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Seeing profitability through a banking lens

Using lessons derived from the banking sector, this article examines three promising new business models: upscaling, downscaling and greenfield banking.

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There is little doubt that the financial sector contributes to economic growth. As numerous studies have shown, an increase in financial depth – measured as the ratio of loans to GDP or as loans per capita – is strongly correlated with an increase in GDP per capita. This is only to be expected, given the basic function of financial institutions in a developing economy, which is to transform inputs (deposits) into outputs (loans) and thereby generate greater economic activity.

Although the democratization of financial access, and thus of access to credit, is vital for a country's economic growth, the level of financial depth for some countries considered as "emerging" has not kept pace with their level of economic development. A 2005 World Bank study reveals the extent of this situation. In 10 of the West European nations included in the sample, average loans and deposits per 1,000 inhabitants were 470 and 2,197 respectively, whereas the corresponding figures for 10 Asian countries were 110 and 715 (see Exhibit 1). Even today, the fast-growing Chinese market is dominated by just two state-owned banks, which service much of the population, while in Mexico less than 30 percent of the population even has a bank account.

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