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**Bank of 2030: The future
of investment banking**

Transforming service delivery to generate
differentiated insight and added value

Top takeaways



Investment banks¹ face significant challenges driven by COVID-19 impacts, evolving financial regulations, market democratization, increased client sophistication, a shift to remote working arrangements, and rapid technology advances. There are opportunities for banks to drive toward higher levels of return; however, to achieve this, they likely will need to retool certain business models and operational platforms.



The investment banking industry will likely undergo a bifurcation of broker archetypes: “flow players” that focus on middle- and back-office functions and “client capturers” that specialize in front-office functions. This bifurcation will result in an interconnected ecosystem of various players.



Banks likely will need to determine which role they want and, depending on internal and external factors, are able to play within the ecosystem. They also will likely need to redesign their service delivery around a connected flow model—moving capacity and processes to the ecosystem of market providers—and optimize the use of financial technology, data, and analytics to generate differentiated insight and added value.

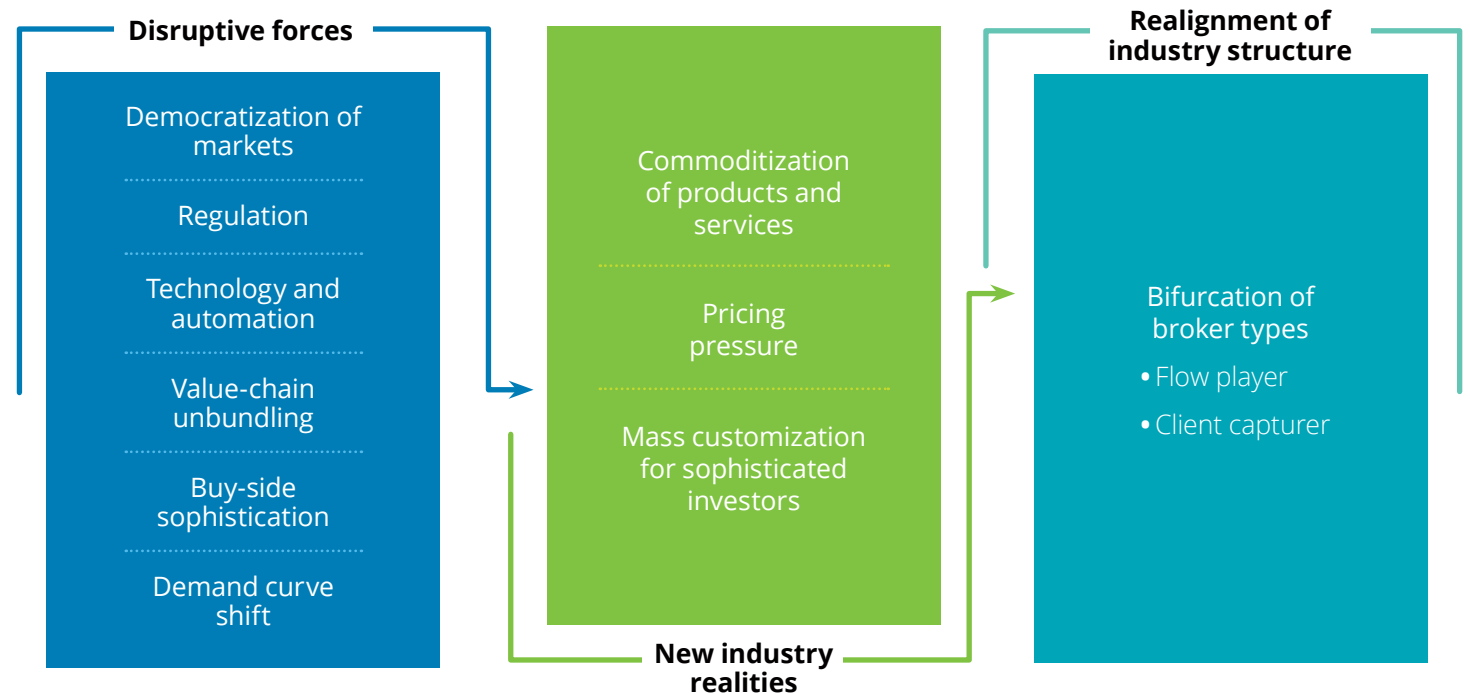
1. In using the term “investment bank,” we refer to firms’ broker-dealer or “markets” business, not the advisory business.

The changing investment banking landscape

The unprecedented public health, economic, and societal impacts of the global COVID-19 (novel coronavirus) pandemic have intensified the forces that are creating challenges and accelerating disruption in the investment banking industry: falling equity prices, liquidity stress, evolving financial regulations, market democratization, pricing pressure, increased client sophistication, shifts to remote working arrangements, and rapid technology advances.

Against this tough backdrop, we anticipate that investment banking will transition from a full-scale service model to a bifurcation of two broker archetypes: “client capturers” that specialize in front-office functions and “flow players” that focus primarily on middle-office functions (figure 1). These archetypes will likely operate within an interconnected, increasingly global—and, potentially, virtual—ecosystem that includes partners collaborations that provide various back-office functions.

Figure 1. Acceleration of disruption in the investment banking industry



Industry realignment should create opportunities for investment banks to drive toward higher levels of return. However, to deliver on this agenda, organizations can no longer tinker around the edges. It is likely that many will need to dramatically retool their current business models and operational platforms to prioritize client-centricity, disruptive technologies, regulatory recalibration, and workforce and workplace evolution. In addition, they should determine which archetype they want and are able to be within the new ecosystem.

Connected flow model

The future will likely require that investment banks shed non-core assets and redesign their service delivery around a connected flow model—moving capacity and processes among various geographies and ecosystem partners—and optimize the use of financial technology, data, and analytics to generate differentiated insight and added value.

The investment bank becomes a data-centric organization focusing on the client journey, moving middle- and back-office functionality into market utilities or to financial technology (fintech). A rich data set will allow the bank to model client behavior and use artificial intelligence, machine learning, and natural language processing to predict their client trading activities and risk appetite.

What is a connected flow model?

Connected flow consists of a simplified, agile, client-centric operating model that augments a financial institution's capabilities with those of a partner ecosystem, creating cost efficiencies by standardizing and centralizing provision of non-differentiated services across the industry. Leveraging internal and partner data generates insight to optimize performance across revenue and cost drivers and targets financial resource use on the most valuable activities and clients.

Adopting the connected flow model will allow investment banks to reimagine their business along four broad themes of technology modernization, workforce of the future, client-centricity, and regulatory recalibration. Ultimately, the model will increase efficiency, addressing cost challenges through increased automation and enhanced tooling and deliver results with reduced inventory and revenue leakage.

The investment bank is now an agile participant in a sophisticated ecosystem addressing today's market trends and focused on differentiators such as risk models and customer experience.

Ultimately, only a few value-add functions would need to be implemented in an investment bank's internal systems: risk management, payments, internal and external data processing (such as client data and regulatory reporting data), and general ledger.

The technology exists today to deliver this vision:



Distributed ledger technology provides the basis for a shared ledger that minimizes reconciliations.



Open-source technologies enable data lakes that store the vast quantities of data the business generates.



Advanced analytics and cognitive technology can derive value from this data.

Archetype considerations

When deciding whether it would be more advantageous to become a client capturer or a flow player, investment banks should consider how their existing structure, technology architecture, capital availability, product portfolio, and talent pool map to each archetype's projected core competencies (figure 2) and, if necessary, how to bridge any capability gaps:

Figure 2. Archetype core competencies



Flow player

- Flow-driven scale player
- Executing trades on behalf of other industry participants
- Providing balance sheet, market-making, and prime services
- May offer back-office services —reporting, asset servicing, and post-transaction world
- Focus on highly-liquid, commoditized products
- Capital heavy, must invest significantly in tech infrastructure to achieve scale



Client capturer

- Client-facing and captures clients, manages all client needs, but relies on others for trade execution
- Value-add is created on the client-capturing side
- Capturing could occur across four dimensions
 - Asset class
 - Product
 - Geography
 - Client
- Capital light

How to build the investment bank of the future

Are investment banks willing to rethink, rebuild, and rely on others to improve their future competitiveness? It may be difficult, costly, and time-consuming for some organizations to untangle their existing structures, develop and acquire digital technologies to better engage with customers, secure ecosystem partners (service providers), and harness and commercialize the combined power of internal and partner data. Yet the potential alternative is likely reduced market competitiveness and/or disintermediation.

To understand where to focus and drive change, banks should consider “zoom out” visualizing the future beyond immediate constraints and “zoom in” to translate this vision to prioritized initiatives within a framework of principles that can help steer their journeys (figure 3):

Figure 3. How to build the investment bank of the future

In order to overcome the obstacles, investment banks must have a principled approach to strategic planning and delivery



Obstacles to deliver the investment bank of the future

- Local market structures are so complex and nuanced that an industry solution in the near term requires significant collaboration and cooperation
- Uncertainty as to the role individual market participants, incumbent service providers, utilities, and fintech should play
- Uncertainty around optimal operational and ownership structures of services provided within the ecosystem
- Ability to develop a convincing strategic business case with incremental benefit realization within the early years of investment



Principles to deliver the investment bank of the future

- To overcome such obstacles, investment banks must stick to three core principles:

1 Industry-wide collaboration

Continue working with market participants to collectively resolve industry problems, including further partnerships with fintech, utilities, and incumbent service providers.

2 Further standardization

An opportunity exists to create standards that support innovation and promote the adoption of new technologies.

3 Design the vision, understand key investments, and continue to simplify

Firms should continually invest in the journey to realize benefits on an ongoing basis and avoid an investment trap.

Examples of initiatives to commence the journey include the following:

- Identify the utilities to either outsource or develop internal, bank-wide shared services functions (for example, for data management and Know Your Customer compliance).
- Consider the governance arrangements required for a utility-based model to be successful.
- Decide on industry-led standardization and consider how it will affect the ecosystem.
- Consolidate operations processes and activities across asset classes (such as single post-trade processing).
- Centralize data management and invest in application programming interfaces to develop flexibility and create seamless connectivity.
- Consider using a scalable, cloud-based infrastructure to improve overall efficiency, achieve faster time to market, and reduce cost of ownership.
- Explore the art of the possible with emerging technologies such as AI, blockchain, and advanced data analytics.
- Evaluate workforce and workplace practices through a post-pandemic lens and the shift from traditional, office-oriented employment to more flexible workspaces supported by technology innovations.

What's ahead?

As long as considerable barriers to market entry remain in place (capital requirements, regulatory scrutiny, conduct risk, and long-standing client relationships), investment banks are unlikely to have their market share challenged by digital disruptors or other non-industry competitors. However, investment banks looking to the future amidst shifting market dynamics should consider relinquishing expensive internal infrastructures and move toward a connected flow model where outside providers offer services for both critical and non-critical functions. In this new environment, the investment bank's ability to create and harness differential insights from data becomes its new competitive advantage.



Contacts

David Myers

Global Capital Markets Co-leader
Deloitte United Kingdom
damyers@deloitte.co.uk

Sachin Sondhi

Global Capital Markets Co-leader
Deloitte United States
sacsondhi@deloitte.com



Bank of 2030: Transform boldly

The future of banking will look very different from today. Faced with changing consumer expectations, emerging technologies, and new business models, banks will need to start putting strategies in place now to help them prepare for banking in 2030.

How can you drive bold transformation in your organization over the next 10 years?

Visit <https://www2.deloitte.com/us/futureofbanking> to learn more.



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