Investment Banking Trends and Outlook for 2023

AlphaSense

What's Inside

Introduction

For many investment bankers, getting deals to the finish line while keeping clients satisfied is becoming an increasingly more challenging task. As macroeconomic uncertainty remains the new normal, deals are harder to find, regulators are tightening up, the debt market remains closed, and the amount of both reliable and unreliable data is nearly impossible to process and analyze manually.

Investment banks are scrambling to keep pace with the rapid technological advances that have accelerated the industry forward. Just in the last decade, words such as artificial intelligence (AI), blockchain, big data, and robotic process automation have become commonplace in the financial services industry.

Financial professionals and institutions who are willing to adopt these new technologies will stay on the cutting edge and be able to generate more revenue, attract young talent, and outpace the competition. Those who cling to outdated processes and resist change will find it difficult to compete with newer, more progressive institutions, both in terms of winning clients and attracting new talent.

Below, we break down the overarching key trends in the investment banking industry for 2023, as well as nation-specific and future-facing outlooks—all surfaced from the AlphaSense platform. One thing remains clear: the emergence and adoption of new technologies are critical global motifs for this industry.

CHAPTER 1

Top Trends in Investment Banking

Within the AlphaSense platform, the search term "investment banking" has been steadily trending over the last few months and appears throughout company documents, broker reports, expert calls, and news.

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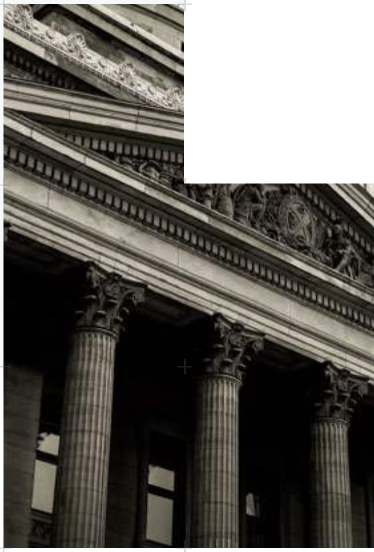
From the 500,000+ documents in the platform, six major themes emerged

- **Generative AI**
- **Increased regulatory scrutiny**
- **Open banking**
- **Fintech competition and integration**
- **Digitalization**
- **Attrition and talent shortage**



In the following sections, we dig deeper into these six trends, including what industry incumbents should currently be aware of and what to expect for the future.

Generative AI

With an unprecedented volume of data now available, it's common for financial professionals to waste hours on manual, fruitless research, only to come up empty-handed. To address this inefficiency, the financial services industry has widely adopted and implemented AI into various workflows and processes—with powerful results.

AI is now being used for everything from revenue generation and process automation to risk management by a wide majority of financial institutions, according to a Cambridge study.

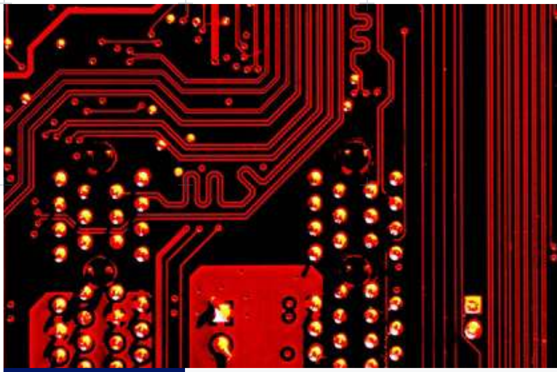
Generative AI is the most recent AI development that has taken the financial and technological world by storm. Morgan Stanley recently announced that their Wealth Management division is developing an internal-facing service that leverages OpenAI technology (a leading generative AI company) to deliver relevant content and insights into the hands of financial analysts in seconds.

The co-president and head of Morgan Stanley Wealth Management, Andy Saperstein, said:

> *We aim to leverage OpenAI's breakthrough technology into a competitive advantage in how our Financial Analysts can harness Morgan Stanley's knowledge and insights in ways that were once never thought feasible.*
>
> *This technology is a game changer in synthesizing our expansive intellectual capital, bringing the value and richness of it to a whole new level and in the process freeing up valuable time for Financial Advisors to do what they do best—serve their clients.*

The applications of generative AI in the banking space are boundless and all lead to greater competitive differentiation, efficiency, and success metrics. A few more examples include commenting on a bank statement, creating customer segments and solving attribution tasks, UX personalization for upsell and cross-sell, evaluating customer sentiment, and more.

The AlphaSense platform leverages generative AI in a powerful way with Smart Summaries, a tool that speeds up the research process for business and financial professionals by providing instant summarization on earnings calls, company outlooks, SWOT perspectives, and more. With a



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language model that is purpose-built to hone in on financial and business information, professionals can capture insights with reliability and precision–and without hallucination.

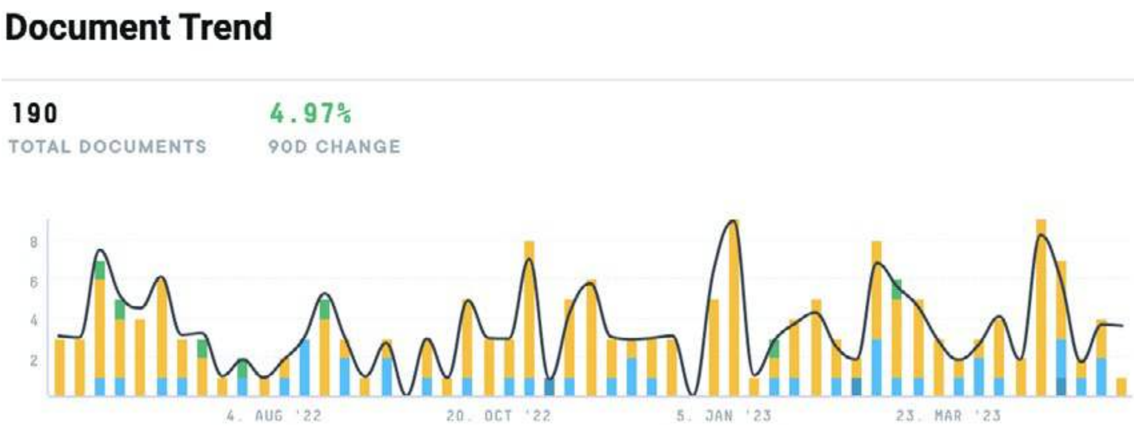
Increased Regulatory Scrutiny

Following the infamous collapse of Silicon Valley Bank (closely followed by several other banks including First Republic Bank), bank regulation has sharply intensified and will only continue to increase. Analysts at RBC predict upcoming regulatory changes for the industry to minimize the possibility of additional bank failures, leading to lower profitability for the industry as a whole.

Regulators are likely to focus on areas such as reexamining regulatory tailoring, stress testing, and supervision issues. They may increase regulatory requirements for banks with assets between $100 and $250 billion.

Additionally, as the investment banking industry continues to transform through innovation, federal banking regulators will keep a watchful eye on any new potential risks and marketplace developments. Deposit insurance will likely be increased, as SVB had a high percentage of uninsured deposits, held mostly by venture capital firms and private businesses. However, raising the FDIC insurance cap would necessitate bipartisan agreement in Congress, which is currently unlikely.

Open Banking

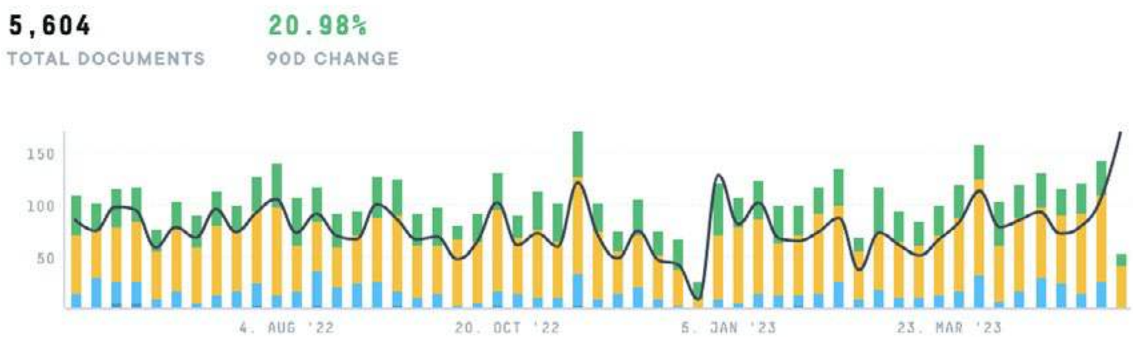


Open banking is another industry trend that legacy investment banking firms should be aware of, as it may pose a threat to traditional modes of operating. In the past, pricing and transaction data were owned by investment banks and were not transparent to clients. This meant banks could have total control over their pricing, leaving clients in the dark.

Now, digital startups can aggregate this transaction data and end investment banks' information monopoly. For those banks that are willing to innovate, however, open banking could provide new market opportunities and enable them to more easily exchange information with third-party providers. Broadly speaking, open banking is expected to be a conduit for improving information transfer efficiency and transparency, according to Morgan Stanley.

Fintech Competition & Integration

Document Trend



Within the financial industry, the Fintech space is the most technologically forward and innovative. Thus, some more traditional financial institutions are choosing to partner with Fintech firms to gain access to AI tools that will expand their capabilities and give them the competitive advantage.

Rather than looking at Fintech firms as a threat, investment banks should see them as an opportunity. In a Stream expert interview, a former managing director at Goldman Sachs stated that he does not see any of the new fintechs as powerful enough to truly compete with the large legacy organizations. While they are gaining market share, much of it is coming from regional or community banks, not at the expense of the large top banks. The amount of traditional banks is declining, and this is enabling neobanks to gain new customers and a stronger foothold in the space.

Within the financial industry, the Fintech space is the most technologically forward and innovative.

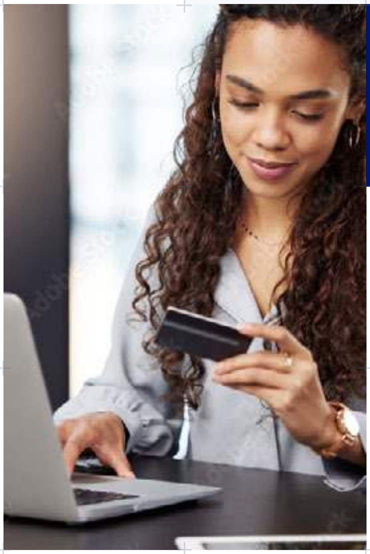
Because fintechs tend to attract a younger audience, these companies generally hold lower balances than older banks that attract older customers—as age tends to directly correlate to the amount of money held in a bank account. Additionally, even the loyal customers of fintech banks are reluctant to make those banks their primary paycheck accounts. While the fintech industry is moving toward superapps, it is still far from having totally integrated solutions.

Digital Transformation/Digitalization

Within the investment banking space, there is a wide spectrum of interest in digitalization. Outside a few technology-forward outliers, most traditional legacy banks are conservative and wary of innovation. Yet, there is no question that technology is here to stay and will only continue driving the industry forward.

There is a growing tendency among newer fintech firms to create digital solutions that are inherently customer-centric.

In 2020, most financial firms were forced to rapidly adopt digital tools in order to keep operating amidst a global shutdown. Now that we are post-pandemic, it has become apparent that this transition to digital was not merely a passing trend. Customers expect digital solutions that are more efficient and reliable than the previous status quo.

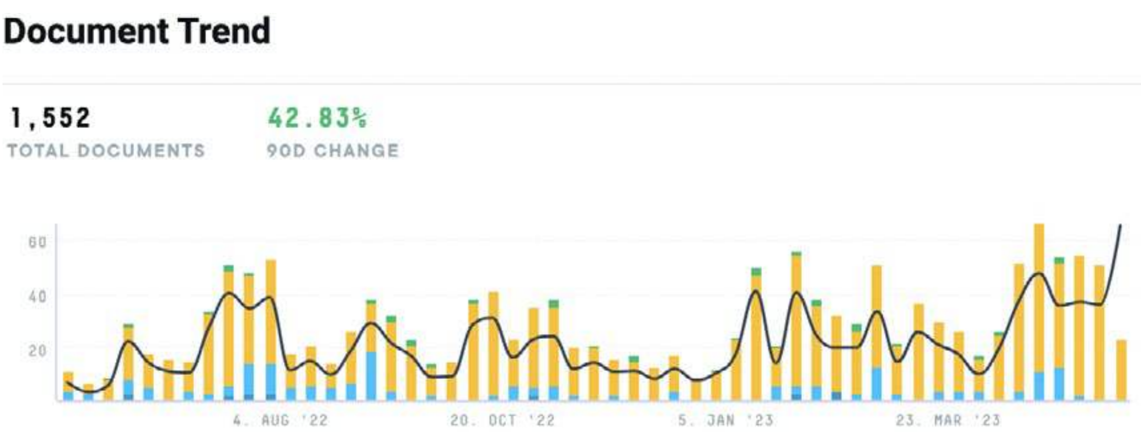


Additionally, there is a growing tendency among newer fintech firms to create digital solutions that are inherently customer-centric. A few examples are robo-advisory services—which process personalized big data and provide the most preferable investment options swiftly, chatbots—which are able to answer user questions on both capital markets and customer support, and gamification—which assists in imparting financial literacy on users to further the democratization of the market and data.

The financial industry is moving forward at a rapid clip, with technology as the driving force. Investment banks wanting to remain relevant and competitive will need to embrace digitalization, so as to improve their operational efficiency. AI is the most lucrative facet of digital transformation for banks. With the unprecedented amount of data currently available, AI is crucial for increasing research efficiency and reducing risk, as well as improving the user experience.

According to a Deloitte report, investment banking is shifting to a new operating model called connected flow. This model is primarily focused on optimizing the customer journey and involves standardizing and centralizing provision of non-differentiated services across the industry. This means investment banks would need to relinquish traditionally expensive internal infrastructures and leverage the power of data.

Attrition and Talent Shortage



One of the biggest issues investment banks have been facing since 2020 is employee attrition and a persistent difficulty in recruiting new talent year over year—we all remember the infamous Forbes article.

The post-pandemic years ushered in a cultural and technological revolution, and employee expectations have shifted.

Beyond the general unhappiness of young IB analysts, the Great Resignation hit the financial industry the hardest which has been struggling to recover since. The post-pandemic years ushered in a cultural and technological revolution, and employee expectations have shifted.

More than ever, employees are looking for meaningful work where they truly feel that their actions are making a difference. At the same time, Millennials and Gen-Z'ers are used to modern technology and tools that make work more efficient and streamlined. They are much less likely to join an organization that is resistant to innovation or that clings to old inefficient practices simply because they are the status quo. Especially in investment banking, where the working hours for junior level analysts are grueling.

Additionally, the cultural shift toward remote work is still a hurdle for investment banks. A 2021 survey by Microsoft revealed that over 70% of workers preferred to predominantly work from home, and yet many investment banks still have strict in-person work policies. The overarching industry trend is that investment banks are catching on to the importance of meeting some of the requirements posed by the employees they want to attract—they are offering more benefits and introducing new measures like faster promotions, higher bonuses, more hires to reduce workloads, and more limited working hours.

Overall, it is crucial for investment banks to remember that in the current environment, it is not enough to compete for compensation based on compensation and benefits packages alone. Firms must also work on improving their culture, providing opportunities for staff to innovate and take on more strategic and rewarding projects, and utilizing automation to streamline mundane processes.

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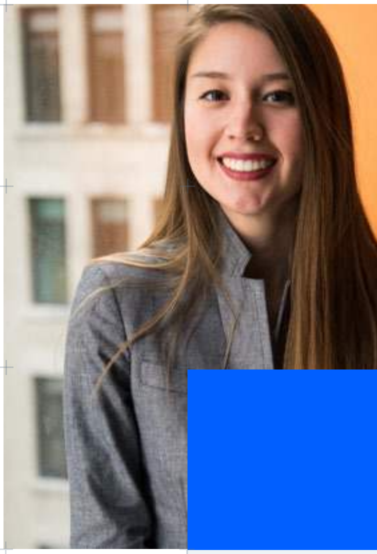

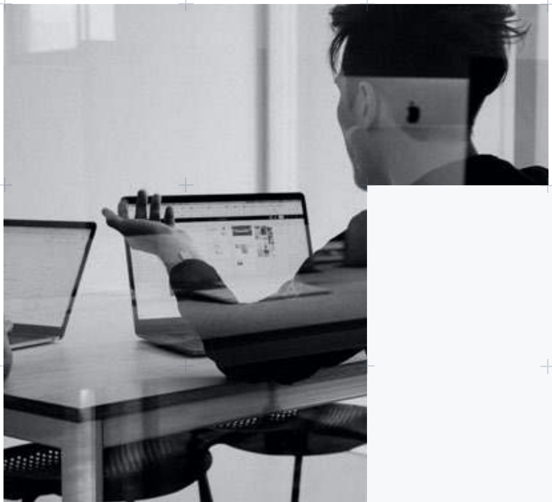

CHAPTER 2

Investment Banking Trends Across Nations

United States

Investment banking activity in the US is showing surprising resilience against a tough backdrop, Goldman Sachs reports. Recent banking crises—such as the collapse of Silicon Valley Bank—have increased macroeconomic volatility and driven a sell-off in equity markets, but activity is expected to recover by 2024.

As mentioned in previous sections, AI is driving the market—though investment banks are still lagging behind the majority of the financial services industry in total integration. AI's powerful uses, like fraud detection and risk management, are clearly having an impact on the banking sector, pushing firms to expand their investments to double down on the benefits.

Europe

European banks are also prioritizing digital transformation through a combination of in-house build-outs, strategic partnerships, investments, and acquisitions. Several major banks have even flagged digital transformation initiatives as the cornerstone of their medium-term strategy.

Many banks are creating in-house neobanks to enhance their client offering at a lower cost. Others are partnering with smaller tech-focused firms in an effort to accelerate their digital transformation. Banks are also continuing to invest in fintech, despite the relatively subdued fundraising environment.

Europe's IPO activity was the weakest in five years in 2022—as a result of recession fears, uncertainty about central bank rate hikes, and economic fallout of the Russian-Ukrainian war. 2023 has been, and will continue to be, focused on recovery, though it may take beyond this year to reach pre-pandemic IPO levels.

79% of UK financial institutions cited attracting and retaining talent as a top strategic priority for 2023.

United Kingdom

UK financial institutions had a grim outlook going into 2023, as a result of both inflation and the rising cost of living. However, technology is clearly a bright spot in the landscape with 72% of financial institutions planning to invest in new technology to increase operational efficiency. For the most part, financial firms will be prioritizing investment in the cloud, payments, APIs, and machine learning and AI.

Additionally, 79% of UK financial institutions cited attracting and retaining talent as a top strategic priority for 2023 after the massive rounds of layoffs and hiring freezes over the past few years. Most likely, demand will be highest for applicants with a strong technology background and skills, as banks are increasingly recognizing tech as a silver bullet for staying competitive and driving revenue.

China

China is tightening its oversight on banking and tech, according to The New York Times. The current main objective of the Chinese government is to stabilize the economy, so regulators are attaching greater importance than ever to the banking sector. This sector is expected to keep expanding its balance sheets and earnings, while maintaining good quality of assets and adequate capital.

Fintech has developed rapidly across China, inspiring Chinese banks to move quickly toward digital transition for higher efficiency and quality of international financial services. This will enable them to better compete with large foreign banks.

Additionally, Chinese banks are prioritizing development of cross-border business. With new technologies like big data and artificial intelligence, there is unprecedented opportunity for improving the global information management mechanism. Chinese banks are also enhancing their risk management mechanism for cross-border business to prevent strategic, credit, market, and compliance risks and turn cross-border development into a profit-driver.

Brazil

Brazil is likely to become a leader in the realm of open banking, according to a 2022 Open Banking Excellence (OBE) study. The country has been bullish on building out an entire Open Finance ecosystem—following fast on the heels of the UK with the goal of nationwide open banking implementation. Brazil has a "massive second mover advantage and could build on the learnings of the UK with mandated standards and strong conformance regimes," according to co-founder and CCO of Ozone API, Huw Davies.

Unsurprisingly, Brazil's biggest banks are prioritizing digitalization—focusing on migration of legacy systems, implementation of cloud platforms, improvement of chatbots with enhanced AI capabilities, and new omnichannel systems.

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CHAPTER 3

Investment Banking Outlook

The resounding and persistent theme across every investment banking trend, both on a national and global level, is digitalization. With the rapid pace of technology advancements and ever-evolving expectations both within the industry and among the public at large, it is no longer an option for investment banks to resist innovation and change. Digital transformation is key in future success—from increasing efficiency and competitiveness all the way to attracting talent.

For the rest of 2023 and beyond, the pace of digital transformation will only accelerate, and with it, the expectations of customers and the potential for competition. New fintech companies continue to emerge, and investment banks will be prudent to partner with these industry disruptors and find ways to roll some of their practices into their own operations.

Additionally, while increased regulatory scrutiny and the rise of open banking may bring understandable concern, these trends are ultimately benefiting the industry at large. The banks that are able to remain nimble and adapt to these changes—while being strategic in using these developments to their advantage—will undoubtedly find themselves on top.

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An all-in-one market intelligence platform with AI search capabilities and a vast content universe is crucial in keeping pace with rapidly-evolving market movements and industry trends. AlphaSense is the platform behind the world's biggest decisions, ensuring financial professionals stay informed, quickly get deals to the finish line, and maintain the competitive edge.

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About AlphaSense

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