

Challenges for Indian Investment Banking



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In today's fast paced economy, Investment banks have to keep pace with the continuously changing environment and cater to the needs of their clients with services that match international standards. Added to this, accelerating changes in the capital market space for equities, fixed-income securities, derivatives, fund raising through debt/syndication and

international offerings are altering the dynamics and shaping the strategies of investment banks. Last decade has witnessed a tremendous boom in the investment banking activities in India with more and more global players and new domestic players setting up shops. Virtually every big player is here now and there are more coming in. There is still scope for a mix of universal players, monolines, niche players and boutiques.

In this complex environment, characterised by the phenomenon of capital market continuously reinventing itself and increasing competition from global players, investment banks need to address some of the following critical areas to continue to offer differentiated services to their clients.

One stop service provider

Similar to the development in the retail-banking field, Investment Banking companies need to adapt to a one-stop service provider model that their customers need and want. To be able to meet these new requirements, Investment Banks need to be able to rapidly create new financial products, launch targeted marketing campaigns to sell those products as well as cross-sell existing products to their customers. The market today necessitates shorter innovation cycles for rolling out newer and customised products tailored to meet the risk and investment profile of its clients. Institutions that have global platforms have the added advantage of being able to role out products that have succeeded in other countries.

Size is definitely relevant for investment banks to edge out their competitors and offer the entire range of services to clients. The challenge for the existing investment banks is to be able to create new opportunities and newer markets through a combination of services. They need to nurture product development and grow marketing efforts to remain relevant to their clients.

An intensely competitive industry

Globalisation has made both Public and Private corporations eye the capital markets for financing their growth. The list of companies wanting to tap the capital market is increasing and the investor appetite for such issues is also gathering momentum. In such a scenario the role of investment banks is important and it becomes their responsibility to bring credible issues to the market.

In this age of Financial euphoria, Investment Banks need to manage the expectations not only of the FIIs / QIBs but also of the retail investors thereby they have to ensure that due diligence and valuation processes are upto the mark. Even after maintaining strict standards during the valuation exercise, special efforts are needed in marketing to fetch the best price for its clients. Hence, the investment banker has to master the balancing act of adhering to the best standards in due diligence and disclosure, providing correct valuation to the retail investors and fetching the best prices for his clients. Trust and confidence are of prime importance for the healthy growth of not only capital markets but also of an Investment Bank.

Customer service as the key differentiation

Managing customer expectations is critical to the success of any Investment Bank and for this the customers need to be advised about the appropriate product at the right time which will fit their requirements. It has been rightly said, "Customer is the King", and for Investment Banking sector it is quite apt as Relationship Management is the cornerstone for its business growth and will remain a critical aspect. In today's scenario, Investment Banker is not merely executing a deal but he is also an advisor, looking at the long-term benefits to the client and establishing an enduring relationship.

With the general investment outlook improving for India, the interest of Foreign Institutional Investors is growing. Investment banks need to work with FIIs having a long-term focus, to facilitate the investments needed for the economic growth of India. They would need to strengthen their placement capabilities on the platform of robust research capabilities to offer better services for their clients.

In this era of intense competition, the quality of service being offered, both in terms of customisation to the client's requirement as well as the ease of access to the service for the client can be the difference between the winners and the 'also-rans'.

Maintaining the Trust factor

Successful investment banks must provide sound strategic advice to their clients. For trust and confidence to be maintained, every deal, transaction, and service must be efficient and compliant with market and

government regulations.

Investment banks that also run Investment Management and Stock Broking business should maintain “firewalls” to ensure that the price sensitive information does not reach these parts of the business. Strict compliance with ethical and regulatory codes of conduct to avoid conflicts of interest is a must for the industry to gain and retain credibility.

Regulatory Compliance

Corporate Governance and the need for transparent, accurate information are the imperatives of the current economic scenario. With the increase in cross border transactions, tougher laws are anticipated to inculcate financial discipline. This is an area where an Investment Bank needs to step in with its impeccable integrity and high standards. This will help to boost the confidence of the Indian Investor as well as of the global players, in the Indian Financial System. This will also help the clients to focus on their core competency i.e. operations leaving the Investment Banker to take care of all the legal requirements.

Apart from the stated compliance requirements, investment banks can differentiate themselves by offering more transparent and risk compliant procedures to provide comfort to their clients and set new benchmarks.

Integration with Global Financial Markets

When a customer is looking for financial advice, he wants to know the most advantageous option of raising money through the capital markets in India or abroad. This is where the Indian Investment Bank needs to have its expertise on the global scale to maximise client returns and present him with viable options of raising money.

Currently, India makes an attractive investment option and to cash in on this emerging trend, investment bankers have to be well integrated with the global financial markets. Major areas of focus will be investment in intellectual capital, placement and marketing capabilities, size and scope of services and relationship management.

Nurturing Human Resources

Like any other knowledge driven industry, Investment banking is driven by human capital, the most valuable asset. It is a continuous endeavour of all investment banks to constantly enrich their pool of talent. With India being increasingly important to global players and the emergence of attractive career options, Investment banks would need to continue to position themselves as providers of rewarding career opportunities to prospective employees.

Attracting and retaining the best talent and providing the right training and development to stay relevant are going to be crucial for investment banks. Conducive work environment and effective performance management systems to identify and reward performers is increasingly becoming relevant for Investment banks to keep attrition at minimum.

Use of Technology to Drive Cost Competitiveness

Cutting edge technology is crucial to succeed in the Investment Banking space. As average commissions fall, transaction volumes rise, and new regulations emerge, firms must improve efficiency in new ways. Creative products, innovative offerings, fail-safe execution, always-on support, and adaptable and scalable technology are essential to avoid being gobbled up by the competition. Systematic, automated record-keeping and increased financial visibility and control both help companies comply with requirements and improve operations.

As markets move towards T+1 settlement systems, cash and liquidity management will play an important role. Technology underpins the straight through processing initiative and will be the route to automation efficiency and a reduced cost per transaction for investment banks.

Reporting is one area in which a brokerage firm can stand out. With the complexity of trading and the array of technology systems in place, delivering even basic information is a significant challenge. While the data does exist somewhere, the need to access and integrate that data, then deliver it to reporting applications in near-real time, is an incredibly complex and difficult challenge. This is where innovative and technology based solutions can make a vast difference.

Developing knowledge management systems to effectively capture the knowledge within the organisation, retain and leverage it to its advantage in better servicing its clients would also be essential.

As agents of change

The capital market is one of the most vibrant sectors in the financial system, making an important contribution to economic development. For a country of India's size, the participation of retail investors in equity market seems disproportionately low. Investment banks have very important role to play in continuously improving the quality of issues that come into the market so that confidence levels of retail investors also improve.

In addition to acting as agents of the clients and being responsible for the transactions they handle, Investment banks do have a broader role with the responsibility for development of the markets as a whole. It is the synergy between these operations that contribute to the key role investment banks play in capital markets and their consequent role in generating economic growth.

Conclusion

In such a fast changing environment, investment bankers have a very important role, for they have to play the balancing act between achieving optimum benefit to the client, maintaining their credibility, taking care of the investor's interests; and be relevant to their stakeholders. The ability of the investment banks to understand and map the present and future needs of their clients and meet them consistently is one of the biggest challenges.