Banking Practice

How to stand out from the crowd

German Retail Banking Snapshot 2025

September 2025

1 It's getting crowded in German retail banking

Germany's retail banking market is experiencing its best years since 2011—but pressure is mounting. As interest rates decline, the margin boost is fading, revealing which banks have been prioritizing short-term profits over sustainable transformation.

And that's not all: competition is intensifying, too. More and more foreign banks are entering the market with sharp propositions and digital business models. Now, it's up to incumbents to demonstrate how they can stand out in this increasingly contested environment and defend their position.

This chapter draws on insights generated through our proprietary McKinsey Panorama[1] asset.

[1] Panorama Global Banking Pools (HYPERLINK: https://www.mckinsey.com/industries/financial-services/how-we-help-clients/panorama/overview) is McKinsey's proprietary asset covering granular banking data across 70+ markets and 100+ products/segments, with 30+ years of historical data and forecasts. It provides market, customer, and competitor insights, enabling cross-country product-level comparisons, customer behavior analyses, and customized bank diagnostics.

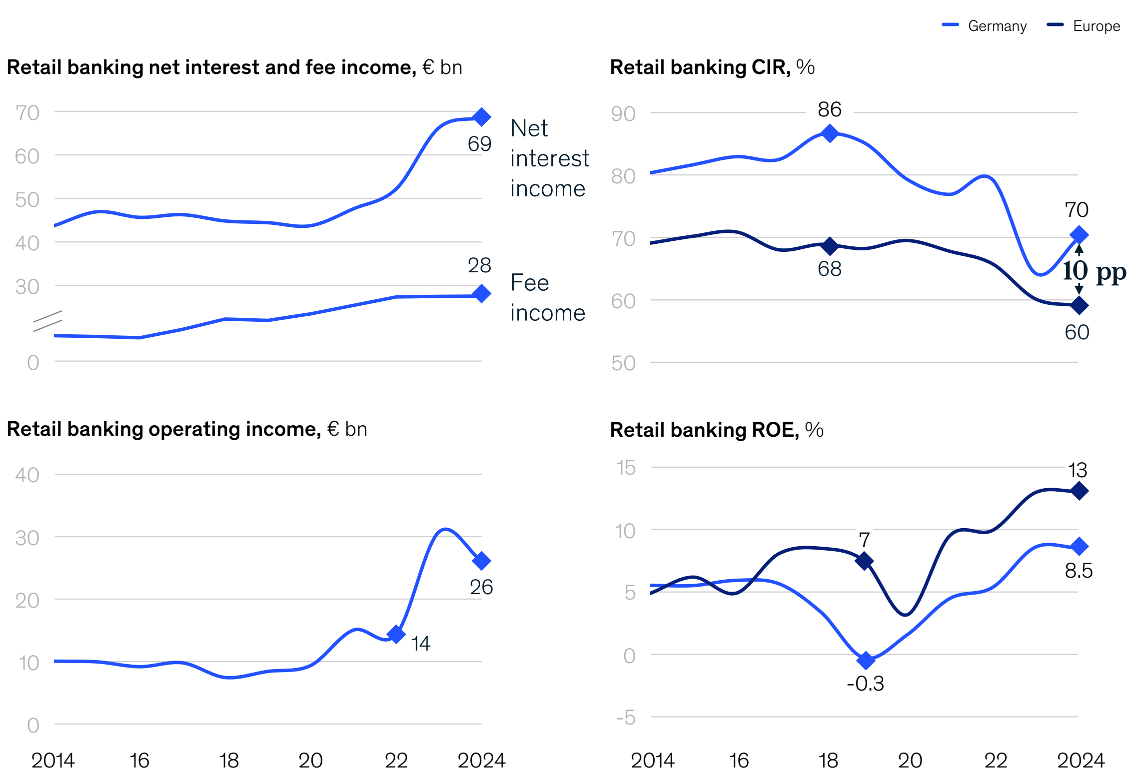
German banks have rested easy on high interest rates

In 2023, German retail banking experienced an historic surge in revenue and profitability. This was driven by elevated interest rates that temporarily boosted net interest margins. While 2024 continued to show strong performance, early indicators point to a slowdown in 2025 as margins begin to compress.

McKinsey Panorama suggests that earlier gains were largely cyclical—and that most banks used the windfall for short-term tactical profit optimization rather than lasting transformation, such as investing in the strategic use of AI to boost efficiency. Thus, following a short recovery of performance indicators in 2023, Germany continues to lag the European average in structural efficiency, with a consistently lower return on equity (ROE) and a cost-to-income ratio (CIR) ten percentage points higher.

As a result, the German retail banking market is under pressure, and banks must now accelerate their transformation, strengthen their value propositions across products, step up innovation, elevate efficiency, and build customer-centric strategies to defend their position.

Exhibit 1.1

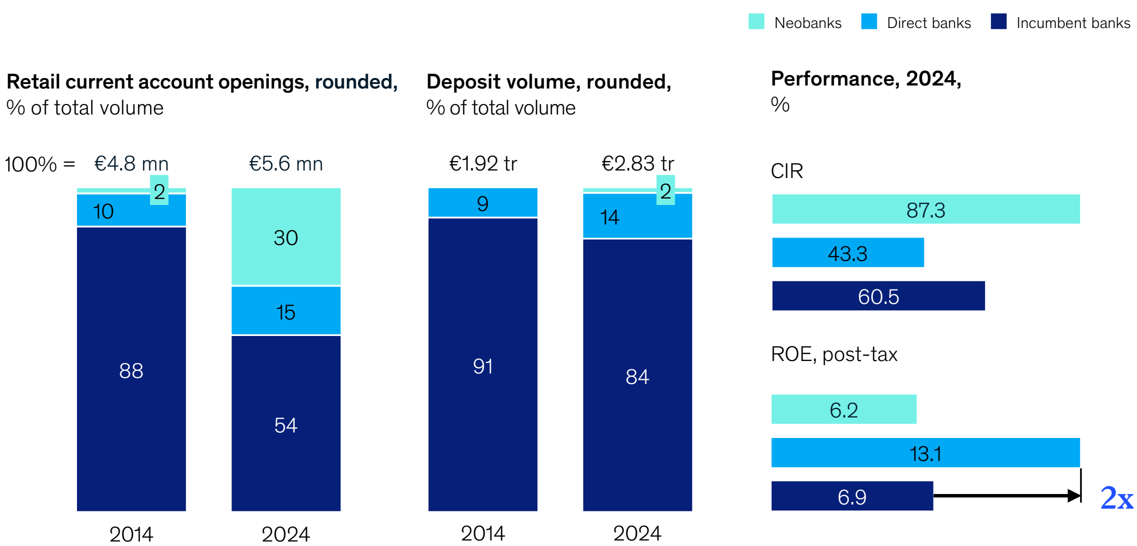


Source: McKinsey Panorama Global Banking Pools

Foreign direct banks are crowding in, setting new standards for German banking

Direct banks—often foreign—are deliberately closing structural gaps in the German market. They are gaining market share with sharp value propositions, proven operational efficiency, and refined digital channels and experiences.

Exhibit 1.2



Source: McKinsey

In previous years, neobanks have been the primary challengers, growing rapidly in customer numbers. However, many have struggled to deepen relationships, attract meaningful deposit volumes, or achieve a level of sustained efficiency. This is reflected in CIRs often exceeding 85%, driven by narrow product portfolios, limited balance sheet business, and continued high investments in growth and brand.

Now, foreign-led direct banks are moving in fast: combining digital-first models with sharp operational efficiency, reflected in CIRs below 45%—far leaner than the incumbent average of over 60%. They also bring strong brands and institutional credibility, enabling them to scale customer bases. Their clear target: younger, profitable customer segments with higher expectations for service, speed, and value.

Currently, incumbent banks still capture over half of new current accounts and 80% of deposits, but loyalty is increasingly at risk. In response to growing foreign competition, German incumbents must act decisively. Going beyond simply holding ground, they will need to compete on new terms before foreign banks set the new standard.

This means rethinking value propositions to better cater to customers; strengthening digital channels as the central interface for sales, advice, and service; and delivering customer experiences that go beyond the pure financial product. The key will be to understand where customer value lies and target high-value segments with the best value proposition fit to ultimately translate existing trust into loyalty and sustainable growth.

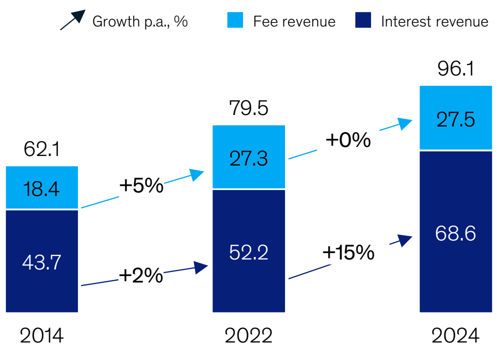
45%

market share for non-incumbent banks in current account openings

Investing is easier than ever, but Germans stay true to their love for savings

Exhibit 1.3

Retail banking revenue, 2014–24, € bn

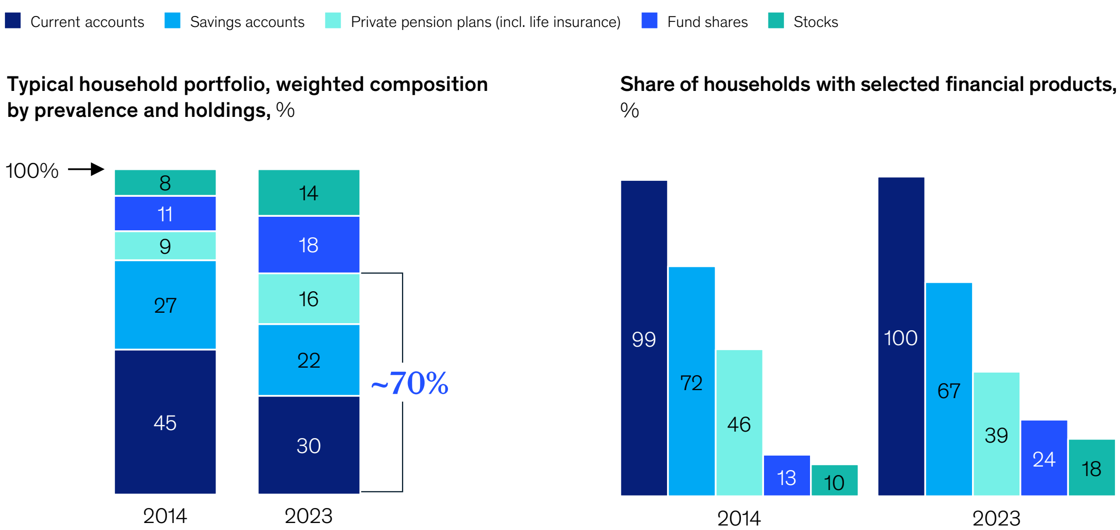


Source: McKinsey Panorama Global Banking Pools

In the wake of the 2022 rate hike, German banks clearly enjoyed a boost in interest income, while fee income stayed flat. But with the signs of declining rates, fee income is returning to the spotlight as a stable and scalable path to profitability.

The path, however, won't be easy. Even though investing is more accessible than ever, the real obstacle runs deeper: Germany's deeply rooted savings culture. Nearly 70% of portfolios still consist of low-risk, low-return financial assets such as current accounts, savings accounts, and private pensions. Although capital market participation has gradually increased, ownership of equities and funds remains limited (e.g., in 2023, 24% and 18% of households owned fund shares and stocks, respectively).

Exhibit 1.4



Source: Bundesbank PHF Studie 2025

Growth in investment volumes is primarily driven by deepening engagement with existing investors, not by broader adoption, revealing widespread hesitation to shift away from low-risk, low-return vehicles. Banks aiming to grow their fee income need to guide customers from saving toward wealth building. Success will come to those who promote financial literacy, expand hybrid advisory models, and integrate smart nudges into everyday life. Deposits offer the ideal starting point to strengthen cross-selling, bundle products meaningfully, and build long-term customer relationships, thereby nudging German households from static savings toward active investments.

Mortgage comeback: German banks are well-adapted to platform-based distribution

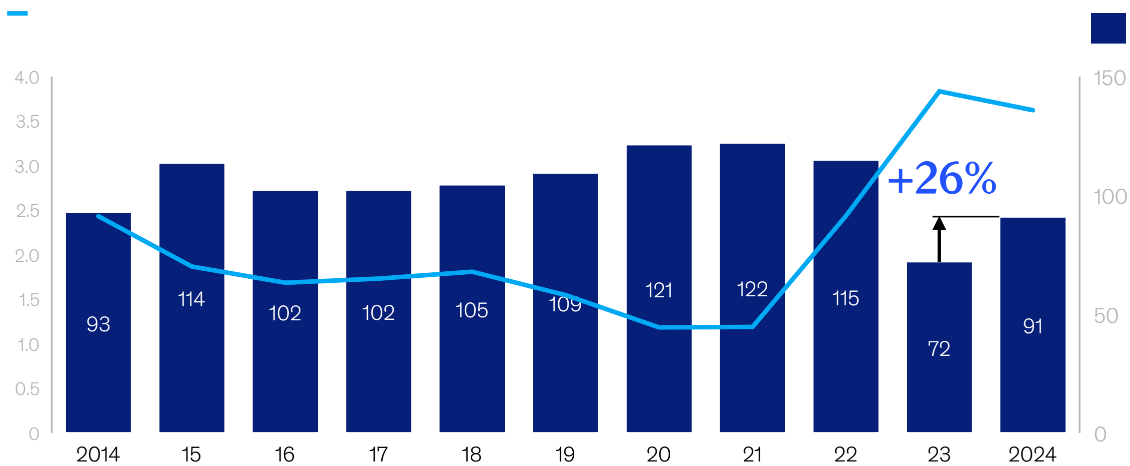
As interest rates normalize, Germany's residential mortgage market is gradually recovering, with a 26% growth projected in 2024. However, structural factors such as stricter credit and capital requirements are constraining a full return to pre-COVID-19 levels. At the same time, the nature of demand and distribution is shifting—with critical implications for banks.

Amid rising property prices, borrowers are increasingly gravitating toward existing properties and rental housing. This shift heightens the importance of swift credit processes, as buyers face intense time pressures in competitive markets. Additionally, it underscores the need for expertise in income-based valuation approaches (e.g., partners with HypZert (F) or RICS accreditation).

Exhibit 1.5

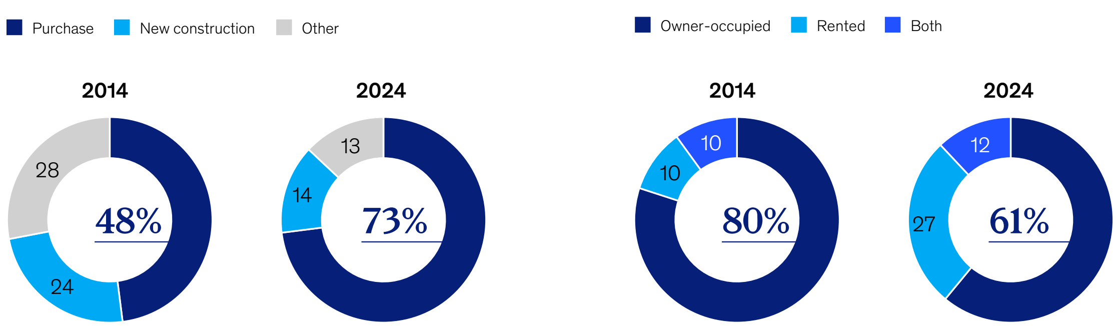
Average interest rate, 2014–24, %

Total issuance of new residential mortgages, € bn



Purpose of mortgage,
% of mortgage volume

Use of property,
% of mortgage volume

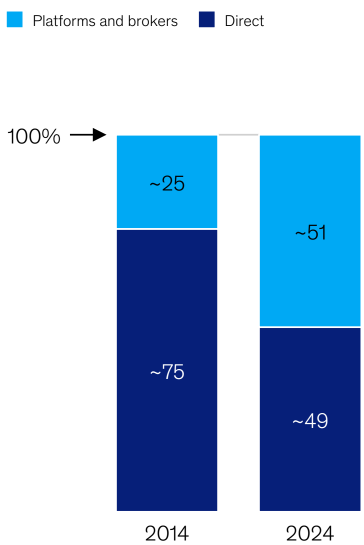


Source: Bundesbank; Europace

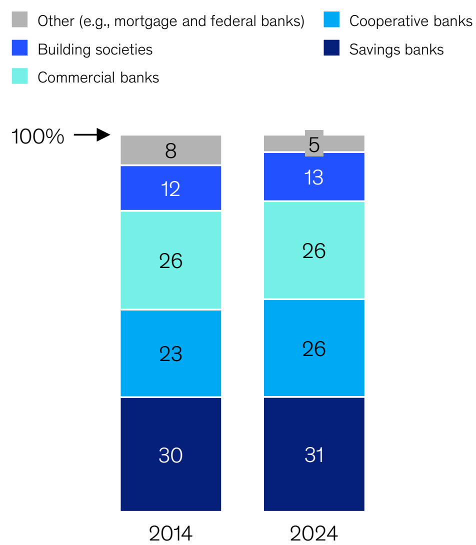
Meanwhile, distribution is shifting. Brokers' and platforms' shares have jumped from 25% to over 50% since 2014, owing to customer demand for price transparency. However, the impact on market shares in mortgages has been limited. Overall, most German banks have successfully adapted to the new distribution model and established reliable customer access through digital platforms. Notably, cooperative banks have slightly outpaced the market, gaining a three percentage point market share under the new distribution model.

Exhibit 1.6

Mortgage closing volumes, %



Stock volume in mortgages by German lenders, %



Source: Deutsche Bundesbank; annual reports

~51%

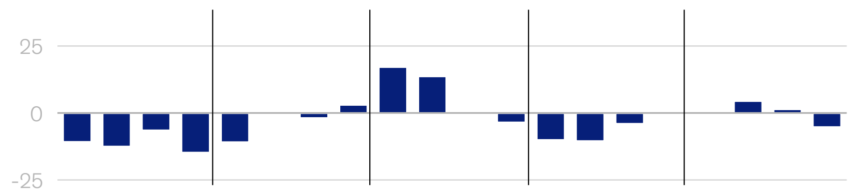
of mortgages are distributed
via platforms or brokers

Consumer credit is trapped between risk fundamentals and sentiment

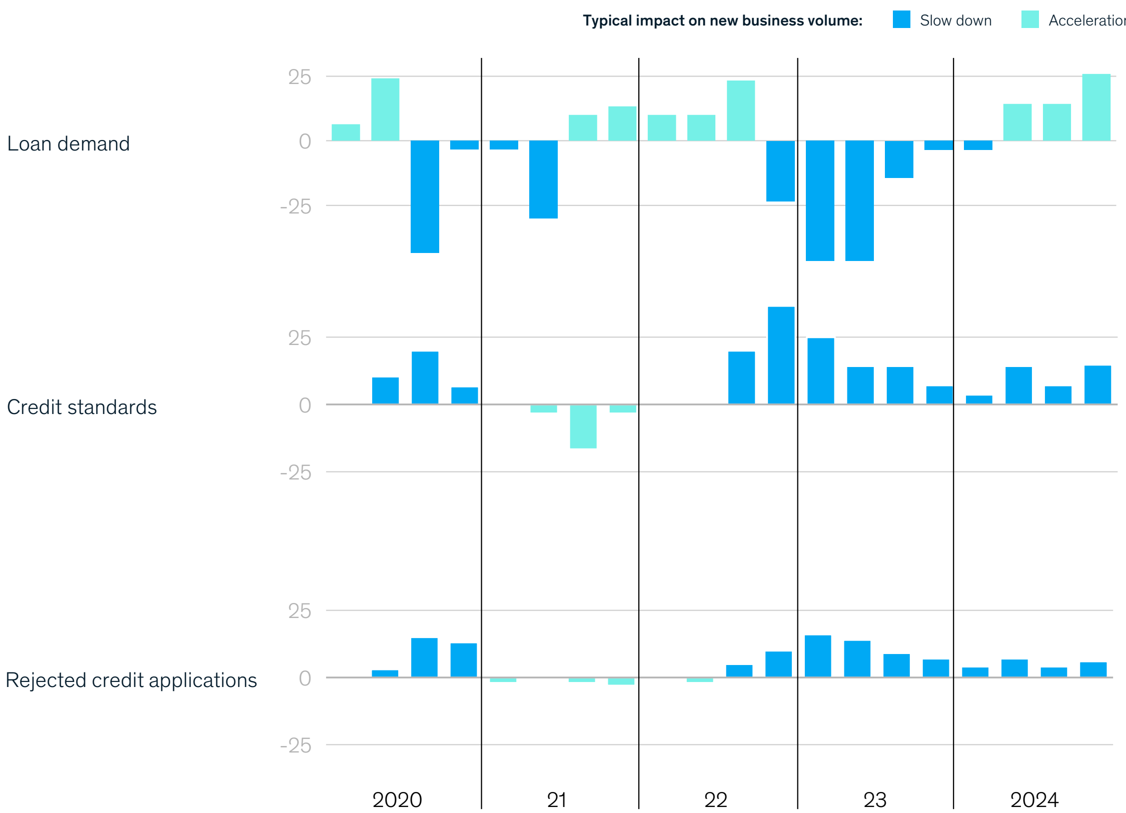
Demand for consumer credit picked up in 2024, as illustrated in the ECB Lending Survey. But unlike in previous cycles, it's not translating into lending growth, as banks have tightened credit standards and increased rejection rates for ten consecutive quarters, citing economic uncertainty and borrower risk.

Exhibit 1.7

Business volume of consumer credit, net % change per quarter compared to the same quarter in previous year



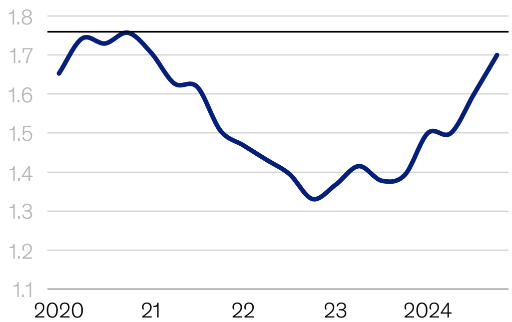
Consumer credit and other lending to households, net % change per quarter



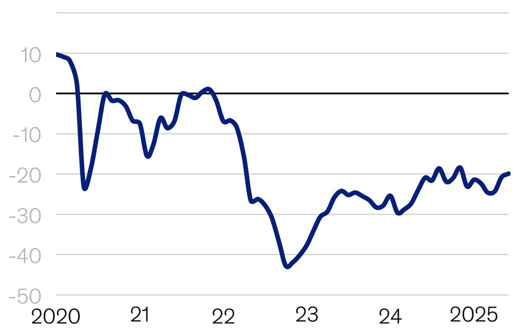
Source: Euro area bank lending survey; Bundesbank IMF Finanzstatistik

Exhibit 1.8

Ratio of NPLs,[1] %



GfK Consumer Climate Index,[2] 2015 = 0



1. Including credit cards; seasonal and calendar adjusted.
2. The GfK Consumer Climate Index reflects the average responses to questions on income expectations, willingness to buy, and willingness to save.

Source: EBA transparency exercise; GfK

However, market indicators paint an ambivalent picture and suggest that banks' risk perception is driven by both fundamentals and sentiment. While the ratio on non-performing loans (NPLs) has risen, credit quality remains above 2020 levels, and the improving consumer climate index points toward positive income expectations and economic confidence.

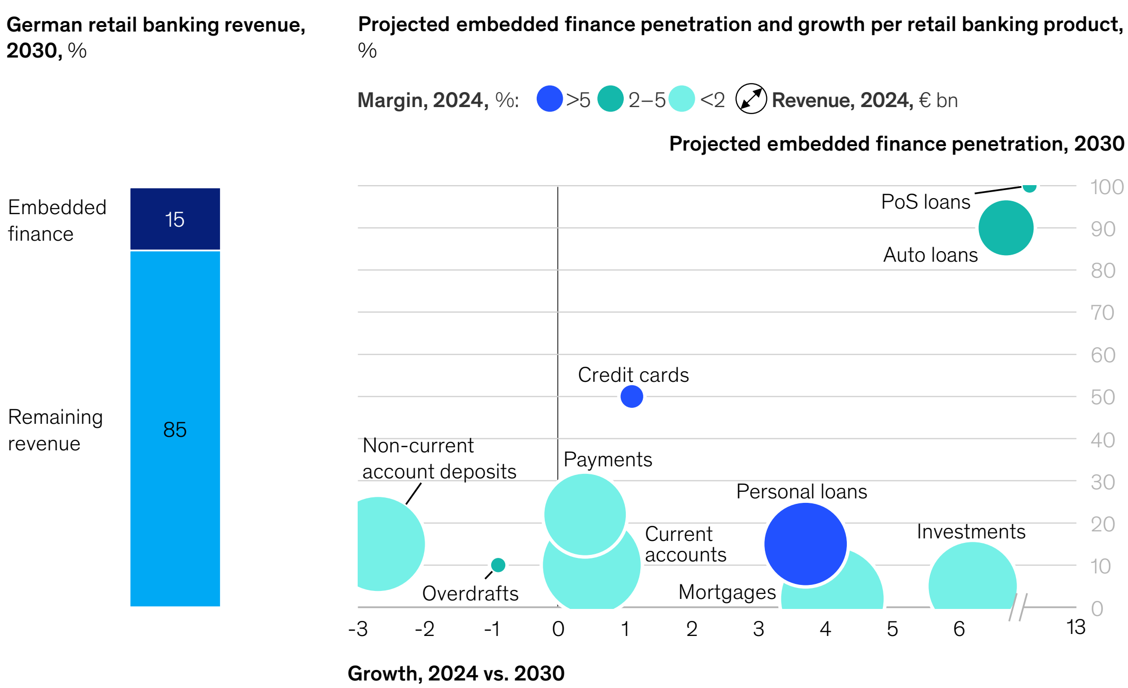
The complexity of today's risk signals creates an opportunity for a more targeted lending approach, where the focus should be on precise, segment-specific strategies based on individualized credit decisions. Advanced analytics and generative AI (gen AI) can help assess borrower profiles faster and more granularly to unlock untapped potential. Banks that act early and evolve their approach can capture unmet demand, strengthen their consumer lending business, and secure long-term growth in a structurally attractive market segment.

Revenues of the most profitable retail banking products are slipping beyond banking

Embedded finance is redefining where and how value is created in financial services, and banking is no longer confined to traditional institutions. By 2030, up to 15% of German retail banking revenues—equivalent to €15 billion—are expected to shift toward embedded contexts, where credit or installment options are seamlessly integrated into the purchase process.

High-margin and high-growth products are particularly affected, with Point-of-Sale (PoS) and auto loans projected to move almost entirely outside the traditional banking channel. These offerings thrive when embedded directly at the point of need, such as in checkout or purchase flows, where convenience, speed, and digital access matter most.

Exhibit 1.9



Source: McKinsey Panorama Global Banking Pools; McKinsey Embedded Finance Sizing Asset

This trend is accelerating, and early movers like international platforms and fintechs are already capturing a significant share by seamlessly embedding financial services into existing customer journeys. To keep pace, banks must define a clear role in the embedded ecosystem, whether that's building their own solutions, partnering with platforms, or providing embedded infrastructure. Success will hinge on the right enablers, namely API-ready technology, scalable monetization models, and robust governance.

Authors and media contact

Authors

Max Flötotto is a senior partner in the Munich office, **Ursula Weigl** is a partner in the Munich office, **Lena Crüger** is an engagement manager in the Hamburg office, and **Carolin Sperling** is a fellow senior associate in the Munich office.

Research team and proprietary assets

The authors would like to thank Alexandra Gatermann (Capabilities & Insights Team Specialist, Frankfurt), Belian Kiss-Borlase (Sr. Research Science Analyst, PFIC Panorama, Budapest), Birgit Teschke (Capabilities & Insights Expert, Frankfurt), Ciro Knoll (Analyst Finalta by McKinsey, Frankfurt), Daniel Pietzker (Associate Director Finalta by McKinsey, Frankfurt), Jan Walden (Capabilities & Insights Senior Analyst, Frankfurt), Jay Datesh (Capabilities & Insights Expert, Budapest), Rolf Hensgens (Senior Knowledge Analyst, Düsseldorf), Stanislaw Slubowski (Capabilities & Insights Expert, Budapest), Tanuj Sachdeva (Manager of Research Science, PFIC Panorama, London), and Wilram Schmidt (BA Graduate, Frankfurt) for their research contributions.

Media contact

Matthias Fechter (Matthias_Fechter@mckinsey.com)

September 2025

Designed by Visual Media Europe

www.mckinsey.com