
Press release

AFME and PwC identify trends and challenges for European ‘investment banks of the future’

16th November 2020

The COVID-19 pandemic has accelerated the journey of investment banks’ technology transformation, but both consistent regulation and further investment are needed to ensure banks in Europe can deploy competitive technology, according to a report published today (16th November) by the Association for Financial Markets in Europe (AFME) and PwC.

The ***Technology and Innovation in Europe’s Capital Markets*** report surveyed the largest investment banks in Europe to assess their technological progress over the past two years. Findings reveal that banks have accelerated adoption of emerging technologies and new ways of working. However, insufficient IT investment, complex legacy systems and increasing regulatory requirements, remain some of the key barriers for further progress.

Among the key findings from the report:

- 50% of respondents believe that investment allocated to technology transformation is sufficient, up from 28% in 2018.
- 63% of investment banks are now implementing cloud computing, up from 33% in 2018.
- However, only 17% of respondents believe the benefits of new technologies are being realised across their organisation.
- 61% of investment banks see operational resilience as one of the top priorities for their technology transformation.
- 90% of respondents believe the COVID-19 pandemic will be a catalyst for future technology and operations change.

James Kemp, AFME’s Managing Director, said:

“Capital markets demonstrated significant resilience through the COVID-19 pandemic, adjusting to extensive remote working and high market volatility without major disruption. Innovation is crucial for banks to continue serving their clients, though it’s clear that the emerging regulatory framework also needs to adapt to support, not limit, innovation at this critical period of change.”

“New regulatory initiatives need to remain technology-agnostic, risk and principles based, globally consistent, and follow the principle of ‘same activity, same risk, same regulation’. This will allow the industry to continue harnessing the benefits of new technologies whilst minimising risks.”

Mark Leaver, Partner at PwC, said:

“The capital markets industry in the UK and Europe is at a critical juncture with continued pressure on revenues and costs, and the opportunity that technology provides. Since our initial report was published in 2018, progress has been made in areas such as cloud computing, and the response to the pandemic has demonstrated the resilience of operations and systems. However, it is clear that much work remains.”

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“The industry needs to step up its commitment to automation, technology simplification and leveraging the opportunities of new technology. Culture change, collaboration and building new ecosystems will be critical to meet the pace of adoption required. Regulators will play a part here as a new framework emerges that will help shape the industry over the coming years.”

The report predicts a shift to a longer-term transformation strategy across the investment banking industry. AFME and PwC have identified five calls to action which the industry should adopt in the next two-three years. These are:

1. Prioritise investment in a long-term and clear change agenda
2. Accelerate the convergence of business and IT capabilities for increased agility
3. Create an incentive structure for investment banks and third parties to collaborate
4. Build an organisational culture for innovation
5. Ensure collaboration for a new regulatory framework

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Notes:

1. The first report in 2018 can be found [here](#).
2. Key findings from this year's report include:
 - The report surveyed the largest investment banks in Europe to assess their technological progress over the past two years. It comes against a backdrop of new regulatory requirements emerging in the areas of technology and resilience – such as the extensive EU September 2020 digital package focused on crypto-assets, digital operational resilience, data and artificial intelligence (AI) – and the ongoing pandemic.
 - The four key technologies identified in our first 2018 report - artificial intelligence, cloud computing, data & analytics, and distributed ledger technology (DLT) - continue to drive change across bank functions, the workforce, and engagement with third parties. However, levels of adoption vary, and only 17% of respondents to our survey believed that the benefits of these new technologies were now being realised across their organisation.
 - There has been significant increase in the adoption of cloud computing which is now viewed as a foundational component for investment banks technology transformation; 63% of investment banks surveyed are now progressing implementations rather than pilots (against 33% in 2018).

- Data & analytics is still viewed as an area of significant competitive advantage for investment banks, and AI continues to move from small scale pilots to broader implementation across the investment banks value-chain.
 - However, the adoption of DLT remains relatively unchanged from 2018 due to the challenges for industry collaboration and interoperability of solutions
 - 61% of investment banks see operational resilience as one of the top priorities for their technology transformation (against 32% in 2018).
 - The COVID-19 pandemic accelerated some in-progress and planned technology transformation initiatives within investment banks, such as remote working and automation, and 90% of survey respondents believe the pandemic will be a catalyst for future transformation.
 - Whilst investment banks are more optimistic in their plans for technology transformation, only 50% of survey respondents rated the investment being made in new technologies today as sufficient (albeit an increase from 28% in 2018).
 - Reducing costs and inefficiencies continue to be the biggest factors driving the adoption of new technologies. However, adopting new technologies to meet compliance and regulatory obligations has increased in importance (moving from fifth to third place in our survey since 2018).
 - Legacy IT remains the number one constraint on the adoption of new technologies (ranked as number one in 2018), emphasising the consistent barrier this has on the ability to transform at pace. However, a lack of executive sponsorship, and the culture and behaviour to change, have increased to second and third place (against sixth and eight in 2018, respectively).
3. AFME (Association for Financial Markets in Europe) promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: www.afme.eu.
 4. About PwC: At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with more than 276,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.
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