



The role of investment banking in economic development of India: Past, Present and Future

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Abstract

An Investment Bank is a financial intermediary between an investor and an issuer and helps companies and large institutions in raising capital. Large businesses, institutions, and individuals use them for consulting services. Investment banks help institutions and private investors underwrite new debt and equity securities, assist in the sale of securities, and arrange mergers and acquisitions (M&A). For the tasks and services, they provide, investment banks have grown in importance in the capital markets. The study's goal is to discover the services they provide that have made them essential, as well as the problems they face now and in the future. Technology will be the largest threat for investment banking, as the world is heading towards a FinTech environment. Until the epidemic struck the whole economy, there was steady growth in the world's leading banks. Banks seek to expand in the future, and it is estimated that annual growth will average 8.4% during the next decade.

Keywords: Investment banking, underwriter, mergers and acquisitions

1. Introduction

Banking is an industry that deals with money, credit, and other financial activities. Banks are institutions that accept deposits and extend credit to individuals and businesses. They play an important role in a country's economic stability. Banks are subject to rigorous supervision due to their role in the economy.

Investment is a term used to describe an asset established with the goal of allowing money to grow. It is an important component of building wealth since it helps you fight inflation, achieve your financial objectives, and secure your financial future (Iannota, 2010) ^[5].

Investment Banking is one of the most complex financial mechanisms in the world. It is a financial institution that provides services such as securities underwriting and brokerage. They are useful for a variety of applications and companies. They offer a variety of financial services, including proprietary trading (Where they trade securities for their own accounts), mergers and acquisitions advisory (where they assist companies in M&As), leveraged finance (where they lend money to companies to buy assets and settle acquisitions), and restructuring (Where they improve company structures to make them more efficient). (J, n.d.)

Investment banking is a branch of banking that specializes in assisting individuals and businesses in raising cash and providing financial advice. They act as a link between security issuers and investors, as well as assisting new businesses in becoming public. They either acquire all available shares at a price determined by their experts or resell them to the general public, or they sell shares on behalf of the issuer and receive a commission on each share sold. Investment Banks are split into three divisions- front office, middle office, and back office. Each sector is different from the other, yet they all play a critical part in ensuring that the bank generates money, controls risk, and functions efficiently.

Investment bankers have a major contribution to the society. They help businesses raise funds so that they may offer new products and services to the market. It's no surprise that the most developed countries' financial institutions are generally the broadest. The wealth generation process has been expedited by the existence of investment infrastructure created by the investment banking industry. The company meets their capital needs and the investors can use their saving to earn capital. This helps in mobilization of capital in the economy and eventually leads to the growth of the economy. (Institute, n.d.)

2. Literature Review

(Prackash, 2018) ^[15]: Investment banking has grown in importance in the Indian capital market because of a variety of factors, including investor knowledge of investment banking and the various other functions performed by investment banks. The aim of this research paper is to demonstrate the role of investment banks in the current situation. The current research was descriptive and relied on secondary data. The research demonstrates the growth, development, functions, and significance of investment banks in the Indian economy. The study's main goal is to determine how investment banks increase the country's wealth and their position in economic development. It examines the different roles that investment banks perform. Investors and those selling shares are matched by investment banks. Investment banks alleviate capital shortages by encouraging savings and investment. It gathers the community's limited and dispersed savings and makes them available for investment in productive enterprises. It is concluded that investment banks play a significant role in economic growth.

(B.SUPRIYA, Jan, 2019) ^[1]: This paper provides a brief overview of investment banking and discusses the different positions that investment banking plays. Investment banking

encompasses a wide range of operations such as underwriting, selling, and mercantilism shares, as well as money consulting and asset management.

(Mourya D. S., 2019) ^[14]: The working functions and scope of investment banking in India are presented in this paper. The functions of buying and selling corporate securities are shared by investment banks. They buy securities and provide advice to various institutions involved in purchasing securities, such as private equity funds, mutual funds, hedge funds, and so on. The study compares bank growth over a three-year period, from 2016 to 2018. It is revealed that the previous year was a golden period for Indian investment banks, as the rate of FDI increased in India, as did the number of Indian companies raising capital from international and domestic investors. It was also concluded that investment banking has a lot of potential in India. It is now one of the most in-demand industries.

(Kumar, Investment Banking: The Emerging Challenges): Investment banking as a discipline has evolved over time. Previously known as an underwriter or a selling agent, the investment banker has evolved into a consultant or counsellor who guides the investor through the whole deal and maintains effective relationships long after the transaction is completed. To thrive in an industry with the competition, he concludes that investment banks of the millennium must be aware of their roles and obligations, as well as diverse and detailed in their product offerings.

3. Objectives of the study

- To assess various services offered by an Investment Bank.
- To identify the challenges and trends in Investment Banking profession.
- To assess the current scenario of Investment Banking in India.
- To analyse the future of the Investment Banking sector.

4. Data Analysis

Services Offered By Investment Banking

Underwriting: One of the key business sectors of an investment bank is underwriting. Underwriting is a service provided by investment banks to help firms and governments raise open market financing. When a company wishes to undertake an initial public offering (IPO) in the primary market, it hires an investment bank to underwrite it. In their position as underwriters, investment banks prepare the whole public offering in advance. (Types of Investment Banking Services, n.d.)

Sales and trading: The responsibility of a large investment bank is to acquire and sell items on behalf of the bank and its clients. Traders that engage in market making buy and sell financial products with the purpose of earning profits from each transaction. The term "sales" refers to the investment bank's sales staff, whose primary responsibility is to present trading ideas to institutional and high-net-worth investors and collect orders. The sales desks then forward their clients' orders to the appropriate trading desks, which can either price and execute transactions themselves or price and execute deals independently. (Rath, 2017) ^[16]

Research: The equities research section assesses businesses and creates reports on their prospects, often with "buy" or "sell" recommendations. Investment bank sell-side analysts frequently cover a wide range of sectors. Through their sponsored funds or proprietary trading desks, they will be able to access buy-side research. (Rath, 2017) ^[16].

Provision for financial advice: All investors demand counselling and advisory services while investing funds in any field, thus the investment bank also acts as a merchant for all clients. Portfolio management, client financing, stock market brokering, government assistance, handling public company difficulties, and working with small enterprises and firms are among the services it provides. (Mourya D. S., 2019) ^[14]

Mergers and acquisitions: Investment banks' major role in mergers and acquisitions is to give advice, which includes aiding in transactions between the Acquiring and Target Companies as well as debt restructuring. These services became more popular throughout the 1960s, when conglomerate formation was prevalent. The big investment banks recognized that this line of business might be profitable since M&A deals occur multiple times over the course of a company's life span, whereas IPOs are a one-time event. (Misra)

Asset management: Asset management is another lucrative industry for investment banks. For their clients, investment banks typically function as personal asset managers. Asset management services are used by large insurance companies, government provident fund agencies, and other organizations. For their clients, investment banks create an efficient portfolio that maximizes earnings while accepting a certain degree of risk that the client is prepared to tolerate. In such cases, the assets under management are plainly substantial, and investment banks charge a fee based on a percentage of the assets under management. (Types of Investment Banking Services, n.d.)

Challenges and Trends

Challenges faced by the investment banking sector include

Structuring skills corporate financial obligations have become increasingly difficult as they have become more complex. They are no longer happy with off-the-shelf goods and expect their investment banks to tailor items as per their unique requirements. In these instances, it is important to develop solutions that are specifically tailored to the transaction. As a result, new skills and experience is required in launching and producing new financial products (Kumar).

Competition: The entry of international firms into the Indian investment banking market has had a significant influence. Global businesses provide a wealth of knowledge, transaction structuring skills, and financial muscle to Indian markets, while Indian investment banks compete fiercely with global firms. Despite international banks' admission, the country's domestic investment banks confront stiff competition. Fees are constantly falling, placing greater strain on margins. (Kumar, Investment Banking: The Emerging Challenges)

Skilled personnel: Efficient and quick learners must be hired and retained. Investment banking is a knowledge-based sector, with human capital being one of its most significant assets. An investment bank can't afford to not provide regular and comprehensive training to its employees. Finding the best applicants is similarly difficult for recruiters. The firm's potential human resource is supposed to be an asset, and it is the firm's responsibility to ensure that its workers are adequately trained, effectively

used, and fairly rewarded. (Kumar, Investment Banking: The Emerging Challenges)

Technology: One of the major challenges in the future that is likely to be faced by Investment Banking sector is that of Technology. Rapid technology developments have had a profound impact on every industry on the globe. In the realm of investment banking, it's no different. Fintech is a very new industry that has only been around for a few years. Fintech refers to the use of financial technology to provide equivalent financial services at a lower cost. Fintech companies, for example, have shown that they can obtain capital more quickly than investment banks. Because they have access to cutting-edge technologies and a modern network, they are able to generate funds at a lower cost. In addition, they have a greater reach than traditional investment banks. (Juneja, n.d.)

Integrated services: All services provided by an investment bank must be available at one place. This policy is known as Customer Relationship Management. In recent years, larger investment banks have tended to attract talent and expertise, making it more difficult for smaller businesses to maintain knowledge. Specialist firms may soon be pushed out in favour of well-integrated investment banks. (Kumar, Investment Banking: The Emerging Challenges)

Likely future trends in the investment banking sector

Digitisations: Big data, interactive platforms, blockchain, augmented and virtual reality, and mobile technologies have led the way in the banking sector. In this sense, digitisation is not a new term, since it will help investment banks and clients eliminate needless procedures and intermediaries, making things easier for both parties. E-trading is the most commonly utilised technology in the financial business. This emphasises the critical necessity for diverse trading platforms and investment banking IT systems to be modernised. We're all aware that technology tends to make workplaces safer, more productive, and better for users. (Future of Investment Banking: Eye-Opening Trends and Challenges to Consider, n.d.)

High-frequency trading: According to an Orbis research, from 2020 to 2026, the global high-frequency trading market would grow at a positive pace. HFT systems examine the market and find new trends in a fraction of a second using sophisticated algorithms. The most typical users of high-frequency trading are large investment banks. HFT businesses may anticipate large trade returns, allowing for a more systematic approach to active trading. HFTs will grow increasingly common in the next years, despite the fact that they are primarily advantageous to large

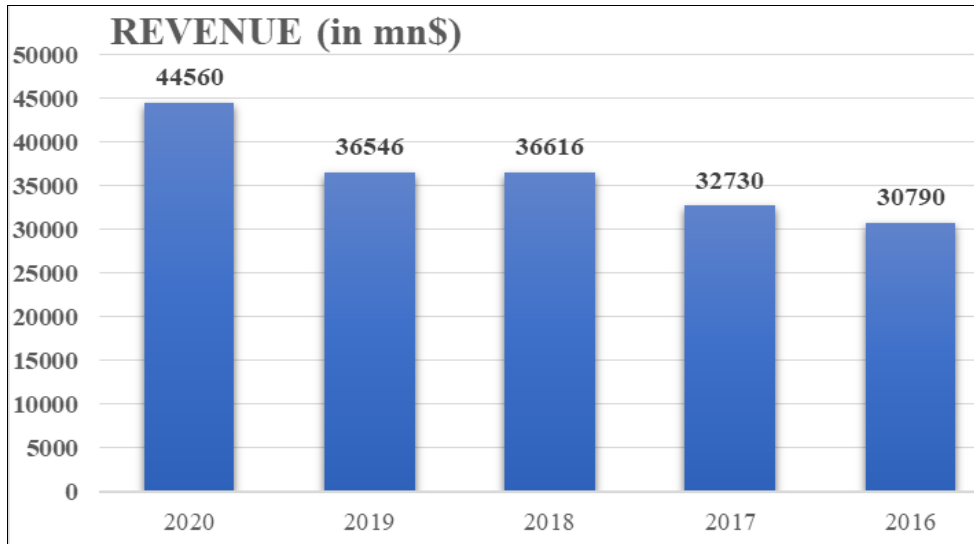
enterprises. (Top Investment Banking Trends to Watch in 2021, n.d.)

Virtual IPO's: As a result of the epidemic, businesses have been compelled to opt for a virtual IPO. An IPO's roadshow and pricing can take up to two weeks, and it is based on face-to-face meetings between management and potential investors. The procedure was mechanised during the pandemic, which shortened the time in half. Lockdowns also increased the need for remote connections and transactions. There will now be virtual roadshows and test-the-waters gatherings. Goldman Sachs created the "Deal Link" AI system to track legal diligence and reports necessary for a successful IPO. (Top Investment Banking Trends to Watch in 2021, n.d.)

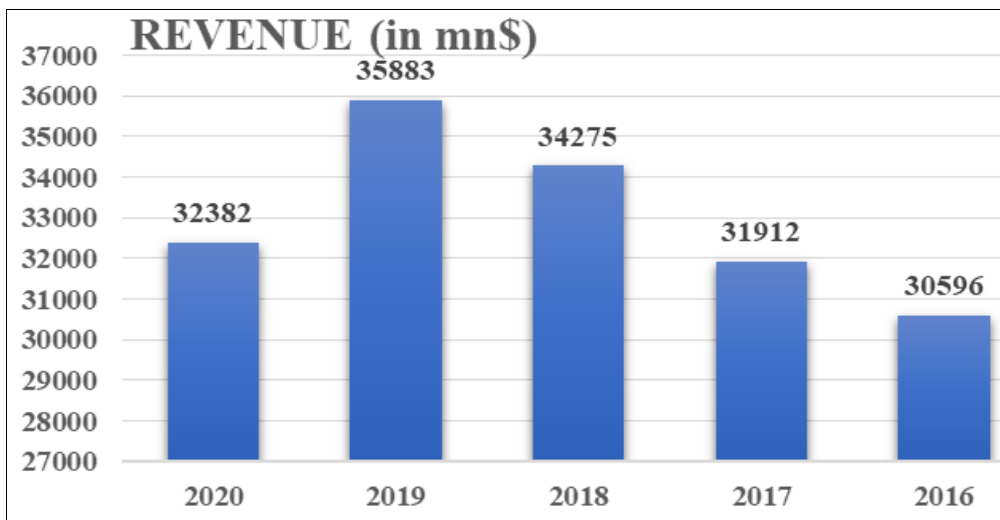
A shift in hiring trends: Job redesign is becoming increasingly crucial as investment banks change their attention to new technology. They must ensure that their personnel profiles are current in terms of new technology, regulations, risks, and advancements. Furthermore, investment banking is one of several professions that rely heavily on face-to-face customer connection. The nature of investment banking professionals' work is changing as a result. People from a number of sectors, including IBM, Microsoft, and other technological organisations, have come to work for investment banks. Investment bankers need to brush up on their abilities and get a deeper knowledge of these new technology (Top Investment Banking Trends to Watch in 2021, n.d.).

Environmental, social and governance (ESG) investment surge Amid COVID-19: ESG investing is an investment approach that is based on the concept of "sustainable investing." Companies are promoting ESG investing as a method to successfully limit negative business consequences in the middle of the epidemic. Increased interest in ethical investment and more governments/agencies using social bonds as a key alternative for increased funding needs to compensate for lost business and constrained finances during the COVID-19 pandemic resulted in a significant increase in social bond issuances. Europe has been the global leader in social bond issuance, accounting for nearly half of the issuance volume in the 11 months leading up to November 2020. All of this would result in a green shift in the following years. (Investment banking industry – Trends to watch in 2021, n.d.)

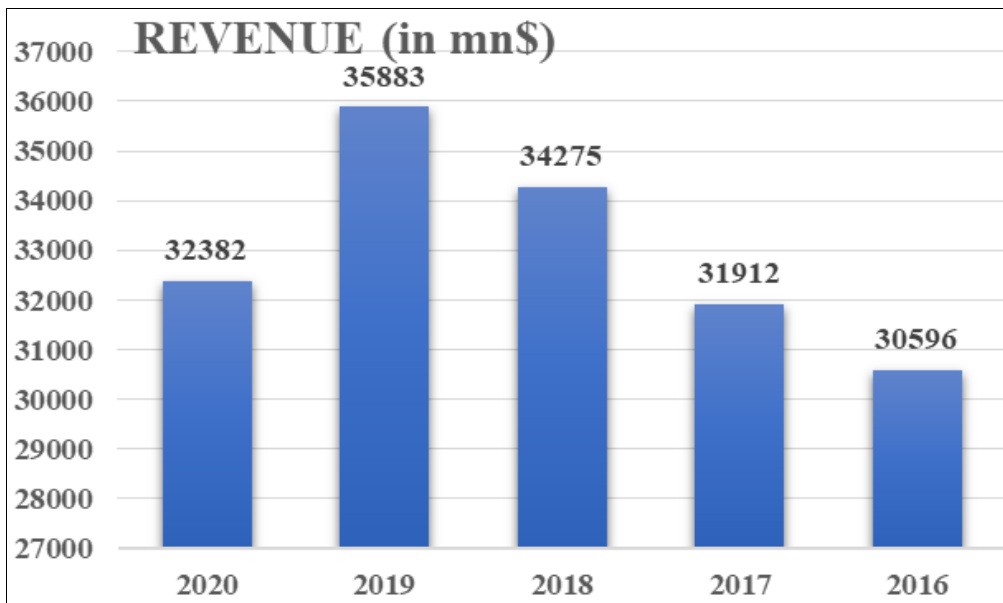
Current scenario of investment banking sector worldwide
Year-wise revenue of top Investment Banks



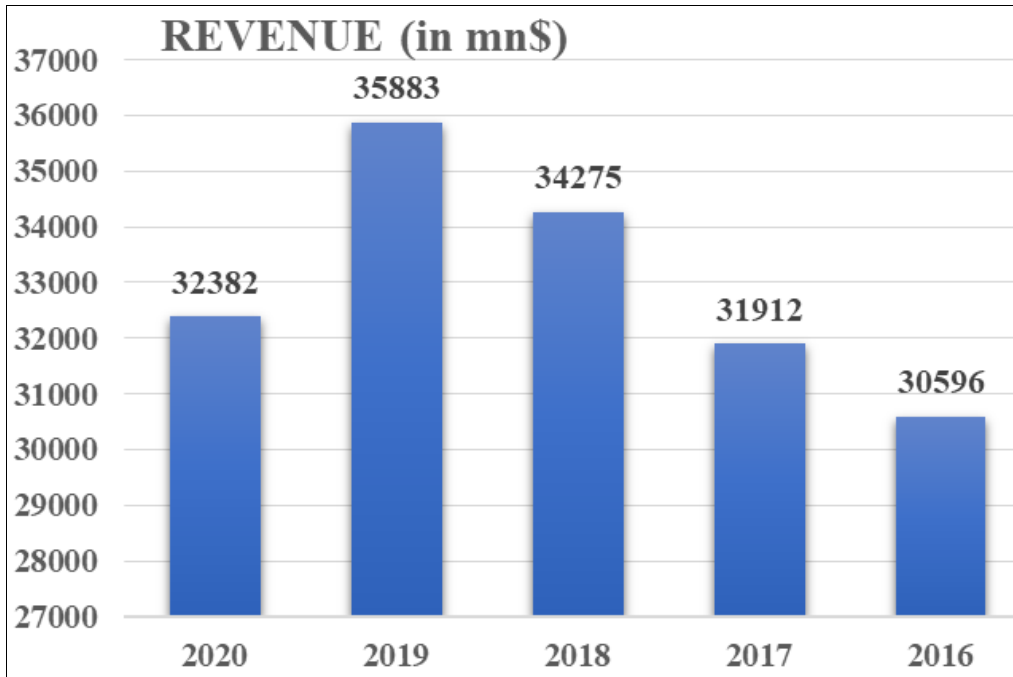
(Goldman Sachs Revenue 2006-2021 | GS, n.d.)



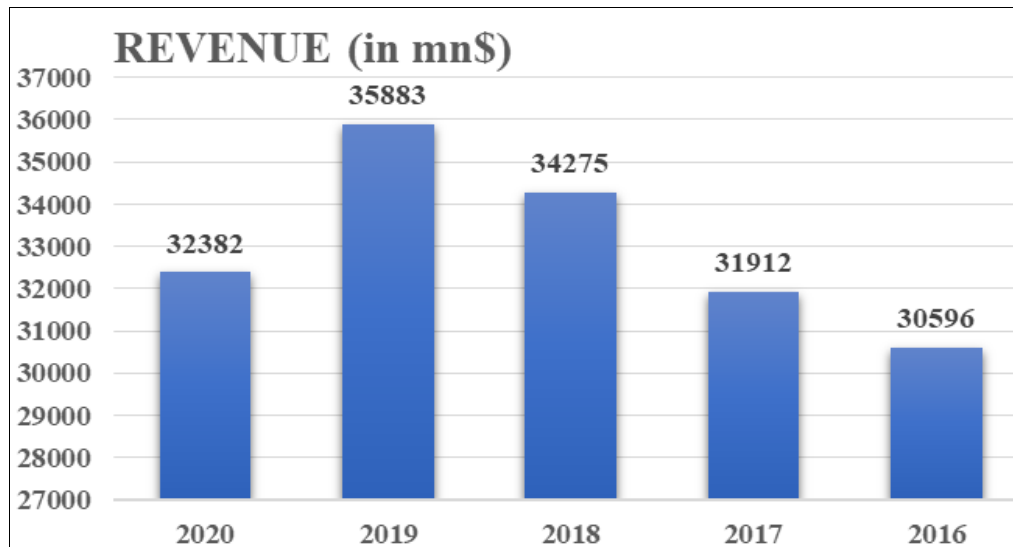
(JPMorgan Chase Revenue 2006-2021 | JPM, n.d.)



(Morgan Stanley Revenue 2006-2021 | MS, n.d.)



(UBS Group AG Revenue 2015-2021 | UBS, n.d.)



(Credit Suisse Group Revenue 2006-2021 | CS, n.d.)

The above data consists of revenues of 5 of the world’s top Investment Banks from year 2016-20.

As seen, the revenue for the year 2020 has decreased because of the global pandemic. In previous years, 2019 has been the strongest year for investment banks. This industry has had continuous growth from 2016 to 2019. Investment Banks have expanded substantially throughout the years, and based on the current trend, they are likely to continue to grow in the future.

In terms of revenue, JP Morgan covers the largest share of the investment banking business, followed by Goldman Sachs and Bank of America Securities. Geographically, America has the biggest portion of the global Investment Banking industry, accounting for 65.10 percent, followed by Canada, which has a share of 20.4 percent.

Analysis of scenario of investment banking in India 2019

Investment banking activities in India produced US\$1.0 billion in 2019, up 5.2 percent from the previous year and the second highest yearly period after 2017 (US\$1.2 billion). Underwriting fees at Debt Capital Market hit a new

high of US\$251.7 million, up 70.1 percent from the previous year. Underwriting fees at Equity Capital Markets were US\$165.2 million, up 1.6 percent from last year, while syndicated lending fees were US\$322.4 million, down 5.1 percent from last year. Completed M&A advising fees have also slowed, totalling US\$301.3 million, down 11.2 percent from a year ago's high.

With 11.2 percent market share and \$116.4 million in related fees, State Bank of India topped India's investment banking fee league tables. Axis Bank Ltd came in second with an 8.3 percent market share, followed by ICICI Bank Ltd with a 7.6 percent market share. (Refinitiv Deals Intelligence)

2020

Investment Banking fees totalled \$222 million in the quarter ending March 2020, down 33% from the previous year. According to the statistics, Investment Banking activities in India have reached a three-year high, generating \$1.025 billion in 2020.

While overall fees increased by 2.5 percent in 2019, revenues derived from equity capital market (ECM) underwriting increased by 70 percent to \$291.7 million, the highest in more than a decade. Completed mergers and acquisitions (M&A) advising fees, on the other hand, decreased 5.1 percent year over year to \$303.2 million, the lowest level since 2017 when it hit \$301 million.

In India, debt capital market (DCM) underwriting fees totalled \$213.3 million in 2020, down 17.6 percent from the previous year, while syndicated lending fees totalled \$216.9 million, down 13.5 percent from the previous year.

With a 12 percent wallet share and \$123.2 million in associated fees, ICICI Bank topped India's investment banking fee league tables. Morgan Stanley came in second with \$109.6 million in fees, accounting for 10.7% of the wallet share, while the government-owned State Bank of India (SBI) came in third with \$101.1 million in fees, accounting for 9.9% of the wallet share. (Bhuva, 2021) ^[3]

Future of investment banking

The worldwide investment banking industry is anticipated to expand at a compound yearly growth rate of 8.4% from \$102.84 billion in 2020 to \$111.45 billion in 2021. The increase is primarily due to companies reorganising their operations and recovering from the impact of COVID-19, which had previously resulted in restrictive containment measures such as social distancing, remote working, and the closure of commercial activities, all of which created operational challenges. At a CAGR of 5%, the market is anticipated to reach \$137.97 billion in 2025. (Investment Banking Global Market Report 2021: COVID-19 Impact and Recovery to 2030, n.d.)

5. Conclusion

Despite all of the efforts, the greatest obstacle is yet to come: the technological world. With each passing day, the world becomes more digitally sound and dependent, and the investment banking industry is no different. Many operations in this industry are also being taken over by technology. As a result, banks must plan to adapt to these developments in order to survive and lead. With technological development comes the issue of security, as the risk of financial data leakage and hacking increases. As a result, businesses must exercise caution when it comes to the protection of their clients' and company's data.

The investment banking business has been negatively impacted by the current Covid-19 issue, and even the world's biggest banks have had to deal with the consequences. In the year 2020, bank revenue decreased by a significant amount. It can be observed that North America accounted for 46% of the market. Economic, technical, legal, political, social, and environmental issues will all have an impact on banks. It is predicted that the industry would expand at an annual pace of 8.4 percent in the future. This may be accomplished by making required operational changes and having the ability to adapt to change.

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