PRESSING THE RESET BUTTON ON LOCATION STRATEGY

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04

IN TODAY'S CHANGING GLOBAL LANDSCAPE, INVESTMENT BANKS ARE CONSTANTLY LOOKING TO EVOLVE THEIR BUSINESS MODELS TO REMAIN COMPETITIVE.

As they prune for growth (see Challenge 1 "Pruning for Growth and Distinctiveness"), investment banks are simplifying their operating models, endeavoring to become effective digital organizations, and striving to identify the optimal set of revenue streams and operating locations. This is not a new issue, as companies have been on this trend for some years. But deciding where to have a geographic presence is a key question for investment banks as they are evolving their business models.

KEY DRIVERS FOR LOCATION STRATEGY

As global companies look to retain market share, and smaller regional players seek to internationalize in search of new revenue opportunities, there are a number of key internal and external drivers that are reshaping market balance and influencing the location strategies of investment banks.

Internal drivers

Revenue creation: Many banks are continuing to separate out revenue production and booking from cost centers. At the same time, the need to be in close geographical proximity to where potential clients are concentrated, while having a presence in markets with a high degree of wealth density and mergers and acquisitions activity remains imperative. However, market fragmentation means that global banks must localize to levels necessary for each region, while facing additional capital burdens and "home bias" support for regional banks. Global banks are likely to respond by enhancing their location strategy modularly.

Cost reduction: Under constant pressure to seek to reduce costs, companies set up new locations to accommodate offshoring certain functions, rationalizing business lines or asset classes, and restructuring legal entities. Some global investment banks have already taken an aggressive approach to nearshoring and offshoring technology. By streamlining other processes and transitioning key services, companies can seek to achieve further cost savings. For revenue generating functions, however, maintaining a physical presence will likely remain essential to continue operational control, which may balance any location cost reduction initiatives in these functions.

Organizational effectiveness: Some industry players are embracing digital technologies, not just as a means of cost reduction, but also to become more effective organizationally. In doing so, they must be strategic about what capabilities to augment or replace. As machines replace work, traditional roles will become augmented to facilitate enhanced decision making, and new roles will emerge in areas such as service integration, cloud and relationship management (see Challenge 5 "Getting It Right with Digital Talent"). These changes could impact the sourcing of talent, and could require the geographic locations human resources need to be domiciled.

External drivers

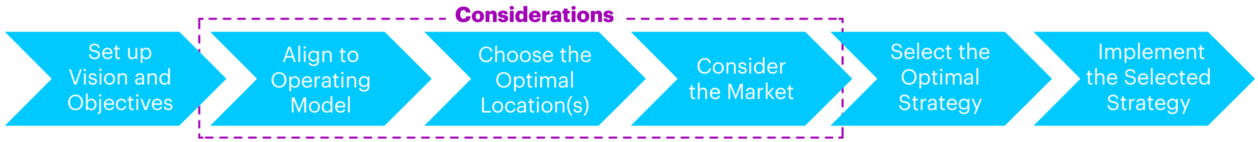
Macroeconomic factors: A negative movement in current and near-term economic indicators, such as a fall in gross domestic product (GDP), adverse exchange rate fluctuation and low interest rates, are all factors that could put further downward pressure on revenues, causing banks to retrench. These factors could also affect investment banks' ability to retain talent, with employees relocating in order to maintain a higher standard of living.

QUICK FACTS

To consider:

- **OPERATING MODEL FLEXIBILITY**
- **MAXIMIZE LEVERAGE OF LOW COST SITES**
- **MARKET, COMPLIANCE AND REGULATORY FACTORS**

Figure 1: Identifying and implementing the optimal location strategy



Source: Accenture

Geopolitical factors: The Brexit vote has a number of companies considering transferring jobs from the UK to other European trading hubs or lower-cost locations. Investment banks have traditionally relied on diverse, multilingual and mobile workforces. The impact of Brexit could significantly change this and force banks to set up EU subsidiaries to access the single market. This may also require reorganization of the existing workforce and training for new employees—all at cost.

Regulatory obligations: Having to continuously adapt to satisfy new and complex regulatory requirements, investment banks now find themselves having larger post-trade and reporting obligations, necessitating greater headcount in compliance and legal entity restructuring teams. The cost benefits of offshoring such teams or automating their processes may be offset by the cost of monitoring these activities and safeguarding data privacy. Taking advantage of capital efficiency will also be a key consideration. Regulations may even affect banks' ability to control their location strategy, with some local laws requiring companies to keep assets on site.

Tax and legal benefits: Specific rules or laws could provide incentives to investment banks to set up operations in a certain country or territory.

CONSIDERATIONS BEFORE PRESSING THE RESET BUTTON

Investment banks have been restructuring their operating models heavily in recent years. For a location strategy to be sustainable, it must align to the strategic objectives of the organization's operating model (see figures 1 and 2).

Financial services hubs have been setting themselves apart on the international stage. Global hubs remain the places of choice for revenue-generating activities and general management processes, while regional hubs have acquired critical mass in some areas of expertise. Middle and back-office processes that can be fully or partially standardized might be better placed near or offshore, or, alternatively, virtualized (see figure 3).

In addition, investment banks should not overlook market factors when choosing any new operating location (see figure 4).

SELECTING THE OPTIMAL LOCATION STRATEGY

A clear tactical vision will help investment banks to identify the optimal location strategy. Specialized players might want to focus on their niches and maintain a strong presence in regional hubs, or they might want to scale up and join leading companies in the challenge of distributing organizational presence across different locations. They will help secure the ability to establish pop-up centers of expertise in utilities hubs, but maintain a solid presence and the correct legal entity structure in global hubs, where client attractiveness and talent availability remain unmatched—and all while continuing to seek to reduce cost.

Investment banks selecting the appropriate strategy could likely be able to realize multiple potential benefits, consisting of:

1. **Resource distribution aligned to business strategy,** with a likely positive impact on profits and shareholder value
2. **Secured business continuity,** with the ability to respond quickly to changes in geopolitical factors
3. **Client satisfaction,** due to improvements in the ability to serve them locally
4. **Cost savings from BPO and RPA,** likely along with eased regulatory scrutiny due to standardization
5. **Cultivation of a broader pool of skilled talent,** leading potentially to competitive advantage
6. **Positive industry impact,** as companies manage to strike a balance between organic and inorganic growth
7. **Likely positive macroeconomic impact,** due to job creation in the selected operating locations

IMPLEMENTING THE SELECTED LOCATION STRATEGY

Having a robust and holistic business transfer framework will equip investment banks with the toolset required to adequately plan, execute and overcome the challenges with regards to their location strategy. There are at least six key elements that should be considered within this framework (see figure 5).

In short, investment banks need to plan their location strategy to fit both current and anticipated market and industry challenges, while enhancing operating models.

The correct choice will naturally vary depending on the individual organization, with the target client population, the legal entity structure, the maturity of the operating model, digital workforce effectiveness goals, the modernity of the technology infrastructure, and the willingness to keep costs low all being contributing factors. However, the key considerations and implementation framework provide a structured approach and could equip all investment banks with the ability to achieve a location strategy that is nimble enough to satisfy business aspirations, and solid enough to withstand changes in external factors.

Figure 2: Operating model considerations

Objective	Consideration
Set up adequate legal and compliance processes	Undertake due diligence exercises to ensure all required legal documentation, trading agreements, licenses and local compliance processes are in place
Align brand to core customers	Build awareness through targeted campaigns to establish a reputation aligned to the selected target clients, e.g. corporates
Ensure culture homogeneity	Focus on firm culture and conduct, providing adequate staff training to align operating models regardless of local working cultural norms
Nimble technologies and processes	Set up technologies and processes in a scalable manner to ensure that operations can be set up safely and with ease when moving, causing minimal risk to the rest of the network
Adequate infrastructure and planning	Have necessary resources in place to enable quick pop-up of teams in low-cost locations in order to keep rents and headcount costs low
Attract top talent	Take advantage of a mixed global talent force, leveraging niche skills in given local markets, and offer competitive incentives adaptable to local culture

Source: Accenture

Figure 3: Hub capabilities

Hub Type	Considerations (Examples)	Potential Advantages (Examples)	Potential Disadvantages (Examples)
Global Hubs	London New York Hong Kong	Global and Regional Liquidity Hubs Skilled Talent Pool Client Concentration	Cost of Rent Cost of Headcount Stringent Regulations
Regional Hubs	Boston Luxembourg	Functional or Market Specialization (e.g. Asset Management)	Relevance Potentially Limited to Niche Clients
Utilities Hubs	Warsaw Bangalore Edinburgh	Low Cost of Rent Low Cost of Headcount	Potential Working Culture Differences Potential Talent Scarcity Reduced Control
Virtual Hubs		Little or No Cost of Rent No Cost of Headcount Improved Efficiency Standardized Processes	Process Excellence Required Costs of Maintenance and Control

Source: Accenture

Figure 4: Market considerations

Market factor	Consideration
Maturity and sustainability of the local market	Selecting a location with high local business potential and space for innovation
Barriers to entry	Selecting a location with low red tape, favorable conditions for foreign corporations to set up and operate (tax structure, bureaucracy, political stability and security), regulation (capital requirements, segregated assets), conditions for foreign workers (work/family visa policy, family amenities, income tax, local laws, societal restrictions), overall cost of business, including labor
Availability of appropriate human capital	Language barriers and finding a balance in demand/supply for niche skills are common challenges when settling up at a new location. Warsaw and Bangalore are currently being viewed as key cities for technology and other roles due to the availability of a skilled talent pool. Investment banks might be teaming up with universities in such cities to establish a direct sustainable pipeline for top talent.
Complexity of setting up operations	Depending on the desired structure of operations, capital costs such as building rent, infrastructure set up and timelines are key factors to consider
Depth and level of integration of the local market	Selecting a destination with a liquid market where it is easy to raise capital will be key to expanding the business

Source: Accenture

Figure 5: Key elements of a robust business transfer framework

Transfer Mechanics	This includes the design and execution of legal mechanisms to effect any transfer from a business, operational, financial and legal perspective. It is important to consider how the restructuring could actually occur given any constraints.
Clients, Products and Business Model	This includes managing the transfer of 'live' revenue strategies, critical client relationships and trades. Inherent corporate structure and assets are adjusted to maintain the viability of the transferring business.
Capital, Liquidity and Funding	This involves managing the transfer within the constraints imposed by the balance sheet as well as the capital and liquidity positions of sending and receiving entities/subsidiaries.
Operational Data and Configuration	This involves managing the definition, remediation and set-up of client, instrument, price, heirachry and calendar data in the receiving entity.
Systems and Infrastructure	This involves considering the technology, applications and infrastructure required to support the restructuring.
Organization, People and Property	This includes HR administration and learning, staff onboarding, third party services and property infrastructure and fixed assets.

Source: Accenture

“ A CLEAR TACTICAL VISION WILL HELP INVESTMENT BANKS TO IDENTIFY THE OPTIMAL LOCATION STRATEGY. ”

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