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A Turning Point for Investment Bank Business Models

US and European investment banks will be put to the test, as well as the raison d'être of the financial market

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Summary

- As digitization and greening accelerate in the wake of the Corona disaster, investment bank business models seem to be at a turning point toward the establishment of a long-term next-generation model. A misjudgment at this point could lead to a questioning of the *raison d'être* of investment banks and the financial markets.
- After the global financial crisis of 2008, regulations were strengthened, and the US and European investment banks worked on restructuring, including downsizing and restructuring of their proprietary FICC businesses, in order to move away from a high-risk, high-return business model.
- The increasing digitization of the market has greatly replaced the role of the financial intermediary with high-frequency traders. Competition among stock exchanges has intensified. High-frequency, high-volume transactions aimed at short-term investment have increased regardless of the market, and the quality of the market has begun to deteriorate due to the partial malfunctioning of price discovery.
- On the other hand, the tendency toward going green as seen in ESG investments, require investors and investment banks to transform their investment policies toward emphasizing the results of investments that enhance economic and social sustainability over the long term.
- Investment banks will need to transform the ESG research ecosystem and move to a wealth management-centric business model that enhances the quality of advisory services, leveraging technological innovations in solutions oriented toward the ESG area to reflect individual investors' interest in ESG and investment policies in specific long-term investments.

Attention

This report is a summary translation. The official document is only in Japanese, included in the DIR Research Quarterly Review (Vol.42).