Eight challenges plaguing investment banks

Investment banking is an industry in crisis. A raft of incremental change programs is doing little to address the issues.

1. Profitability destroyed
   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. This is equivalent to:
   - Profitability destroyed
   - Structurally higher costs
   - Misaligned products
   - Intensifying competition

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
   Banks spend 75% of their IT budgets on systems maintenance.

8. Intensifying competition
   Boutiques advised on 22% of M&A deals globally in 2014, up from just 16% in 2007.

If investment banks are to progress from today’s protect-and-survive mode, overcoming these obstacles in the next 24 months is critical.

Transforming investment banks finds that achieving sustainable returns on equity of 12%-15% is possible but will require radical change to both business strategy and operations.

Discover the four pillars of change that support the path to future success.

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