Eight challenges plaguing investment banks

Investment banking is an industry in crisis. A raft of incremental change programs is doing little to address the issues.

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1 Profitability destroyed

FY14 industry **ROE of 8%** is well below the cost of equity.

2 Efficiency and productivity crisis

Over the last three years, **only one investment bank** has managed to achieve an average cost-to-income below 60%.

3 Structurally higher costs

Aggregate costs for major investment banks were **25% higher in 2014** than in 2005.

4 Controls failures

US$104b

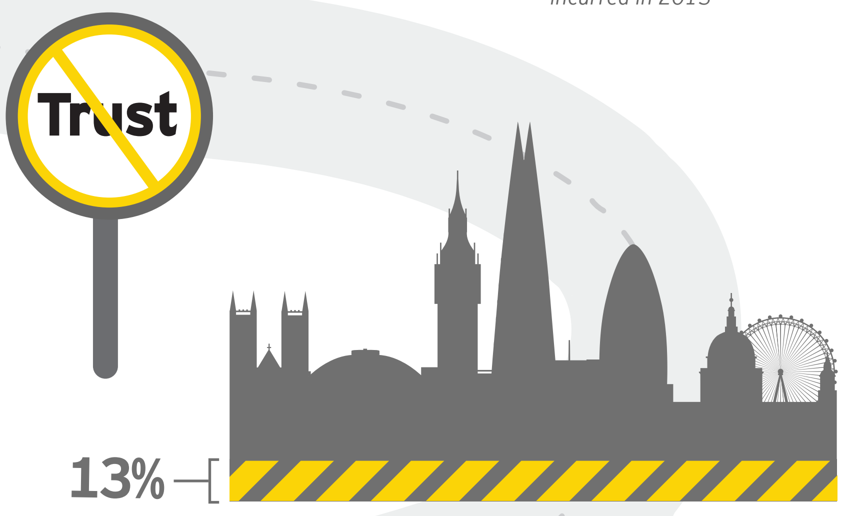
Combined investment banking fines, litigation and major trading losses from 2007 to 2014 = US$104b. This is equivalent to:

- **2.8%** reduction in annual ROE, 2007-14
- **6.6%** of aggregate revenues, 2007-14
- **37%** of aggregate 2014 revenue

Additional fines have been incurred in 2015

5 A cultural crisis

A recent survey found that **just 13%** of UK respondents believe that people who work in investment banks in the City of London generally behave honestly.



6 Misaligned products

Many institutions have too many variants of **similar products**, whose costs are too high and revenues too low to justify them.

7 Legacy technology

Banks spend **75%** of their IT budgets on systems maintenance.

8 Intensifying competition

Boutiques advised on **22% of M&A deals globally** in 2014, up from just 16% in 2007.

15% ROE

If investment banks are to progress from today's protect-and-survive mode, overcoming these obstacles in the next 24 months is critical.

Transforming investment banks finds that achieving sustainable returns on equity of 12%-15% is possible but will require radical change to both business strategy and operations.

Discover the four pillars of change that support the path to future success.

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