Repositioning Investment
Banks: Driving Growth
Post COVID-19

Banking, Financial Services and Insurance
PURPOSE-DRIVEN, RESILIENT, ADAPTABLE
BUSINESS 4.0™;
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Abstract

Every industry is striving to overcome the COVID-19 crisis, and investment banking is no exception. However, investment banks have unique complexities as stakeholders are spread across industry verticals and multiple geographies. Before the pandemic hit, most investment banks were well set on their growth journey. But the COVID-19 crisis has necessitated a review of their strategies. Adapting and infusing resilience into business models to withstand shocks in the immediate aftermath of the crisis and driving value-leadership and growth in the post COVID-19 phase have emerged as priorities for investment banks. While the path to economic recovery remains debatable, investment banks must actively acquire the requisite capabilities to service anxious clients as well as cope with market driven responses from infrastructure providers, regulators, and governments. This white paper analyzes the impact of COVID-19 on investment banks and suggests measures that firms can take to contain the impact and drive transformational growth in the post pandemic phase.
Mixed Impact for Investment Banks

Volatile markets are contributing to increased trade volumes thus positively impacting revenues; however, challenges in conducting in-person engagements are adversely affecting merger and acquisition (M&A) due diligence processes as well as prospecting and onboarding clients in turn impacting turnaround time and revenue prospects. Furthermore, given that most of the workforce is working remotely, investment banks are facing challenges in effectively monitoring trading, processing key performance indicators (KPIs), and managing trade exceptions. Workplace disruptions are also impacting functions such as periodic review of anti-money laundering (AML) and know your customer (KYC) compliance. Remote workplace situations demand more vigilant processes and tools for trade and employee surveillance. Post the crisis, we expect that businesses will actively explore M&A and debt opportunities, which will have a positive impact on investment banks.
Steering through the Crisis: How Investment Banks Must Respond

The quality of firms’ responses to the COVID-19 crisis will determine their future course in the highly competitive investment banking domain.
In our view, investment banks must set up response teams to assess impact and design a strategic response to deal with varied scenarios that are likely to emerge as the pandemic traverses through four different phases.

**During the crisis**

Most markets are in the crisis phase with the pandemic at a peak, and governments imposing stringent restrictions such as lockdowns, social distancing, and travel bans to curb spread. Investment banks must implement measures to bolster their infrastructure to support remote working, ensure employee wellbeing, provide access to new collaboration tools, and adopt operational controls for vigilant change management. Based on a detailed evaluation of enterprise wide impact, investment banks must define and implement an action plan to infuse resilience into business models to adapt to the changed situation created by the crisis and ensure uninterrupted service delivery.

**Transition**

As the impacts of the pandemic begin to fade, facilitating relaxation of restrictions and gradual uptick in economic activity, investment banks must focus on restoring critical operations to the workplace and evaluate the cost escalation and revenue compression caused by the crisis. We expect the crisis to trigger a cost saving impulse across business establishments and the same will cascade to investment banks as well. As a result, clients will seek downward fee revisions, further adding to margin and revenue compression. The volatile environment during the transition phase will demand increased effort on managing operational risk, liquidity, trade operations, and securities lending and borrowing. Demand for quality research will increase as clients adjust and calibrate their portfolios, targeting investments that yield higher returns.

**Post COVID-19**

When a cure is available and the curbs are lifted, paving the way for complete revival of economic activity, investment banks must recalibrate business models to adapt to the post COVID realities. This will entail increasing digital rigor and implementing data insights driven solutions. Economic compulsions will force investment banks to aggressively implement digital strategies to improve value proposition from existing offerings, improve revenues from current sources, and explore data monetization avenues.

**Future-proofing**

In the future-proofing phase, firms must strike a balance between continuous transformation, growth, and sustainability. Investment banks have always endeavored to provide holistic services to their clients by evolving into a ‘one-stop shop’ for all their financial needs. To further strengthen this paradigm, investment banks must define a transformation strategy that is driven by the purpose that drives their customers. A purpose-driven strategy will require investment banks to leverage partner ecosystems, adopt insights-driven optimization, enhance customer experience, and implement shared investment models (mutualization).
In our view, the actions that firms must take to emerge stronger from the crisis can be grouped under the following key themes:

**Touchless operations**
Implement end-to-end platform digitalization solutions such as digital client onboarding and preemptive exception management as well as artificial intelligence (AI) powered solutions for trade operations risk management. For cases where the use of machine learning (ML) solutions is an overkill, data insights driven automation will be key.

**Offerings for a new beginning**
Launch purpose-driven, digital-only offerings that cater to customers’ core purpose; examples include digital research desk to deliver targeted research leveraging insights from customers, market place and social media platforms and reimagining securities lending and borrowing by using AI tools to provide recommendations based on real-time data insights for optimal basket management.

**Resilient core**
Infuse resilience into the infrastructure to deliver secure workplace environment. Embrace cloud and digital technologies, enable self-service features on all channels, and leverage partner ecosystems for mutualization of services; for instance, modernizing and optimizing performance of the core risk platform will improve intraday liquidity risk management and dynamic stress testing. A strategy underpinned by these themes will help investment banks to thrive in the post COVID-19 world and better withstand future paradigm shocks.
Post COVID: What will Change?

Based on an initial assessment, we expect some areas of investment banking to undergo a permanent change.

**Client engagement models**
The remote workplace setup will continue to be the preferred model to ensure employee and customer health and wellbeing, and for optimizing costs. Virtual collaboration will emerge as the primary client engagement model. Hence, remote client onboarding and self-service channels will gain momentum.

**Operations risk management**
Machines will take over the management of operations risks and the adoption of cognitive and digital technologies for preemptive exception management and efficient back-office operations will see a surge. The Machine First™ paradigm backed by a data and insights backbone will emerge as the default model for delivering services contextualized to individual customers.

**Cloud adoption**
Cloud adoption will witness an increase, driven by revenue compression and the quest for resilience. Non-core services such as reporting services will see rapid migration to public cloud. Partnerships with fintech and other ecosystem players for mutualization of services, especially in high-cost, non-core areas such as KYC and AML compliance, will increase.

Given that the post crisis era will witness permanent changes in certain areas, investment banks will need to embrace digital and Machine First models to equip themselves to succeed in the post crisis era, and build the resilience needed to weather such storms in the future.
Looking Ahead

The COVID-19 crisis and the ongoing response of governments and central banks as also the volatility in global markets are swiftly impacting investment banks’ institutional customers. On the other hand, the impending impact of the pandemic has reawakened the survival and growth instincts of investment banks. The agility with which investment banks transform and adapt to post COVID-19 realities and deliver value-driven products and services, while ensuring exceptional experience, will separate the leaders from the pack. However, achieving this may require investment banks to partner with a technology service provider; choosing the right partner is critical and banks must take a decision post a well-rounded market analysis. Needless to say, investment banks that act quickly will forge ahead of their peers and emerge as leaders in the post COVID-19 world.
Contact
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