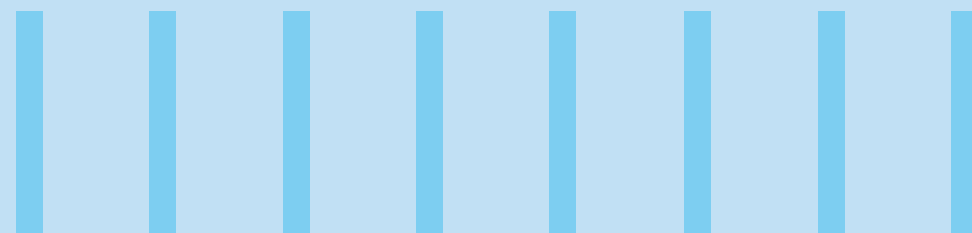# INVESTING IN AN AI-FIRST FUTURE WITH INVESTMENT BANKING

Investment banks perform a range of critical functions, including corporate advisory, capital issuance, research and valuation, trade execution, and risk management. These firms operate in complex global financial markets where connectivity, asset class coverage, execution speed, real-time analytics, and a resilient and scalable technology platform is critical.

As the clients of investment banks globalize and become conscious about sustainability and net-zero goals, their demands from the investment bankers have evolved. Simultaneously, macro-economic uncertainty, competition, and increased regulatory scrutiny are resulting in margin compression and a shift towards fee-based income.

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From digital-first to AI-First

Investment banks have been heavily investing in digital transformation; one source estimates that corporate and investment banks are allocating one-fifth of their total spending to technology investments.[1] Many firms are already leveraging digital technologies to improve customer experience, enhance operational efficiency, and modernize core platforms. And now, with the rapid evolution of Artificial Intelligence (AI), investment banks should look at advancing their capabilities from "digital-first" to "AI-First".

While digital-first focuses on adoption of digital technologies, AI-First offers the promise of hyper-personalizing offerings, improving research, uncovering trading opportunities, and reducing operational overheads while ensuring compliance with regulations and keeping client interest and trust as the north star.

Achieving such strategic goals requires enhancing the operating model with embedded AI capabilities underpinned by a robust and responsible governance.

Potential AI use cases for investment banking

While AI offers immense potential across the investment banking value chain, listed below are a few use cases illustrating its impact in different areas:

Accuracy in valuation and assessment of the market demand is critical when a corporate client wishes to raise capital. Even minor deviations can adversely impact the corporate and the underwriting investment banks. AI can enhance the investment banks' ability to predict the expected market demand for a given valuation and enable their corporate clients' firms to up the issue price and size.

Differentiated research capabilities can have a direct top-line impact for an investment bank and can help it build a reputation and a competitive advantage. AI can significantly enhance the research capabilities of the investment banks by synthesizing unstructured and alternate data like weather information, sentiment analysis, and satellite and video imagery in addition to traditional sources like financial statements, investor / analyst meetings, macroeconomic analysis, and regulatory filings to offer deeper and personalized insights.

Analysts and front-office staff spend significant time in compiling macroeconomic, industry, asset class, investment, and risk management reports based on in-house research. GenAI can be leveraged for automating generation of such reports, which can then be presented to front-line staff for refinement. Such tools can improve front-office experience and productivity.

Effective collateral utilization for margining and trading can result in a revenue uptick. Advances in AI and compute capabilities can provide near real-time insights that can help traders optimize the collateral utilization globally, not just for a specific desk or entity or region.

While some of the sophisticated investment banks have algorithmic trading capabilities, advances in AI now enable some additional use cases like early warning on the impact of yet-to-be-executed trades on risk thresholds and xVA. Investment banks also have an opportunity to enhance their model validation capabilities through the use of alternate data models.

Amid all these possibilities, the success of an investment bank depends significantly on their ability to prioritize use cases that deliver the most value. Here, an AI-First framework can help identify where to deploy AI – to build the foundation, to strengthen the core of the business, or to spur growth.

		Front Office	Marketing, Sales, and Research: Personalization at Scale	Deepening Relationships: Helping Trading and Relationship Management Help Clients	Trading, Investment Research, and Structured Products
AI-First Growth	FS Specialized AI Assistants Ecosystem				
AI-First Core		Middle and Back Office	Client Onboarding, KYC	Product Control, Risk Management	Trade Operations, Collateral Management
AI-First Foundation		Foundation	Modernizing Tech, Infra, and AIOps	Talent and Change Management	Getting Enterprise Data Ready

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200+ FS Use Cases with Sub-segment Blueprints

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Enterprise Scaling Applied AI Platform- Discover, Democratize, and Derisk

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Smart Data Fabric and Layered Data Platform Framework

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Infosys Responsible by Design A13S Suite (AI Risks and Regulations Specific to Financial Services)

Mind the risks

There are several risks and challenges along the AI journey. As the trusted advisors to institutional clients, investment banks are obliged (by regulatory mandate or ethical code of conduct) to not misuse their positions in the market to act in ways antithetical to their clients' best interests. For example, investment banks need to comply with the best execution regulation, implementing robust governance to avoid misuse of material non-public information. They also need to maintain client confidentiality, honor intellectual property rights, and adopt arms-length best practices when interacting with other business units of the firm. When adopting an AI-First approach, investment banks must not only respect these boundaries but also bear the onus of proving the same to regulators, if required. This means ensuring their AI models are both explainable and ethical in their behavior, which can be quite challenging.

Go forward in investment banking, AI-First

AI has the potential to transform all aspects of investment banking. Adoption of AI is not a short-term trend, but a strategic move that can drive innovation, deliver differentiated customer experience, enable insightful decision support to front-office, and ensure operational efficiencies. As an AI-First organization, an investment bank needs to embed AI throughout its operating model with supporting policies, procedures, and governance models. At the same time, it must address the many questions around transparency, data security, intellectual property, and fairness.

At Infosys, we have built detailed AI use cases based on our engagements with global financial services firms. Along with our own technology capabilities and robust responsible AI framework, we bring industry partnerships and alliances to help our clients take an AI-First approach into the future.

References

[1] https://www.marketsmedia.com/corporate-and-investment-banks-devote-20-to-technology-spending/

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