Research on the Investment Banking Transformation in the Post-epidemic Era

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Abstract. The epidemic of COVID-19 breaking out led to devastating effects to economy in the word in 2019 except investment bank. This paper researches the reasons why profit of investment banks will drop off after epidemic and the importance of this research is to help investment banks find sustainable growth transformations in the future. The research analyses JPM as an example. Its operations have a stable growing in rate of profit during COVID-19 but turning back to pre-pandemic and this enterprise transform in the field of fin-tech after the epidemic. And the analysis of SWOT results in the importance of transformation of investment bank investment banks. Overall, five suggested transformations will be illustrated to keep investment bank profits growing, which including Fin-tech transformation, financing form innovation, derivative product innovation, new fund product and green finance innovation. Some enterprises have already executed these transformation methods and get success in keeping their profits growing. Finally, all the significance of this thesis is to provide suggested methods to help investment banks to have a sustainable growth even they face to stumbling challenges like COVID-19 that market cannot control.

Keywords: Investment Banks transformation · Post-epidemic period · SWOT

1 Introduction

The COVID-19 pandemic has spread around the world since the end of 2019. as a result, it not only leads to a decrease directly in economic activities and global economy takes the hit, but also the business performance of various industries are impacted severely around the world. Decreasing profit of investment banks during the post-epidemic period has become a common trend and there are a number of media and professional plateform discuss about it. The topic of investment banks how to transform in era is hit. This research have did literature research about the recent development of investment bank especially before and after epidemic. Through the study titled *Business Analysis of Major U.S. Commercial Banks Under the Influence of COVID-19* and *The realization path of transforming financial asset management company into investment bank*, Lin & Liu (2020) addresses that even the business of investment banks benefit from the situation of COVID-19, like fund innovation in the field of online-business and M&A [1, 2].

F. Balli et al. (Eds.): ESFCT 2022, AEBMR 226, pp. 1223–1232, 2022.

https://doi.org/10.2991/978-94-6463-052-7_136

During the period of the epidemic outbreak, approximate industries suffer from huge losses in terms of profits, customers, market and trade Chanel. However, investment banks are an exception. Their earnings show a sharp increase in against the current. Even the sharp rise in investment banking development prospect is prosperous, the trend of profits will slow down to the similar pre-pandemic level. So how investment banks can continue to increase profits through transformation in the post-epidemic era.

This research is divided into three parts. The first part takes JPMorgan Chase as an example to explain why the profits of investment banks in the post-epidemic era will decline and return to the pre-epidemic level and what types of transformation method JPM Chase has adopted to solve this stumbling problem, the decreasing profit at the end of COVID-19. The second part analyzes the necessity of investment bank transformation with SWOT. The third part renders suggestions on the transformation of investment banks in the world.

2 Case Study of JPMorgan

2.1 Background

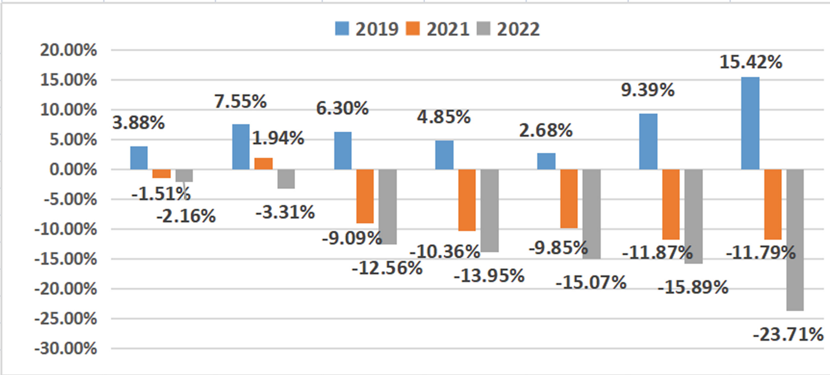
Since December 2019, the global spread of COVID-19 has not only hit the American economy, but also brought a severe impact on the operating performance of the US banking industry. The economic activities has reduced directly due to global spread of COVID-19 and customers' financial demands combined with the global economic recession, the collapse of crude oil prices, financial market turbulence and the continued easing of global central bank monetary policies. So the operating model of the global banking industry is facing tough challenges and risks. Through the returns of the the financial services sector, the banking sector increased to 6.3% when outbreak began three years ago and 9.09% in the last year. It witnessed a sharp decrease in 2022 (12.56%) (Fig. 1).

Even in COVID - 19 outbreak, Guo (2020) states that JPMorgan set a benchmark for global banking industry. JPMorgan grasps the market opportunity tightly and grew resilient. It gives full play to the advantages of digital transformation to perform the social responsibility actively, contrarian growth assets scale, rise capital adequacy ratio steadily and fast repair valuations. It reflects the development characteristic of enterprises that powerhouse is an eternal powerhouse [3].

2.2 Performance During the Epidemic

2.2.1 JPM's Profit Change During Epidemics

For the full year in 2020, JPMorgan's net profit rose significantly to $29.131 billion, which decreased by 20.04% from 2020 to 2019. However, in 2020, the profit increased from $2.865 billion in the first quarter to $29.131 billion at the end of the year, which was nearly 9 times increase. From the macroscopic view, this reflects that the negative impact of the epidemic on the banking industry has been initially contained at the end of 2020. Meanwhile in 2021, the year after the epidemic, the profit dramatically increased by 0.66 times, nearly 48.334 billion [4].



Financial Fields	Financial Service Industries	Insurance	Bank	Credit	Asset Management	Diversified Financial Service	Capital Market
2019	**3.88%**	**7.55%**	**6.30%**	**4.85%**	**2.68%**	**9.39%**	**15.42%**
2020	**-1.51%**	**1.94%**	**-9.09%**	**-10.36%**	**-9.85%**	**-11.87%**	**-11.79%**
2021	**-2.16%**	**-3.31%**	**-12.56%**	**-13.95%**	**-15.07%**	**-15.89%**	**-23.71%**

Source: website of value master （figure credit: original）

Fig. 1. Comparison of rate of return in diverse financial industries over the past three years.

In response to the impact on COVID-19, the Federal Reserve cut interest rates more than expected. This is the reason why Morgan profits kept increasing during the epidemic. On the evening of March 15, 2020, the Federal Reserve announced an emergency interest Rate cut, lowering the Federal Fund Rate by 100% points in a historical low between 0% and 0.25%. It was the fed biggest emergency rate cut in recent decades (Pan et al.) [2, 7]. In a normal economic environment, lower interest rates mean lower borrowing costs, thus stimulating borrowing and economic expansion. In terms of net profit increase, it was largely due to a 60% drop on loan loss provisions, the amount bank set aside to cover bad loans. Provisions for loan losses fell to $611 million in the third quarter from $1.5 billion in the previous quarter, and analysts had expected the figure to reach $2.5 billion as the epidemic took a toll on personal income. The financial sector has been hit hard by the outbreak, with the S&P 500 financial index down more than 17% so far this year.

2.2.2 Acquisition of SPAC

Unlike many private-equity firms, JPMorgan's acquisitions have focused on financial growth. OpenInvest, which the company announced last week, is a platform that allows clients to tailor their portfolios to ESG ideas. Also it includes deals like Brazilian digital bank C6, UK online wealth management platform Nutmeg, forest investment manager Campbell Global And 10% staked in the wealth management arm of China Merchants Bank in March. Through buying smaller fin-tech companies, they can advance the asset management business with lower cultural, operational and goodwill barriers than large acquisitions. JPMorgan is able to use its vast network to empower these small businesses and the key here are scalability and how they can connect and leverage these transactions with existing businesses and retail customers. However, the lack of big deals will cause massive financial disruption to Wall Street while driving a spate of small acquisitions, it shows how difficult JPMorgan is now, on one hand, it constrained by regulatory deposit caps and on the other hand, it is surrounded by fierce competition from powerful rivals.

2.3 Transformation of JPMorgan Chase

2.3.1 Fin-Tech Transformation

JPMorgan and many other big banks have been facing fierce competition in the field of fin-tech start-ups around the world. They have been on fin-tech acquisitions and mergers since 2020, investing $12 billion a year in their own fin-tech products on top of those acquisitions. However, JPMorgan plans to have radical transformation, which tend to reorganize the company as a collection of startups with 25 CEO. They will focus on a product-centric approach, including rapid generation selection and lean software development techniques used by tech companies. Global head of technology at JPMorgan, Monica Pamparia, banks may be constrained by traditional systems and hierarchies, but our goal is to ensure that this paper will build an agile organization that is customer-centric, and we are using a lot of data-driven approaches to achieve this [5].

The digital connection between finance and the real economy is weak. Compared with the 2008 international financial crisis, the digital economy is the absolute bright spot on the current economic cycle. Banks, having missed out on the consumer Internet, are keen to rebuild market competitiveness in the industrial Internet phase. Since 2020, banks have built many ecological scenarios, but the connection with the industrial end is still not close enough, lacking entrance and grip. On the whole, industrial interconnection can be cut from three dimensions: circulation transaction, daily production and internal management. At present, Internet companies mainly integrate into regular activities of enterprises through basic digital services such as cloud native, while large production enterprises such as Sany Heavy Industry run through the industrial chain through equipment iot. Objectively, banks mainly provide financial services, which is difficult to be directly related to enterprises' production and operation activities. From a corporate perspective, there is also little appetite for digital links with banks. With the in-depth development of digital economy in China, the two parties may reach a certain game balance, that is, banks take digital connectivity as a prerequisite for financial support, and enterprises also take data as bargaining chips. It is worth noting that the smooth cooperation between the two parties also involves pressing issues such as data pricing and management, as well as the ability of banks to provide non-financial services to enterprises. In this regard, cooperation with Internet companies may become an important option in the future.

2.3.2 ESG Transformation

They also have diversified transformation like Green Finance called ESG which refers to Environmental Society and Governance. Climate and environmental constraints on economic development have been further strengthened and low-carbon transformation of economic development has become a global consensus. Under the current background of green development, financial resources tend to be invested in non-energy-consuming industries and some energy-consuming industries may be unable to effectively increase investment in transformation funds due to lack of financial resources, slowing down the pace of transformation. However, the diversion of financial resources has a certain force and promotion effect on energy-intensive enterprises, which can avoid the enterprises from not wanting to transform due to the huge investment in pollution control and consumption reduction, improve their willingness to take the initiative in transformation, promote enterprises to increase investment in R&D, green technology innovation, and energy consumption and emission reduction at an early date [6]. JPMorgan chase announced a 10-year $2.5 trillion goal in July 2021 to support a variety of companies and projects to achieve sustainable development Goals around the world. $1 trillion from ESG capital will be used to promote sustainable development and climate solutions. JPMorgan has underwritten nearly $8 billion in green, social and sustainable bonds for Chinese clients. Green credit is the largest green financial product in China's green financial market.

3 The Necessity of Investment Banking Transformation Based on SWOT Method

Both the development of fin-tech and the reality of international and domestic economic situation make credit technology become a very important cornerstone of current economic development. Financial services an important part of the real economy is credit technology institutions, technologies and products. If this link is well done, it can promote the improvement of business vitality and better credit subsidence.

3.1 SWOT Analysis

3.1.1 Strength

Under the debt economic model, the bank is the operator of the national balance sheet. With nearly $300 trillion of interest-bearing assets, banks will continue to make money as long as spreads do not collapse into negative territory at the margin. After the outbreak, commercial banks have become the main undertakers of anti-crisis policies. Whether it is passively serving small and micro private enterprises or making profits of 1.5 trillion yuan, commercial banks, as the financial weight of the country, should assume the role.

IPO s before the epidemic usually have 6–8 days for road shows and bookkeeping. If there is a sudden and drastic adjustment in the market during bookkeeping, investors' enthusiasm for participation may be affected, resulting in unsatisfactory subscription effect. After the epidemic, the whole IPO roadshow was moved online, which improved efficiency and shortened roadshow time, and also indirectly reduced uncontrollable factors such as market exposure risk.

3.1.2 Weakness (Product, Internal Weakness)

Economic downturn and financial market fluctuations become the new normal is inevitable, used to incremental economy how banks adapt to the economic stagnation mode. With asset yields falling in a stagnant economy, growth will continue to be driven by the debt side (monetary easing). Therefore, between liquidity, profitability and security, banks should guarantee liquidity through the liability side and eliminate extreme risk security through strengthening risk control, which is the first thing to be considered in the era of post-epidemic uncertainty [7].

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3.1.3 Opportunity

In today's increasingly complex environment, digital transformation is still a long-term trend worth investing in. Stocks are still attractive relative to bonds, and active investing offers more opportunities than passive investing.

(1) There are more opportunities for active investing than passive investing. Guo Xiangjun believes that at present, different styles and plates in the stock market show serious differentiation and rotation, and the performance of the technology-led plate is far better than that of the traditional cyclical industry plate. The current digital trend led by technological innovation and industrial transformation has not changed, but the cyclical and value sector continues to recover driven by the rebound in earnings
(2) In the metal sector, the revenue of precious metals business doubled as investors sought refuge from market turmoil and uncertainties caused by the epidemic. In the energy sector, oil was the key to continued growth throughout the year, driven by large one-off gains and increased corporate hedging activity.
(3) Investment banks can invest in clean energy like green bonds. Lin (2022) states that he process of economic transition to green and low-carbon will create new industrial opportunities and business models. The new opportunities of industrial development will drive new investment. Meanwhile, low-carbon industries will create new jobs in the future to make up for the jobs lost in the elimination of high-carbon industries [8].

The default or postponement of loans has made part of the past credit model fail, so there is an urgent need for a large scale adjustment. All these bring new opportunities and challenges to the development of credit technology, and also bring new opportunities to the change of the pattern of the financial industry. Users in previously sinking markets are being redivided and the business landscape is being repositioned.

3.1.4 Threat (External Event)

(1) In terms of toxic assets, the advisable attitude for managers of investment banks toward to it is that increasing assets with. Bank assets don't look too troubled now, just not yet. As the downturn drags on, banks' risky assets will explode in a transmission structure from periphery to core. The most peripheral and market-oriented credit cards, personal consumer loans and business loans have begun to

Table 1. SWOT analyse of transformation of investment banks

Strength • Cut the time of IPO roadshow • Balance sheet operator	Weakness • Default or extension of a loan • Lower business revenue
Opportunity • Active investment • Metals • Clean energy	Threat • toxic assets • Russia-Ukraine war

deteriorate rapidly under the impact of the epidemic, with personal income declining and cash flow tight

(2) Russia-Ukraine war bring some challenges to Corporate and investment banking revenue. About 7.4% revenue fell down due to lower investment banking fees and a $524 million credit adjustment loss partly influenced by Russia exposure. Profits plunged 42% as Russian risk increased loan loss reserves [9] (Table 1).

3.2 Whether Investment Banks Need to Transform

Through SWOT analysis, although the importance of investment banks during the epidemic made their profits objective and adjusted their IPO bookkeeping time, the impact of internal weaknesses and external factors on investment banks after the epidemic exceeded the favorable impact of investment banks, so it is necessary to continue to increase their profits through transformation.

4 Suggestion

Through SWOT analysis and the case study of JPMorgan Chase, investment banks can have several transformation directions.

4.1 Solution on International Investment Banking Competition: Fin-Tech Transformation

Rapid iteration and lean software development techniques commonly used by tech companies. Large universal investment banks pay close attention to emerging technologies in various segments of fin-tech, quickly acquire corresponding technologies through investment and merger, accelerate technology landing and transform into productive forces, so as to gain investment returns. At JPMorgan, technology investment accounts for about 10% of revenue and 40% of net income each year. Morgan Stanley uses fin-tech to build a strong moat in wealth management. Since 2016, Goldman Sachs has begun to use fin-tech to transform its business and gradually expand its retail banking business to cope with declining performance and pressure on profitability.

4.2 Financing Form Innovation (Solution: Reduce Toxic Assets)

The original investment banking model relied too much on money markets to fund investment banks, and lending to investment banks became increasingly difficult, especially after Lehman Brothers filed for bankruptcy. If converted into a bank holding company, the former investment banking institutions would be allowed to take deposits from customers, which could be a more stable source of funding.

4.3 Derivatives Innovation (Solution: External Events, Control Risks)

That is to arbitrage, increase returns and improve portfolio investment management. Through the establishment and trading of financial innovative instruments, investment banks have further expanded their business space and capital gains. First, investment banks work as brokers to buy and sell such instruments on behalf of clients and receive commissions. Secondly, investment banks can also get a certain amount of income from the spread, because investment banks tend to buy and sell derivatives as the counterparty of their clients first, and then find another client to make the opposite offsetting trade. Third, these financial innovation tools can also help investment banks to control risks and avoid losses. Financial innovation has also broken the boundaries and traditional market division between banks and non-banks, commercial banks and investment banks, and intensified the competition in the financial market.

4.4 Fund New Product Innovation (Solution: Declining Asset Return Rate Under Economic Stagnation)

The products of investment bank will be changed towards fund and diversification. Fund is a typical form of entrusted financial management. At present, American investment banks use their own professional research teams to design products, take customers as the core, and launch the best possible combination of all products in the financial market for customers to choose according to their needs. After greatly catering to the needs of market customers, at the same time, business income and market share are constantly increased.

4.5 Green Finance

Green financial products include green credit, green bond, green insurance, green trust, green PPP, green lease and so on.

Effect mechanism of Green Finance act on investment through fund orientation mechanism and information transmission mechanism. One action is fund oriented mechanism. Green finance combines the resource allocation function of financial institutions with environmental responsibility, and guides capital flow to the environmental protection industry by selecting investment partners with environmental benefits, so as to provide financial support for technological innovation and product research and development of environmental protection enterprises. Another is information transmission mechanism. Under the requirements of green finance policies and the influence of social reputation, financial institutions that provide green finance services will collect and analyze corporate credit and environmental information, and invest in projects with high environmental benefits, low credit risks and high investment returns [10].

5 Conclusion

Taking JPMorgan as an example, this paper analyzes its operation and then gives five available suggestions and draws the conclusions that investment banks are necessary to have transformation to increase their profit in post-epidemic. Firstly, through the case analysis of JPMorgan chase after the outbreak of the era of investment banks, though during the outbreak in debt type economic mode, the bank is a country's balance sheet operators and get rich, but as the epidemic and the economic situation improves, toward a reduction in investment bank profits and returning to the front of the epidemic trend. Secondly, through SWOT analysis, although the importance of investment banks during the epidemic made their profits objective and adjusted their IPO bookkeeping time, the impact of internal weaknesses and external factors on investment banks after the epidemic exceeded the favorable influence of investment banks, so investment banks need to continue to increase their profits through transformation. On a basis of the above findings, this paper proposed several transformation directions, such as new fund product innovation, derivative product innovation and fin-tech innovation, are given to solve the risk of falling yield, international events and international competition.

It implicated that the smooth transformation of investment banks such as JPMorgan Chase in the post-epidemic period pointed out the direction and provided a certain theoretical basis for the sustainable development of investment banks.

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