Corporate and investment banking transformation

Four ways to improve performance

Evolving and revolutionizing business and operating models
Overview

The corporate and investment banking (C&IB) landscape is changing. The industry faces numerous challenges that are complex and often interlinked.

Based on our research, the industry is facing an efficiency and productivity crisis; with low returns on equity (ROE), rising costs and stagnant revenues.1 Added to this, there is also a cultural crisis, with little evidence banks have taken all the necessary steps to address controls issues and change employee behaviors to prevent future charges of misconduct. Then there is the matter of trust, with claims that banks have put their profits before the needs of their customers.

ROE may continue to fall further still, with regulatory pressures driving up costs and little prospect of sustained revenue growth. At the same time, competition is intensifying as commoditization and technological advances open the market to new and more nimble institutions that are able to deliver better service to clients that are now less loyal, more demanding and more sensitive to price. A raft of incremental change programs has done little to address these issues, and banks are a long way from solving the complex array of challenges they face.

Only by adopting a more transformative approach will it be possible for the industry to thrive.

The challenges you face

1 Profitability eroded
FY14 industry ROE of 8% is well below the cost of equity.

2 Efficiency and productivity crisis
Over the last three years, only one investment bank has managed to achieve an average cost-to-income below 60%.

3 Structurally higher costs
Aggregate costs for major investment banks were 25% higher in 2014 than in 2005.

4 Controls failures
Combined investment banking fines, litigation and major trading losses from 2007 to 2014 = US$104b.

5 A cultural crisis
A recent survey found that just 13% of UK respondents believe that people who work in investment banks in the City of London generally behave honestly.

6 Misaligned products
Many institutions have too many variants of similar products whose costs are too high and revenues too low to justify them.

7 Legacy technology
Some banks have been known to spend up to 75% of their IT budgets on systems maintenance.

8 New market entrants and digital disruptors
Boutiques advised on 22% of M&A deals globally in 2014, up from just 16% in 2007.

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### Four pillars of transformation

1. **Optimize assets and operations**
   - Increase client and capital productivity by reducing costs.

2. **Transform culture**
   - Provide incentives for the behaviors that will deliver value for shareholders and clients while exceeding regulatory expectations.

3. **Become client-centric**
   - Move away from product-centric approaches by putting the client at the heart of business and operating models.

4. **Be technology-led**
   - Embark on the transformation of legacy processes, re-shaping to support business growth while maintaining a central focus on risk.

### Our services

- **Transform finance and risk**
  - The burden of regulatory requirements on the C&IB sector is monumental and significant. We can help your organization transform its operations and processes to deliver regulatory change programs, and by helping it to configure the right level of control at acceptable cost.

- **Optimize capital and liquidity**
  - Capital requirements have increased significantly for most and liquidity remains scarce. Efficient treasury operations are critical to discharge regulatory obligations to maintain liquidity and avoid penalties. We can help your organization manage assets and optimize its treasury operating model, processes and systems.

- **Deliver regulatory-driven transformation**
  - We can help your organization implement regulatory-driven change programs. To do this, we use our deep knowledge of your infrastructure and the components that structure the portfolios of regulatory change programs efficiently.

- **Transform conduct, governance and control**
  - We can support your organization to achieve the right level of control at acceptable cost, as well as helping you address specific issues such as financial crime, we seek to enable our clients to get the fundamentals right, prioritize conduct and control, and establish appropriate governance structures.

- **Respond to the tax agenda**
  - Tax authorities have risen up to the need for increased transparency and have been spurred into taking new revenue streams from taxing financial transactions. We can deliver transparent solutions that help execute against your requirements.

### The EY advantage

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**By focusing on the four pillars of change, the leading CIBs of tomorrow will be:**

- **Efficient** - with industry-leading cost efficiency and productivity, driven by the right level of capital, liquidity and leverage.

- **Trusted** - with a reputation for exemplary conduct and customer service.

- **Digital** - with improved client technology and more digitalized processes, enabling superior service levels to new clients, and increasing the probability of existing clients.

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**The EY services provide to support the four pillars of transformation:**

- **Transform finance and risk**
  - The burden of regulatory requirements on the C&IB sector is monumental and significant. We can help your functions in two ways by delivering regulatory change programs, and by helping them to configure the right level of control at acceptable cost.

- **Optimize capital and liquidity**
  - Capital requirements have increased significantly for most and liquidity remains scarce. Efficient treasury operations are critical to discharge regulatory obligations to maintain liquidity and avoid penalties. We can help your organization manage assets and optimize its treasury operating model, processes and systems.

- **Deliver regulatory-driven transformation**
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