in less than three months with the help of a deposit acceleration program.

Organizations should complement these short-term initiatives with longer-term capability building. They should invest in pricing optimization, leveraging analytics to assess price sensitivity; tailor deposit pricing based on this information; and identify client-specific and product-level opportunities. They should also consider investing in broader front-office excellence through training, incentive programs, and clear deposit-raising goals for relationship managers.

Changing deal, trading, and cross-border patterns
Macroeconomic and geopolitical factors have also affected transaction volumes. Deal and underwriting volumes through the third quarter of 2023 are materially lower than in previous years. Higher rates (and the associated higher financing costs) have reset valuations across companies and asset classes, with buyers and sellers struggling to find common ground.

The impact on trading businesses is more mixed. Equities trading volumes declined by roughly 20 percent through mid-2023 versus the previous year in the United States and by 25 percent in Europe.[6] Macro products (FX, rates), however, arguably benefited from a more volatile macroeconomic environment.

Finally, the shifting geopolitical environment is causing changes in cross-border trade patterns and the associated cross-border payments and trade finance flows, affecting the performance of transaction banking businesses.

The response: Reposition affected businesses
CIB organizations will need to re-examine their positioning and footprint in the affected businesses. While deal and trading volumes are likely to ultimately recover, waiting until that happens could be inefficient. It would be better to take a view on when volumes in different products are likely to recover and to what level and then reposition businesses accordingly. Similarly, given new geopolitical realities, organizations should reexamine their choices regarding which geographies and trade corridors to emphasize.

CIB organizations will need to re-examine their positioning and footprint in the affected businesses.

[6] Source: Autonomous, Bloomberg, CBOE.

Shift 2: A new, technology-led 'art of the possible'

A range of technologies—including intelligent process automation, machine learning (ML), advanced analytics, cloud adoption, and, most recently, generative AI—are transforming how CIB organizations operate. They have truly shifted the "art of the possible" in how firms engage with their clients.

The pandemic and its aftermath accentuated the impact of these technologies, accelerating a shift toward digital interactions that was already well under way. A McKinsey survey found that 70 percent of clients wanted to migrate all transactions—payments, guarantees, export, and more—to digital channels; 50 percent said they would like to manage their short-term lending needs in a fully digital way; and 40 percent preferred remote interactions with relationship managers when discussing new products.[7] The truly digitally enabled front office and a range of gen AI use cases represent the next frontier of pilots and experimentation.

The truly digitally enabled front office

In many other areas of financial services, technological innovation has disintermediated the traditional banker by replacing person-to-person interaction with electronic channels. In much of CIB, something more nuanced has happened. On the one hand, clients have ever-rising expectations of the purely digital experiences that increasingly serve as their primary entry point into the bank. They expect greater speed, personalization, and seamlessness in each interaction—even for historically challenging processes such as onboarding, account opening, and compliance checks. Much of the historical digital investment made by corporate and investment banks focused on these areas.

On the other hand, clients continue to value human advice for their more complex needs, and the "human in the loop" continues to play a crucial advisory and integrative role. The current wave of digital innovation focuses less on using technology to replace front-line bankers, salespeople, and traders, and more on maximizing workers' productivity and effectiveness by equipping them with the best and latest tools to do their work. These tools include real-time client dashboards, advanced analytics for behavioral segmentation, automated pitch book production and financial modeling, and digital recommendations on "the next product to buy" or acquisition targets. Even areas initially believed to be far less amenable to digital technologies, such as mergers and acquisitions and IPOs, are seeing digital tools and capabilities embedded across the process.

The response: Targeted investments to drive productivity

Against this backdrop, CIB organizations will need to decide where best to invest their finite technology budgets for the highest returns. They will need to focus investments on the capabilities most closely tailored to their unique client and product franchises. They will also need to establish clear targets (increased coverage spans, capacity saved, and costs reduced) linked to those investments.

[7] See Arnau Bages-Amat, Liz Harrison, Dennis Spillecke, and Jennifer Stanley, "These eight charts show how COVID-19 has changed B2B sales forever," McKinsey Global Institute, October 14, 2020.

A new wave of use cases for gen AI

CIB organizations first adopted AI and machine learning decades ago, with some firms using AI at scale.[8] But much of the industry lags behind the leading CIB organizations. In addition, the McKinsey Global Institute estimates that across all of banking, wholesale, and retail, gen AI could add $200 billion to $340 billion in value—for example, through greater productivity.

Gen AI enables the creation of new, unstructured content, such as text, images, and speech. It is powered by foundation models (AI models) trained on a broad set of data that can be adapted to a wide range of tasks. These models are typically also better at interpreting and labeling unstructured data than traditional AI.

CIB organizations are putting gen AI to work across their businesses. They are making the most progress in three areas: new product development, client operations, and marketing and sales.

— *New product development.* Gen AI can accelerate software delivery using so-called code assistants, which help with code translation and bug detection and repair. These tools can also improve legacy code, rewriting it to make it more readable and testable and then documenting the results. The significant reductions in time and rework afforded by gen AI fundamentally shift the economics of software delivery, even allowing some institutions to contemplate long deferred end-to-end technology stack upgrades.

— *Client operations.* Gen AI can extract, search, and summarize unstructured servicing information, translating it into machine-readable instructions. In post-trade services, gen AI can read documentation on corporate actions and assess the implications for clients and products. In the middle office, gen AI can automate manual tasks, creating first drafts of environmental, social, and governance (ESG) and audit reports or even basic loan contracts.

— *Marketing and sales.* Gen AI has the potential to take all voice and text interactions with clients and use them to create a relationship management assistant. A gen AI–powered tool on the desktop of a relationship manager (RM) can help answer questions on topics such as investment ideas, sales, and product policies nearly instantly, significantly reducing time to respond to clients from hours or days down to seconds. It can help junior RMs with training simulations and call transcripts. Finally, it can automatically summarize a bank's knowledge and use it to create viable marketing content—such as market recaps, research reports, and pitch books—with significant reductions in production time.

While these areas represent the greatest potential, other functions can also benefit. Gen AI can extract textual content from client interactions, loan and collateral documents, and public news sources to improve credit models and early warning indicators. And it can support risk and compliance, helping to identify relevant regulations and requirements and to locate relevant instructions.

[8] See Carlo Giovine, Larry Lerner, Jared Moon, and Stefan Schorsch, "Been there, doing that: How corporate and investment banks are tackling gen AI," McKinsey Global Institute, September 25, 2023. This section is a summary of that longer report.

Applied properly, gen AI can fundamentally transform the day-to-day activities of a typical corporate and investment banker (Exhibit 8). The quantitative impact can be substantial as well. In our experience, gen AI can improve productivity in core CIB activities by between 30 and 90 percent (in individual use cases), depending on the application. We've seen heavy users halve the time to market for many code releases, for example. All told, productivity and other benefits could add up to about 10 percent of CIB operating profits in the long run.

Exhibit 8

Generative AI can fundamentally transform day-to-day activities for a typical corporate and investment bank.

Seven frequent tasks that generative AI can simplify

Prepare account plans and proposals semi-automatically by leveraging latest client data and public information	Train a 24/7 "virtual SME[1]" bot—using proprietary know-how, client data, "live" news feeds, and the latest public information—to answer real-time questions	Suggest client-specific actions (eg, next-to-buy) to front line by mining latest corporate initiatives with a corporate-action monitor	Shape preliminary responses to steer live client calls based on product offering, previous Q&A, policies, and past client log	Automate client call assessment and summarization into actionable commercial next steps	Automatically write, fill, or interpret technical documents (eg, know your customer and deal terms) based on deal information or term sheets	Create quick email drafts in response to clients and reminders of action points

[1]Subject matter expert.

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The response: Choose the right use cases, build capabilities to scale, and manage risks
CIB organizations seeking to make the most of gen AI must first choose the right use cases to pilot and drive; the passages above describe some of the options. Firms must act quickly or risk falling behind competitors. Compared with technologies such as robotic process automation and older machine learning algorithms, we are seeing a much faster time to market.

To move beyond the pilot phase, most organizations need to have a broader set of capabilities in place:

— *A strategic road map.* CIB leaders should define clear strategies for integrating gen AI into their processes, with a clear link to value (benefits and the associated investment costs).

— *Talent.* CIB firms typically have a wealth of AI talent, including quants, "strats," modelers, translators, and model explainers. Firms need to help these individuals either add gen AI to their skill sets or supplement their capabilities with additional expertise. Market leaders are establishing cross-functional teams across product segments and IT businesses in line with previously tested and highly successful AI delivery models. They are also investing in training users—for example, thinking through how they can build prompt-engineering academies at scale.

— *Data.* Most CIB organizations are already working to consolidate and optimize market, reference, and client data. Now they need to extend these actions to unstructured data such as text, images, and client documents. Firms may also need to establish infrastructure allowing people across the firm to access unstructured data from anywhere on their platforms.

— *Technology.* Finally, CIB organizations need modern infrastructure and a clean architecture and systems landscape that can consume and receive AI-created instructions (such as platform-wide workflow tooling and APIs). Some firms are taking a hybrid infrastructure approach, using private models for sensitive data while exploring the public cloud capabilities that are progressing day by day.

CIB organizations also need to be mindful of the risks associated with gen AI, including bias, privacy concerns, security threats, ESG impact, and computing costs, and plan carefully to mitigate them. (For more on managing these risks, see chapter 3).

CIB organizations seeking to make the most of gen AI must first choose the right use cases to pilot and drive. . . . Firms must act quickly or risk falling behind competitors.

Shift 3: A changing regulatory and risk management environment

The regulatory environment for CIB organizations continues to evolve—and with it, risk management practices. The change is driven by many factors, including the finalization of foundational regulatory changes such as Basel III, market events that have seen US regional banks come under stress, higher interest rates, and shifts in market dynamics caused by factors such as the pandemic or the "meme stock" frenzy. All have resulted in increased volatility and risk exposure for CIB portfolios.

With proper awareness and preparation, CIB organizations can do much more than just drive regulatory compliance in this time of transition—they can build institutional resilience and even competitive advantage. Five key areas stand out as high priority with critical implications for CIBs: new capital regulations, treasury and liquidity risk, counterparty credit risk, nonfinancial risk, and climate risk.

New capital regulations
Banking institutions in several geographies are implementing the finalized Basel III regulations (the so-called Basel IV or Basel III Endgame), though the exact timelines for their implementation and the rules themselves vary depending on jurisdiction and local tailoring.

In July 2023, US regulatory agencies proposed new rules and guidelines for banks with assets greater than $100 billion. The new rules would require banks to enhance operational capabilities relating to methodology, data, technology, reporting, and more, with a view to implementation between 2025 and 2028.

This is part of a broader capital review that has sought, among other things, to enhance comparability of banks' capital ratios by improving the risk sensitivity of standardized approaches and constraining the use of internal models for specific exposure classes. The current proposal for Basel III finalization requires the following from banks:

- greater adoption of standardized approaches across credit, market, credit valuation adjustments, and operational risks
- adoption of FRTB-like practices for market risk—desk-level granularity, for example
- rollback of AOCI opt-outs for category III and IV banks

The Basel III final rules could have a significant impact on risk-weighted assets (RWA). The Federal Reserve Board estimates that the final rules could raise RWA by 25 percent for category I and II banks and by 6 percent for category III and IV banks. Category III and IV banks will have additional capital impacts from the AOCI rollback.[9]

We believe the impact of Basel III will be significant for the banking industry overall. Our outside-in estimates indicate that the majority of the impact for US banks is driven by operational risk (some 75 percent of potential CET1 ratio impact) and by market and CVA risk (25 percent of the same), partially offset by credit risk. Banks may experience the impact differently depending on the composition of their assets, their revenue mix, their historical operational losses, and other factors. We expect that many banks will need to increase their capital to meet the new requirements and that the impact will be particularly pronounced for large banks relying on fee-based businesses and complex trading activities.

[9] FDIC, FRB - Regulatory capital rule: Amendments applicable to large banking organizations and to banking organizations with significant trading activity (as of July 27, 2023).

In Europe, Basel III finalization reforms are due to come into force on January 1, 2025 (implemented as CRR3 and CRD6). In the United Kingdom, the new regulations will come into force on July 1, 2025, with a transition period running until January 1, 2030.

The response: Consider preparing early
Regulations may evolve further before coming into effect in 2025, but CIB organizations may want to start preparing themselves for the final rules now. As CIB leaders think through the proposed rules and the evolving regulatory environment, they could consider the following steps:

- Assess the regulations' potential impact on capital and balance sheets and on the competitive dynamics of the businesses and products, and then determine how to respond—for example, by reviewing capital allocations across the portfolio, reevaluating pricing and credit strategies, and exploring risk transfer with nonbanks.
- Refine capital plans to address capital shortfalls—for example, by building through retained earnings.
- Accelerate capital accuracy to ensure capital impact is in line with the organization's risk profile.
- Implement required changes to ongoing processes, such as market risk calculations at the desk level and credit monitoring.
- Ensure timely delivery of change programs—for example, programs to enhance capital calculations or meet new disclosure requirements.

Treasury and liquidity risk
With rising inflation, central banks are reducing liquidity in the system. In Europe, for example, central banks are terminating their targeted long-term refinancing operations (TLTROs). As a result, balance sheets are contracting, competition for deposits is increasing, and organizations are shifting to alternative funding sources such as originate-to-distribute models with increased activities in the securitization market.

At the same time, the speed at which deposits have left some banks recently has prompted treasurers to reconsider how they might stabilize the balance sheet in stress cases and to increase focus on managing regulatory liquidity ratios (LCR/NSFR). Building and scaling cash management businesses offers one approach.

The regulatory environment for CIB organizations continues to evolve, and with it risk management practices.

The response: Develop new risk models, scenarios, frameworks, contingency plans, and transparency
To improve treasury and liquidity risk management, CIB organizations will need to enhance their IRR and liquidity management practices through actions such as the following:

— Update liquidity and IRR models and assumptions to reflect recent data and dynamics—for example, by reviewing the resilience of various deposit segments.

— Strengthen scenarios to reflect a broad range of adverse situations, both macroeconomic and those that are idiosyncratic to the organization.

— Align capital, IRR, and liquidity management frameworks—for example, by defining IRR risk appetite based on tolerance for interest rate–related capital erosion and by introducing funding metrics to liquidity dashboards.

— Improve contingency plans of action and related execution capabilities—for example, by expanding the number of options they outline and making actions more specific.

— Increase the transparency of treasury and liquidity risk exposures for the ALCO and the board, and raise the level of treasury management talent in the first and second lines of defense.

Counterparty credit risk
The default of Archegos Capital Management in 2021 has increased the focus of both regulators and the CIB industry on counterparty credit risk (CCR). CIB organizations are increasingly enhancing their CCR management and oversight programs, with a focus on improvements in the following areas:

— governance, staffing, and operating models for CCR—for example, CCR market risk capabilities

— credit risk assessments, due diligence, and monitoring counterparty financial health—for example, new rating methodologies and enhanced workflows

— limits and exposure management frameworks—for example, PFE enhancements and stress testing capabilities

As part of these enhancements, several credit metrics have been added and credit limits tightened. As a result, oversight of markets businesses has increased, especially for hedge funds and other institutional counterparties.

At the same time, improvements in analytics have been slow. While enhancements to CCR practices are ongoing, more sophisticated players have opportunities to increase share of wallet and further segment toward more profitable counterparties, while appropriately pricing in the commensurate risk associated with a collateralized financing business.

The response: Monitoring, assessment, and capability building
To better understand and manage CCR risks, CIB organizations should consider a range of actions, including the following:

— Actively monitor individual and portfolio counterparties—for example, to inform risk appetite revisions and exposure reductions.

— Rapidly assess the organization's CCR risk management program to identify and remediate potential gaps—for example, calibration of CCR limit to overall risk appetite.

- Design and launch plans for next-generation capability building (for example, digitization of credit workflows; use of nondirectional factors such as market depth, liquidity, and concentration in risk measurement; and flexible stress testing infrastructure).
- Communicate proactively with the organization's board, auditors, and regulators to provide transparency into remediation efforts.

Nonfinancial risk

Operational risk incidents and operational losses persist in CIB, drawing increased regulatory attention and interacting with capital regulations such as Basel III.

The response: Enhance controls and oversight

CIB organizations seeking to enhance management and oversight of their nonfinancial risk could consider the following actions:

- Strengthen controls and oversight frameworks and procedures with a particular focus on improving the management of emerging and growing risks, such as cyber, digital, and AI.
- Improve the calibration of risk appetite and limits for nonfinancial risks—for example, by including additional risk metrics.
- Establish the appropriate scope and mandate for risk management and controls oversight across the first and second lines of defense.
- Improve operational resilience and the speed of decision making during stress scenarios.
- Enhance operational risk capital calculation processes in response to new capital regulations, such as those governing data capture and new accounting requirements.

Climate risk

Climate risk management has emerged as a new branch of risk management, especially as CIB organizations increasingly take on climate-related risks.

The response: Strengthen stress testing capabilities

To manage climate risk, CIB organizations should consider strengthening their stress testing capabilities. This might entail the following actions:

- Conduct portfolio-wide risk assessments. Drawing up heat maps of physical and transition risk drivers is one approach.
- Prioritize portfolios, hazards, and geographies based on levels of risk for earlier remediation.
- Develop climate scenarios that examine trends, frequency, intensity, and duration of different hazards.
- Model key revenue and cost drivers for different sectors.
- Quantify loss impact through PD, LGD, ECL and EC models, for example. In addition, banks should consider building additional capabilities for stress testing the impact of climate risk on their trading book portfolios—for example, by translating scenarios into market risk factor-level shocks to assess portfolio impact.

Gen AI risk

As discussed earlier in this report, gen AI models carry risks despite their potential. Of particular concern to CIB organizations is the risk of bias in the data sets used to train them, which might result in algorithms inadvertently favoring certain client profiles or skewing credit risk assessments.

In addition, the technology exhibits limitations in scenarios where factual accuracy is essential, applications involve a high volume of requests or tight time limits, unconstrained or open-ended generating can create biased or harmful content, and the capacity to explain and fully comprehend failure modes is of utmost importance. It is also weaker in areas that require precise numerical reasoning. Clearly, many of these limitations are highly pertinent to CIB organizations, making it crucial for organizations to put in the right guardrails.

The response: Robust governance and tech-savvy capabilities

To mitigate risks associated with gen AI, CIB organizations will want to establish robust AI governance frameworks that help ensure meticulous attention to data selection, continuous performance monitoring, and periodic, unbiased testing and auditing. Adopting gen AI models requires CIB organizations to transform into tech-savvy entities that are equipped to tackle algorithmic biases, understand the risks associated with AI and ML applications, and ensure fairness in decision making. These emerging developments call for a reevaluation of current operating models and a fresh focus on risk management strategies.

Climate risk management has emerged as a new branch of risk management, especially as CIB organizations increasingly take on climate-related risks.

Shift 4: New market structures

Two shifts in the structure of the CIB market are particularly relevant to CIB organizations. The first is higher lending by private market players—a trend well under way that is having profound consequences for traditional corporate lenders, in leveraged lending, and potentially beyond. The second is the rise of tokenized assets—a trend that is not yet as significant but could prove equally disruptive.

The shift of lending to private market players

We described earlier the disruption caused by nonbanks, including market makers, payment organizations entering the wholesale space, and trading platforms. The biggest disruption under way, however, is arguably in lending—a core activity for CIB organizations—particularly in leveraged lending.

The rapid growth of private equity (PE) over the past decade—deal volumes saw a 10 percent annual increase from 2012 to 2022[10]—has significantly increased demand for leveraged financing solutions to fund these deals. CIB organizations have struggled to fully meet that demand, however, in part because of regulations such as the Dodd-Frank Act (2010), leveraged lending guidelines (2013), and Basel III (2014). As a result, CIBs' share of the leveraged loan market globally has shrunk significantly since 1994.[11]

Direct lenders have stepped in to fill the void. With more flexible capital that is largely sourced from institutional investors seeking higher returns than are available in public fixed income securities, these lenders have come to dominate middle market leveraged lending. As a result, direct lending assets under management (AUM) globally grew by 27 percent per annum between 2012 and March 2023, from $52 billion to $760 billion (Exhibit 9).[12]

Nor does it appear that the surge has run its course, at least on a through-cycle basis. Notwithstanding a recent slowdown in activity, substantial amounts of PE dry powder (a record $2.2 trillion globally in 2022)[13] could create structural tailwinds in the longer run.

Moreover, direct lenders are moving upmarket into larger deals, disintermediating syndicated and high-yield financing channels. Direct lenders are also pushing into investment grade debt including commercial, real estate, and infrastructure loans. In a higher-rate environment, these instruments provide strong returns to their end investors.

Finally, direct lending remains a focus of where institutional investors plan to increase exposure, with many planning to invest at least the same amount or more in 2023 as they did in 2022.

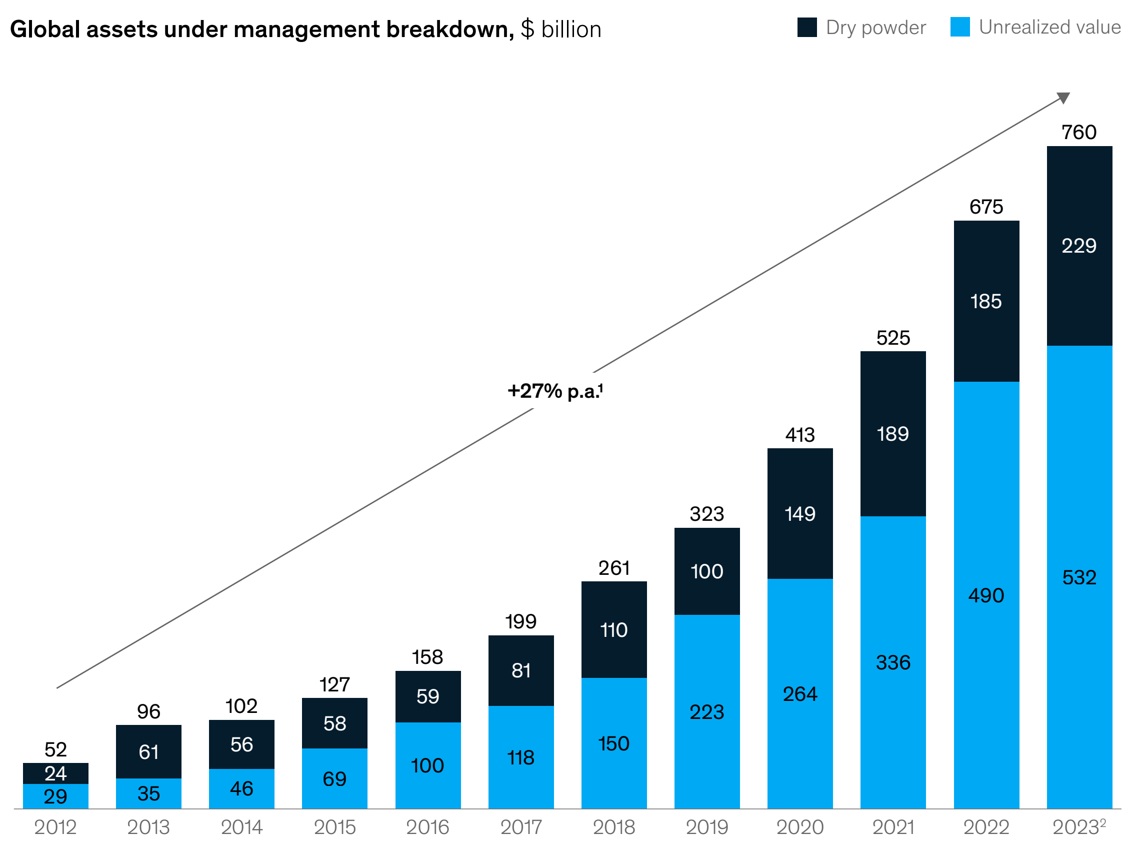
The response: Revisiting balance sheet lending approach and considering off-balance sheet partnerships and funds while monitoring risks

Many CIB organizations are now moving aggressively because the growth of direct lenders is too significant to ignore. Some have increased their balance sheet driven lending activity, some have formed new strategic partnerships with third-party direct lenders to source and fund deals, and some have raised their own funds. The latter two moves allow CIB organizations to fund deals off-balance sheet and to leverage insurance, pension fund, and family office capital that has a longer duration and that operates under different regulatory and return constructs. These two moves also allow CIB organizations to take a capital-light, fee-driven approach.

[10] Pitchbook, Refinitiv.
[11] S&P Global.
[12] Preqin.
[13] Annie Sabater and Dylan Thomas, "Private equity dry powder swells to record high amid sluggish dealmaking," S&P Global Market Intelligence, July 20, 2023.

Exhibit 9

Rapid growth in direct lending has led to private market players displacing traditional lenders.



Note: Figures may not sum, because of rounding.
[1]Per annum.
[2]March 2023.
Source: Preqin

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Prudent risk management will need to underpin all such activity. There are legitimate, near-term risk concerns about the performance of direct lending assets. These include rising interest rates and a slowing economy that could drive higher loss rates, limited historical data on which to assess the performance of direct lending portfolios during a recessionary environment, and growing regulatory scrutiny in the face of rapid growth. CIB organizations considering growth in this space will want to manage such risks through careful underwriting, active monitoring, increased use of originate to distribute and syndication, and limits on their overall exposure.

Digital assets and tokenization

The first half of 2023 was a tumultuous period for digital assets, stirred by bankruptcies and high-profile fraud cases. A narrative of "blockchain, not crypto" has taken hold among many CIB organizations, which now seek to tap into the potential of the technology through tokenization—that is, issuing a token on a blockchain, often a private one, that represents a traditional asset. These can be real-world assets such as real estate, commodities, and art; financial assets such as equities or bonds; or other nontangible assets—digital art and intellectual property, for example.[14]

Tokenization carries the potential benefits of blockchain technology: 24/7 operations and data, instantaneous settlement, and composable programmability. Some industry participants argue that these benefits could ultimately change the entire structure of capital markets if there is large-scale tokenization of assets. Capital efficiency, operational costs, compliance, and transparency could improve, as might market access for smaller investors. Tokenization may also facilitate an affordable, more nimble infrastructure.

The jury is still out on whether the growth of tokenization is at an inflection point. On the one hand, not many types of assets have yet been tokenized. The deterrents include an immature infrastructure, the lack of a short-term business case, regulatory uncertainty, and limited industry alignment. But there have been signs of change in the past year. Most notable are the significant advances in cash tokenization ($120 billion of tokenized cash in circulation), emerging regulatory frameworks outside the United States, better short-term business case fundamentals driven by higher interest rates, and a maturing infrastructure maturity. Adoption may well accelerate.

The response: For some firms, build know-how and make selective bets

CIB organizations attracted by the potential of digital assets and tokenization should first consider building their understanding of the technology and its associated risks, especially in the areas of wallet infrastructure and management duties (who can approve what and when), token design (restrictions placed on the asset and enforcement) and system design (location of books or records, and implications for the bearer nature of the asset).

They can also consider ecosystem relationships, plugging in systems and partners as required. The highly fragmented nature of the sector makes this critical, as very few asset owners are likely to engage with a range of disconnected providers and service providers to tokenize an asset. The process of tokenizing, stewarding, distributing, trading, and servicing these assets should be as simple and integrated as possible.

Finally, CIB organizations could consider participating in efforts to set standards for the sector. Key areas that require standardization include custody, token design, blockchain support, and data standards.

Not every CIB organization will choose to move into this space. But the disruptive potential of digital assets and tokenization means that some will.

[14] See "Tokenization: A digital-asset déjà vu," McKinsey Global Institute, August 15, 2023.

Shift 5: Long-term trends in certain sectors and products

The fifth big shift that CIB organizations will need to adapt to stems from trends in certain sectors and products. Here, we highlight three sector- and product-specific trends.

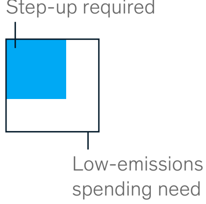
Transition finance

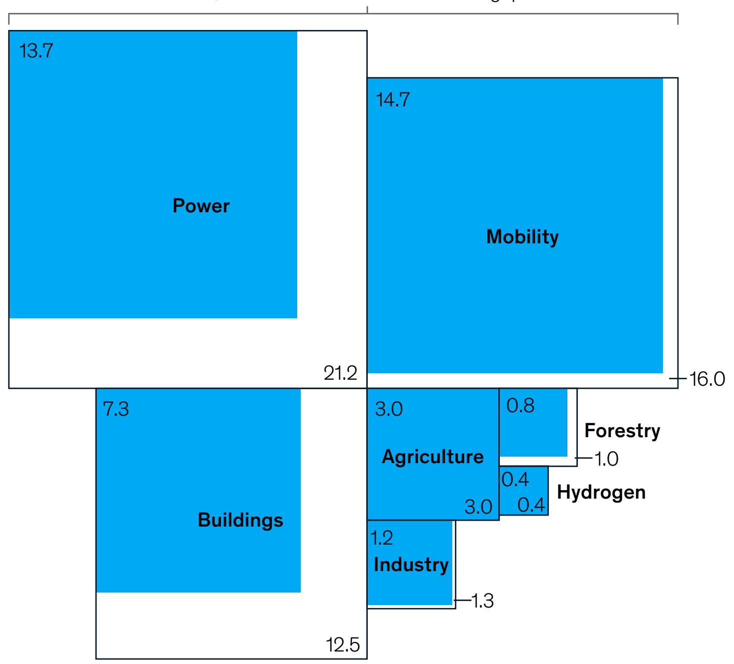
MGI has estimated that a total of $55 trillion will be needed to lower emissions enough by 2030 to get on a 2050 net-zero pathway in seven major energy- and land-use sectors: power, mobility, buildings, agriculture, industry, forestry, and hydrogen (Exhibit 10). For example, corporations will need to invest in power generation and heavy-duty electric vehicles, households in passenger electric vehicles and residential heat pumps, and governments in power transmission and distribution and afforestation.[15]

Exhibit 10

The net-zero investment needed in this decade varies across seven major energy and land-use sectors.

Global low-emissions spending need and net-zero investment gap,[1] 2021–30, $ trillion





Note: This is not a projection or prediction but rather a scenario analyzing how specific sustainability goals could be financed. Our starting point is the Network for Greening the Financial System (NGFS) Net Zero 2050 scenario using REMIND-MAgPIE (phase 2), modified for a higher-growth scenario. Our estimates exclude high-emissions spending.
[1]Includes investment in assets with low-emissions footprints (not all are necessarily carbon neutral) and in enabling infrastructure. Hydrogen includes low-emissions hydrogen production using biomass or electricity as well as carbon capture and storage (CCS)–equipped production from fossil fuels. Forestry includes afforestation and avoided deforestation. Industry includes biofuel production, steel production with electric furnaces using scrap or hydrogen-fueled direct reduced iron, CCS-equipped steel production, and cement production using CCS-equipped or biomass-fueled kilns. Agriculture includes low-emissions production methods for crops and dairy and for livestock management (including the use of biofertilizers, anaerobic digesters, nitrogen inhibitors, and feed additives). Buildings includes heating equipment for buildings that run on electricity or biomass, district heating exchangers and connections, cooking technology that does not rely on fossil fuels, and building insulation. Mobility includes zero-emissions cars, buses, and commercial vehicles, as well as enabling infrastructure. Power includes electricity generation using wind, solar, hydro, nuclear, and geothermal power; generation relying on biomass and gas with CCS; electricity transmission and distribution; storage infrastructure; and heat production from low-emissions sources, such as biomass.
Source: Climate Policy Initiative; Damodaran data; FAOSTAT; International Energy Agency; McKinsey proprietary models; NGFS; Oxford Economics; World Bank; McKinsey analysis

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[15] See “From poverty to empowerment,” September 18, 2023.

The asset management firms that CIB organizations serve have allocated substantial capital to meet these investment needs. ESG-related AUM have grown by 22 percent per annum since 2016, and the number of investments made by private equity and venture capital firms in the climate sector rose threefold between 2017 and 2022.[16]

ESG-related AUM growth in US and UK markets has cooled somewhat in 2023 in response to higher interest rates and inflation affecting the renewable-energy sector as well as concerns about energy security sparked by the conflicts in Ukraine and the Middle East. Notwithstanding, ESG funds have continued to grow globally, albeit at a slower pace than the peak year of 2021, and attention has now turned to ensuring that sustainability credentials of ESG funds are clearly defined to avoid greenwashing.

The substantial underlying financing needs of corporations and sovereigns, as well as the growth of large pools of capital earmarked to be deployed, create opportunities for CIB organizations to provide a range of relevant services. These include investment and financing advice, lending, project finance, voluntary carbon trading, analytics for client screening and rating, and green deposits.

The response: Step up efforts to offer a full suite of banking products
As CIB organizations have become more sophisticated, their focus has shifted. Their initial focus was on risk and compliance—a reactive approach that sought to comply with relevant regulations such as PRA SS3-19 in the United Kingdom and the European Central Bank's climate guidelines. They then turned to their current focus: building a net-zero transition pathway for their own portfolios, sector by sector. In the process, they are de-risking their loan portfolios and, in some cases, scaling back from carbon-intensive industries.

Some CIB organizations are now shifting focus toward the broader commercial opportunity linked to financing firms and public sector entities building the next wave of green businesses. To do so, however, they will need a clear understanding of the opportunities that lie at the intersection of technology, sector, region, and product level.

They will also need to understand the potential challenges—the technology risk and the J-curve financial profiles, for example—as well as the location of capability and knowledge gaps within the front office and risk management.

Organizations could undertake a full assessment to create a granular view of the opportunity matrix and set concrete, achievable targets. From there, they could conduct bottom-up planning to construct client-level plans that clearly identify the necessary set of products and define the setups for client coverage teams to mobilize. Finally, they could launch a full-scale effort to capture the client-specific opportunities identified and drive value to the bottom line.

Other sectors with massive financial needs
There are other sectors facing enormous financial needs. For example, infrastructure will need $600 billion in investments over five years in developing countries, energy and energy security will require $2.5 trillion in investments annually across the globe, and unfunded pension liabilities need $8.0 trillion for state-funded pension plans in the United States alone.[17] Rapidly growing, capital-hungry sectors such as life sciences, healthcare, and technology also have a significant need for funding.

[16] Morningstar, Pitchbook.
[17] G7 June 2022 for infrastructure; *World Energy Report Investment Report 2022*; American Legislative Council.

The response: Make selective bets

CIB organizations could consider focusing on select areas where they can build the right product capabilities and serve clients end to end. Within infrastructure, for example, this might mean setting up project and infrastructure financing teams, providing long-dated hedging, scaling coverage of infrastructure funds, or even creating infrastructure equity and debt vehicles of their own.

Cash management

CIB organizations have become keenly aware of the substantial value embedded within cash management businesses. With a global revenue pool of $1 trillion, cash management provides sticky, fee-based revenues; a source of operational deposits, which are particularly valuable in the current environment; and a capital-light, high-ROE business. Most CIB organizations have substantial loan books, giving them a natural "right to play" with their borrowing clients. The business benefits from rising rates (which increase the value of deposits, especially operational deposits) and from emerging technologies in wholesale payments that enable better, more seamless customer journeys. On a stand-alone basis, cash management businesses are like retail payments and other platform businesses, and these businesses might command 20x multiples or more if they were owned by nonbanks.

The response: Reimagine the existing cash management offer or launch attackers to unlock the potential value

Many banks are already making moves to unlock the potential value. Some are building version 2.0 of their current offerings, infused with the latest technological capabilities. Others are acquiring or launching stand-alone attackers separate from their existing businesses. Many third-party technology vendors and fintech companies are increasing the speed and reducing the cost at which new digital capabilities can be built.

CIB organizations keen to build the business further should bear in mind the three elements at the core of a distinctive offering. The first is a customer experience that offers a B2B client the best of B2C. Clients should find opening an account, reconciling inbound payments with invoices, or paying a supplier as easy as paying a friend on a retail payment app. Achieving this level of client experience will be a real differentiator for CIB organizations.

The second is product innovation. CIB organizations can explore a range of product options, such as end-to-end integrated working capital and expense management solutions, advanced domestic payment capabilities (for example, intelligent reconciliation and solutions for access to earned wages), integrated cross-border payments, trade finance, and foreign exchange offerings that help treasurers manage international business. Additionally, they can consider embedding into B2B and B2C ecosystems where their clients increasingly transact, as well as offering a range of sustainability linked products.

The third is a powerful commercial engine. This would include best-in-class sales and operational capabilities—a client-centric sales model, appropriate coverage, performance management around cross-selling, the right client analytics, and advanced capabilities in next-product-to-buy recommendations.

The current macroeconomic context increases the urgency of this agenda. Increased revenues and profitability driven by today's high rates will diminish over time as clients seek higher rates on their deposits, among other factors. CIB organizations thus have an imperative to find new sources of revenue to drive sustainable growth.

The way forward

CIB organizations will need new playbooks to successfully navigate the major shifts outlined in this report. While these playbooks will inherently vary from one CIB organization to the next, every organization must ensure it secures the near term, builds foundational capabilities in the medium term, and makes selective, decisive bets for the longer term.

CIB organizations will need new playbooks to successfully navigate the major shifts outlined in this report.

Secure the near term

For some CIB organizations, securing the near term in a rapidly evolving environment will be the highest priority. In doing so, some may consider the following actions:

— *Conduct a granular scan of the balance sheet* to identify assets likely to be challenged. These may include commercial real estate, degrading corporate credit, and assets exposed to sectors facing considerable challenges. The objective of the asset-by-asset assessment is to guide decisions about which exposures to maintain or grow, which to monitor carefully, and which to reduce or even exit.

— *Develop a robust resilience plan* that leverages near-term deposits, funding, and risk management capabilities to ensure ample access to near-term liquidity from diverse sources. The plan should also incorporate robust frameworks to manage and hedge interest rate and FX risks. For some organizations, ensuring resiliency and near-term liquidity might require setting up a deposit war room and capital and funding management teams.

— *Increase efficiency and improve operating leverage* to lower the break-even point and provide a buffer against near-term volatility in revenue. Reductions in non-compensation costs tend to be the easiest to realize.

— *Take essential proactive steps* to address no-regret liquidity and capital accuracy and optimization levers. This involves ensuring critical metrics are properly measured and using them to achieve the optimal deployment of capital.

— *Address risk and regulatory remediation gaps* to ensure that risk identification, mitigation, and monitoring capabilities are fit for purpose in the evolving risk and regulatory environment.

Build foundational capabilities

Once any near-term issues have been addressed, CIB organizations could continue to build and strengthen critical capabilities that will drive future growth. This includes the following actions:

— *Rev the commercial engine* to drive front office excellence across client bases and franchises, with transparency on client segmentation and targeting, cross-selling, and performance management KPIs. For example, incentive programs that set specific targets for deposits, share of fee-based revenues, and return hurdles on balance sheet extension are critical for reinforcing front office excellence. Initiatives should draw on both traditional commercial excellence strategies employed by the bank for several years and next-generation levers that capitalize on the digital enablement of the front office.

— *Invest in the talent pipeline* to address short-term needs and access pipelines aligned with the types of new talent (such as digital, design, AI, direct lending, and climate financing) that the bank will likely require to support its longer-term ambitions. CIB organizations should also continue to explore the most appropriate ways of working—for example, finding the right balance between in-office and remote—and build strong internal communities based on evolving talent needs.

— *Build a fit-for-purpose technology organization* defined by a clear product and platform strategy that clearly articulates business and client-backed investment themes for the CIB business that are tightly tailored to the specific franchise rather than simply copying the approaches of peers. The product and platform strategy must be supported by a strong governance framework that ensures technology spending is allocated against these business and client priorities and by a delivery model that can execute on budget and on time. Last, CIB organizations require a clear data strategy backed by a comprehensive data architecture and implemented by a strong chief data officer.

Make selective, decisive bets for the long term

Finally, CIB organizations could couple investments in foundational capabilities with two to three decisive bets to drive future growth. These could build on existing pockets of excellence where the organization operates at scale and generates sustainable returns, giving it a natural right to play and win. At the same time, these bets could also address one or more of the five big shifts discussed earlier, going “all in” with tailored client propositions, talent, and technology investments.

For example, a bank that has achieved success in the energy space might decide to increase investments in that area while simultaneously scaling its transition finance to expand the scope of its offering. Meanwhile, a bank with substantial financial sponsor traction might invest in gen AI capabilities supporting its sponsor coverage team, build out a tailored cash management offer for private equity firms, and complement its on-balance sheet lending with off-balance sheet partnerships.

Regardless of the decisions made, each CIB organization will need to support its choices with strong communication that clearly articulates what they are, how they fit within the current franchise, how they benefit from structural tailwinds, and the execution road map to secure value.

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