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Will investment banking survive? Regulatory changes and technological advances are altering the investment banking landscape.

Zurich, 15 April 2015—Investment banking is undergoing unprecedented change. Recent regulatory changes will push investment banks further away from their trading-related activities, further encourage disintermediation of financing, and cause some businesses to stop functioning. Digitalization and FinTech also pose a serious threat to the existing universal banking model. Investment banks should react fast by fostering in-house FinTech innovations and by cooperating and creating multi-bank portals, reveals the SFI White Paper study—The Future of Investment Banking.

According to an SFI White Paper study, recent regulatory changes and technological advances are having a tremendous effect on investment banking. Some businesses will stop functioning, disintermediation of financing will be further encouraged, and existing business activities may be taken over by new competitors. Prof. Semyon Malamud, Swiss Finance Institute Assistant Professor of Finance at the École Polytechnique Fédérale de Lausanne, investigates the impact of these changes on investment banking businesses and highlights future trends and opportunities for investment banks to help strengthen the Swiss financial center. The main conclusions of the study are:

- Strict capital requirements and market regulation will continue pushing investment banks further away from their market-making and trading activities. Some businesses will clearly stop functioning while others will only survive if existing business models change completely.
- Securitization markets will continue to grow—investment banks should restore investors' confidence in asset-backed securities (ABS) and securitization and could cooperate to create Swiss multi-bank platforms that only accept high quality ABS for trading.
- Disintermediation of financing will be further encouraged—the Swiss financial center should rapidly invest in developing new shadow-banking institutions and strengthen cooperation with existing shadow banks. If this is not done, many of investment banks' intermediary functions will become redundant and will, to a large extent, be taken over by shadow banks.
- Pension funds' increasing footprint in capital markets and shadow-banking activities opens, for investment banks, important opportunities for strategic cooperation.
- The globalization of trade will benefit global investment banks that act as major intermediaries in international markets, but increasing competition from "local" national investment banks lies ahead.

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- Digitalization and FinTech niche players pose a serious threat to the existing model of universal banking and will push margins down—the Swiss financial center can reduce this threat by establishing multi-bank portals, creating a Swiss data-aggregating hub, providing real-time research information to clients, and creating in-house FinTech development incubators and accelerator spaces.

Numerous opportunities exist for Swiss investment banks to remain competitive in the current rapidly changing environment. The paper reveals how these opportunities could optimally be exploited and how collaboration between Swiss investment banks could help to position Switzerland as a leading center for financial innovation.

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