Investment Banking - Evolving ....

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Investment bankers are financial advisors to promoters and/or corporates, including government enterprises and are specialised in managing complex financial transactions and advising on capital raising strategies. They are important constituents of capital / debt / M&A markets in India and globally. They are a vital link between capital seekers and capital providers. For an emerging economy like India, investment banking provides access to the much-needed capital for infrastructure development, financing new projects, growing and building businesses, funding social enterprises and so on. They help industries raise money from various sources such as banks, institutions and public. Investment bankers have a central role in public offerings by companies. Their skills include identifying "ready-to-list" companies, introduce them to capital markets, help them navigate thru the regulatory process, help identify investors, help determine a price for the stock and achieve closure. Having a prominent investment bank to underwrite IPOs is one way to gain the confidence of public investors. However, that's just one example of their work. They also provide financial and strategic advice on acquisition of another company or sale of the company itself or arrange fund-raise in unlisted companies etc.

Investment banking has changed over the years, from underwriting IPOs, brokerage, M&A to a wider range of services including catering to private equity, international listings, REIT / INVIT, structured financing, research and proprietary trading. Investment banking requires a range of skills, extensive client networking, industry knowledge and reach to strategic and financial investors, locally and globally. All these resources and operations have to work together to create maximum value to customers. Investment bankers act as partners, by contributing to their client's strategic planning and growth during and after transactions.

Reengineering is most commonly defined as the redesign of business processes and organizational structures to achieve improvement in business performance. It was and is being abundantly tested during COVID-19 times. The investment banking industry had to go fully virtual and execute an untested working model in a matter of weeks. Most of the investment banking operations was executed smoothly. Clients were served virtually, employees were productive, and compliance policies fully implemented. It was a successful deployment of technology. The pandemic has forced companies to opt for virtual IPOs. Traditionally, the road-show was dependent on face-to-face interactions among the management and prospective investors in different geographies which was time and cost intensive. Automation of this process has now decreased the time significantly and resulted in huge cost savings. The tech enabled brokerages adopted new digital and smart technologies for accepting bids, uploading bids, processing mobile payments, monitoring and tracking response.

Lockdowns accelerated the demand for remote connections and transactions. Going forward this will become the norm and in fact further extend to legal diligence and report generation. Even before COVID-19, modern technology was being used to enhance data dissemination and decision-making processes. It just got enhanced by partnering with companies that could increase knowledge capacity, skills and decision-making.

The broader capital markets, and Investment banking as its subset, faces significant challenges such as evolving regulations, client sophistication, product specialisation, remote working arrangements, and rapid technology change. These are going to result in retooling its business models and operations. Investment banks will recalibrate to develop digital technologies to attract new and maintain existing client relationships and avoid disintermediation. It will explore integration with emerging technologies such as AI, blockchain, and advanced data analytics. Eventually workforce and workplace practices will shift from traditional office to a flexible workspace supported by technology innovations. Adopting technology will promote safer work environments and improve productivity without affecting customer satisfaction. It will also eliminate unwanted processes and intermediaries.

Investment banking is a relationship driven business. The clients trust their investment bankers with trade secrets, financial disclosures, strategic plans etc. This is further enhanced by the skills provided by such investment banks to its clients such as financial modelling, business valuation, risk management, relationship with investors etc. All of these act as a great barrier to emerging competition. Data is a highly prized commodity in this business. But bigger is not always better for customers. Size and complacency can be an impediment to innovation, as large investment banks could lack the ability to act as quickly or nimbly as smaller start-ups backed by technology. There is a need to develop tools to tap size and data to its full potential. The firm's CRM must provide an all-round view of client data, shifting client needs and regulatory developments. This will enhance the firm's ability to effectively and efficiently service clients.

Investment banks will also move towards redesigning of jobs to ensure their people have an understanding of new technologies, regulations, risks, and emerging changes. Investment banks will start hiring tech professionals, upgrade existing skill levels and augment their understanding of technologies. The goal in the foreseeable future would be to integrate market data, transaction data, company data etc. to enhance decision making, product delivery, and consummate deals. This expertise and bandwidth can be from internal resources or outsourced to big data and CRM specialization outfits.

As long as considerable barriers to market entry remain in place (capital requirements, regulatory scrutiny, risk management, and long-standing client relationships), investment banks are unlikely to have its market share challenged by digital disruptors or other non-industry competitors. In this new environment, the investment bank's ability to create and harness differential insights from data becomes its new competitive advantage. Investment banks are more likely to invest time and money on artificial intelligence with majority of these efforts focused on cost reductions, customer service and enhanced market share. Cost savings from these innovations can be used effectively for other operations.

Investment banking relies on cross-selling. If a client comes in looking for M&A advisory, investment banks are often able to convince them to avail services such as issue management, broking services, and so on. Investment banks generate value for clients while doing these activities. Going forward in order to optimise cost, some clients may prefer to avail services from specialists instead of buying all the services from an investment bank for a bundled price. Investment banking will continue to have barriers to entry such as high capital requirements, costly regulatory burdens, people skills and long-term relationships with clients. Those keen on capitalising on the future will consider giving up costly infrastructure and move towards remote working and partnering with service providers for critical and non-critical functions. Data management, data mining and workflow management will become the new competitive advantages. In the coming decade there will be further changes to client expectations, new technologies, new business models, new products and geographies for which Investment Banks will have to devise strategies. Professionals must stay on top of all the current trends of technology within investment banking. Investment banks will focus on what they are good at and compete in those areas where they can lead. The coming times will bring upon a revolution in investment banking business in the face of changing customer preferences, evolving technology and new market models.