

CORPORATE AND
INVESTMENT BANKS:
CALL FOR ACTION
TO BUILD THE NEXT
GENERATION BUSINESS
& OPERATING MODEL

As the global coronavirus pandemic intensifies existing industry challenges, Corporate and Investment Banks (CIBs) must seize the moment to use levers like innovation, partnerships and change management to build a more disruptive operating model. As well as addressing their long-term challenges, this will help them support clients, the economy and the transition to a more sustainable society.

THE PERFECT STORM - STRUCTURAL CHALLENGES AMPLIFIED

Corporate and Investment Banks have faced significant challenges over several years, which have been amplified during the Covid-19 crisis. These include:

- pressure on revenues due to low/negative interest rates, margin/fees compression and global recession
- increasing costs due to necessary investments in IT/OPs platforms and regulatory compliance
- increasing risks with capital markets volatility and expected credit defaults.

As a result, the cost to income ratio and return on equity (ROE) have significantly deteriorated for many players, especially the subscale and less diversified organizations. Since the last financial crisis in 2008, CIBs have tried to implement large transformation initiatives encompassing business models, IT and operations. However, these

projects have not fully delivered the expected benefits due to many challenges associated with the extreme complexity of legacy IT, ineffective project monitoring and insufficient levels of investment.

For some players, the situation has become critical, with losses mounting and depressed share prices putting a question mark over their future. Even for those that are better positioned, the operating environment continues to evolve rapidly, so they need to get firmly on the front foot to prepare for future success.

Now is the time to harness the agility and flexibility that have been successfully demonstrated in response to the coronavirus pandemic to build next generation business and operating models.

A NEW MODEL AND NEW APPROACH ARE REQUIRED: 5 KEY PILLARS OF THE NEXT-GEN TOM

Old recipes will not work this time: a new approach is required. We believe that levers like **innovation, partnerships and change management** will enable CIBs to build a more disruptive operating model that is **cost efficient, evolutionary, and resilient, with an improved user/customer experience**.

Successful next generation models will be structured around five essential pillars:

1 - Client centricity and innovation

- New products and services (beyond the core)
- Improved experience and personalized relationships
- Customer data analytics

2 - Industrial platforms and new sourcing models

- Building industrial and efficient processes across products
- Unbundling operational activities between core/internal and non core/external

3 - Technological innovation and IT transformation

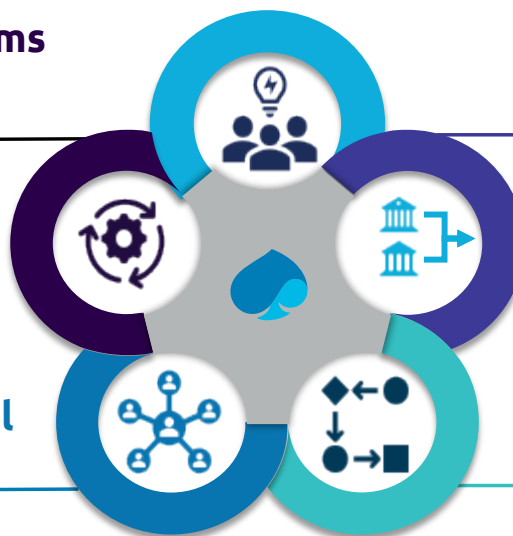
- Leveraging disruptive technologies to build the most efficient and agile IT platforms
- Rationalisation of Information Systems

4 - Data and Artificial Intelligence

- Leveraging Data and AI technology to deliver uses cases at scale

5 - Sustainability

- Embedding and monitoring ESR objectives in products / services and operating models





1 - Client centricity and innovation

Business and operating models need to be built around clients, rather than around siloed areas of activity. This will enable new revenue streams to be identified, while securing and growing the existing customer base.

Three areas in particular are likely to have strong impact:

- New products and services beyond the core must be launched to improve growth and profitability. Innovation and detailed understanding of clients' needs are required to identify new and viable sources of revenues. Diverse business opportunities have arisen, for example: acceleration of green finance to build the renewable energy infrastructure, for which there is currently a large financing gap; alternative asset trading (e.g. fine art, direct real estate investment...) supported by tokenization technology; IT and OPs infrastructure monetization with smaller peers who can no longer support the increase in techno and compliance investments; and the provision of cloud-based services to secure confidential client data and documentation...
- Improved experience and relationships are also vital to attract and retain clients, with simplified and digital client journeys, personalized relationships and more sophisticated portals. Retail banks have invested heavily in these areas and CIBs should try to leverage this experience for their B2B clients. For instance, CIB client portals should evolve from basic services to sophisticated and tailored services: e.g. KYC data and document collection, portfolio data analytics, consolidated view on cash and securities....
- Data and AI technology create a strong lever to improve customer data analytics, yielding a better understanding of a client's potential based on sophisticated and predictive risks and profitability. This enables better decision-making: proactive services proposal, cross selling, and even scale-down /exit.



2 - Industrial platforms and new sourcing models

The complete industrialization of operational platforms is necessary to reduce costs, achieve operational resilience and high volumes, and deliver a higher quality of service to clients.

The first lever consists of the end-to-end streamlining and digitalization of business processes across credit, capital markets and transaction banking (front to back to finance to risk and compliance). Many CIBs have already activated this lever but it is a long journey requiring strong discipline, methodology and coordination to deliver the expected benefits across all key processes. An exhaustive end-to-end review can bring up to 30 percent productivity gains by leveraging organizational, operational and digital levers. So, we believe it is worth pursuing this effort, which should, in some instances, almost become a continuous improvement approach.

The second lever is more radical and aims at unbundling operational activities between core and non-core and to fully redefine the sourcing model along the "make, buy, share" framework. CIBs must focus their efforts and investments on core, client focused and differentiating activities. Many CIBs have nearshored/offshored significant portions of their IT and OPs functions but this model has reached its limit in terms of efficiency gains, scale, and career path for employees.

The non-core and purely industrial activities in the OPs and IT domain can be shared with other of the group's CIB business lines, outsourced (ITO/BPO) to a vendor or a technology provider, or shared with peers in a utility mode. The main benefits of such models are: economies of scale, cost variabilization, process industrialization and digitalization, improved resilience, better career tracks for employees, and refocused investment on core / client activities. A detailed review of the IT and OPs functions is required to assess the relevant model evolution.



3 - Technological innovation and IT transformation

Despite significant IT department transformation initiatives, many CIBs still experience high IT running costs, complex legacy systems, and limited agility.

Cloud remains a strong lever to radically change the way CIBs operate their systems and infrastructure, with many benefits in terms of innovation, agility, speed to market, efficiency and controls. Most cloud transformations start with many promising experiments but struggle to scale up due to a lack of industrialization and transformation of the business model. CIB players must now accelerate their cloud implementations to reap all the expected benefits.

Besides the cloud opportunity, CIBs need to completely embrace and leverage disruptive technologies and ways of working to build the most efficient and agile IT platforms: Agile at scale, artificial intelligence (AI), streaming technology, quantum computing, distributed ledger technology, FinTech solutions... An upgrade in IT skills and technology might be required to identify, test and implement these new levers at scale.



4 - Data and Artificial Intelligence

CIBs must tap into their large data sets and leverage new tools to optimize their operations, anticipate risks better, and generate new revenues. Many data and AI projects have remained at the proof-of-concept level due to a number of hurdles: poor data quality, limited data platforms, and data use cases poorly assessed and qualified.

To successfully implement data and AI projects at scale, a holistic approach and operating model must be deployed that allows CIBs to identify, qualify and prioritize use cases (the 'what'), and leverage the right data, tools and AI technology, and skills (the 'how').

We have identified a large number of promising data/AI uses cases in each CIB business line and function. When properly qualified in the specific CIB context, these uses cases can deliver significant impact. One example that delivered significant productivity gains in a CIB is the automation of first-stage financial analysis in respect of credit applications. Credit analysts are freed up by artificial intelligence to focus on higher value tasks, with AI finding the right financial information, populating data tables and running an initial analysis of loan applicants.



5 - Sustainability

CIBs are uniquely placed to support the effort to develop a more sustainable world through their client and lending policies, and their global operations. For example, by structuring and bringing to market green bonds and loans on behalf of clients, CIBs are supporting the transition to a lower carbon economy. The increasing importance of environmental, social and governance (ESG) criteria in investors' decisions also means that CIBs need to focus on embedding sustainability into their own operations, from more energy efficient IT operations to increasing the diversity of leadership teams.

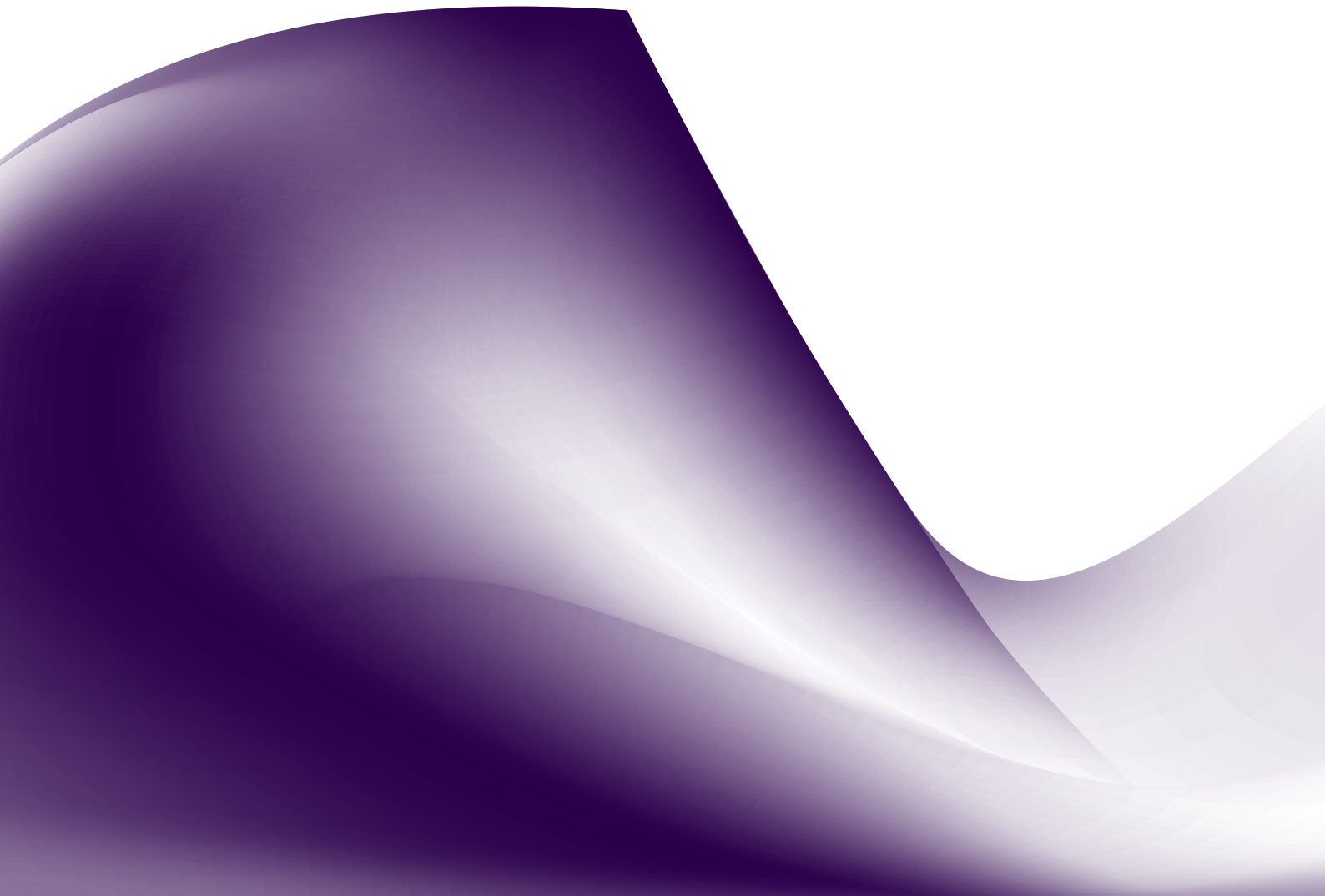
While many CIBs are contributing to sustainability, there will be increasing pressure from stakeholders, both internal and external, to demonstrate progress. As such, CIBs need to develop systems and processes for capturing and reporting ESG data.

ACT NOW TO SECURE FUTURE COMPETITIVENESS, RESILIENCE AND PROFITABILITY

CIBs are facing a multitude of significant long-term challenges that can only be overcome through transformation of traditional business and operating models. They also have a vital role in supporting clients, the economy and the transition to a more sustainable society.

CIBs must leverage the agility and flexibility demonstrated during the crisis to build the foundations of a new business and operating model that will be more competitive, resilient and profitable.

The time to act is now.



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