



# TOP 10 CHALLENGES FOR INVESTMENT BANKS 2017

# ACCELERATING CHANGE: MOVING BEYOND CHALLENGES

## AS ACCENTURE'S NINTH ANNUAL TOP 10 CHALLENGES SERIES GOES TO PRINT, INVESTMENT BANKS CONTINUE TO CONFRONT THREE MASSIVE REALITIES:

1. An unsustainable cost base
2. Continued evolution of regulatory demands
3. Evolving promises and challenges of digital technologies

It is also worth noting that even with some appreciation of interest rates, the environment for Fixed Income, Commodities and Currencies will remain problematic and unlikely will return to pre-crisis profitability levels. When these realities are considered alongside the results of major elections in the United States and Europe and the Brexit referendum, only one thing is certain: uncertainty will be the norm in 2017.

As investment banks take steps to address a mix of old and new environmental challenges, it's clear that a return to pre-2008 "business as usual" is not an option. Banks have reported to reduce risk-weighted assets in response to capital burdens (Credit Suisse, Deutsche Bank and Morgan Stanley are among those that have announced target reductions), shift their focus to alternative business models (e.g., Goldman Sachs launched a consumer loans platform called Marcus<sup>1</sup>, and Morgan Stanley raised deposits from less than \$40 billion in 2007 to \$150 billion in 2015<sup>2</sup>) and exit unprofitable business lines and locations (e.g., Credit Suisse exited European securitized product trading<sup>3</sup> and Deutsche Bank exited Mexican capital markets<sup>4</sup>).

Last year, Accenture observed that digital technologies were playing an increasingly important role in creating new opportunities and challenges for investment banks.

One indication is the investment in fintech financing. Total investment in fintech startups from 2010 to 2015 is estimated at more than \$47 billion.<sup>5</sup> The impacts of these digital technologies are being felt across organizations—from sales channels and trading venues, to operational and compliance processes and enterprise functions.

This year, beyond growing fintech investment and adoption, Accenture has observed how investment banks are increasingly looking beyond their institutions to accelerate the creation of new capabilities. The industry's interest in utilities and ecosystems as important levers for change has been noted in the past, but there are signs that momentum is building:

- **The journey to the cloud is accelerating**

J.P.Morgan CIO Dana Deasy committed to the public cloud, confirming the important role of cloud providers in enabling digital technologies and delivering on the strategic priorities of banks.<sup>6</sup>

- **Consortia are setting standards and open source to make collaborative-based technologies a reality**

R3CV, with over 50 members<sup>7</sup>, and Hyperledger with 13 premier members, 77 general members and 4 associate members at the end of November<sup>8</sup>, illustrate the role that the industry can play in making blockchain a reality.

- **The push to digital platforms continues**

Bank of America Merrill Lynch launched Instinct<sup>®</sup> Loans, a new electronic platform for the secondary trading of syndicated corporate loans.<sup>9</sup>

Against this backdrop, Accenture's research led to three key themes for this year's Top 10 Challenges.



## SIMPLIFICATION

Investment banks have been on this journey for some time, but simplification remains a high priority. It is the key to improving growth opportunities, serving clients better, reducing the burden of legacy technology (including investment drain and barriers to new technology adoption), creating shared-service efficiency via common processes, and reducing errors and reconciliation from duplicative effort. This year, there are four identified challenges related to simplification:

- **CHALLENGE 1:**  
Pruning for Growth and Distinctiveness
- **CHALLENGE 2:**  
Getting Fit: Aggressive Cost Reduction
- **CHALLENGE 3:**  
Turning Automation into Intelligence
- **CHALLENGE 4:**  
Pressing the Reset Button on Location Strategy

## DIGITIZATION

Building on the foundation of the past two years, many investment banks are increasing their investment, participation and collaboration in digital technologies, and looking for new ways to engage third parties. This year, there are three identified challenges related to digitization:

- **CHALLENGE 5:**  
Getting It Right with Digital Talent
- **CHALLENGE 6:**  
Liquid Standards: Improving the Client Experience
- **CHALLENGE 7:**  
Accelerating the Journey to Cloud

## INNOVATION

Investment banking has always been a very innovative industry. The creation of new financial instruments, the adoption of electronic trading venues and the use of analytics platforms are just a few examples. In the immediate aftermath of the 2008 financial crisis, innovation suffered as banks reacted to immediate cost and compliance pressures. Although these pressures have not abated, investment banks have adapted to a new reality. Many recognize the important role that innovation can play in managing these challenges and driving growth. This year, there are three identified challenges related to innovation:

- **CHALLENGE 8:**  
Getting Innovation Right
- **CHALLENGE 9:**  
Rethinking the Research Function
- **CHALLENGE 10:**  
Using Distributed Ledgers: Blockchain Moves to Early Adoption

Last year, Accenture's Top 10 Challenges introduction concluded with the observation that "digital changes everything." There has been evidence of that in the past year, and it remains a common thread through all of this year's challenges. We would acknowledge some additional issues that remain at the forefront of investment banking management's focus such as crowdsourcing, industry utilities, cyber security and the importance of data management and data governance. But as they have been addressed previously, we have refrained from repeating them herein. For 2017, the overarching watchword is "acceleration".

The growth of fintech investments, the rapid scaling of robotic automation and the movement from blockchain pilots to a marketplace built on distributed ledger technology are just a few examples of how this acceleration is playing out, creating challenges and opportunities for the investment banking industry in the year to come.

“ FOR 2017, THE OVERARCHING WATCHWORD IS "ACCELERATION". ”



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