

FINANCIAL INSIGHT: INVESTMENT BANKING

the challenge of having young teams front complex deals or may lose out totally because they are no longer able to do such deals,” says Ow.

“2017 may be the year of the ‘Great Adjustment,’” says **Marcus Chow**, partner at Bird & Bird ATMD LLP, explaining that banks face a lot of uncertainty this year that will put their new models to the test. He reckons the Trumpian governance approach may convince international banks to reduce their outsourcing of banking support jobs in Asia. US President Donald Trump has repeatedly warned US companies that they would face higher taxes and other penalties for outsourcing jobs abroad. “Also, your guess is as good as mine how ‘draining the swamp’ will impact Wall Street and its repercussions in Asia,” says Chow. “However, if the election promise to pull back on regulations is carried through in the US, this may cause a ripple across parallel regulations elsewhere in Asia and may lead to a late Autumn bloom.”

Fintech’s promise

On top of a slow-growth environment, investment banks in Singapore currently face multiple market and regulatory constraints. Customer trust has also weakened in the wake of certain interest rates and foreign exchange scandals, as well as the rising threat of cybercrime. In response, banks are beginning to leverage technology, analytics, partnerships, and industry utilities to shore up security, improve service and reduce the cost to serve. Smarter banks have even formed alliances with their upstart rivals, the financial technology (fintech) firms.

“The disruption from fintech firms, which initially focussed on retail, wealth, and payments and is now extending to investment banking,” says Liew. “These fintechs are using technology innovation to capture market share from incumbent investment banks.” Liew reckons that despite the cutthroat competition between banks and fintech firms, there are opportunities for collaboration, including in cloud technology, robotic process automation, analytics, digital transformation, blockchain, artificial intelligence, and the Internet of Things.

“The challenge of disruptive technology and digitisation of money flows and fund raising, which is not going to go away, will also force investment banks to rethink roles and value proposition,” adds Chow, and partnerships with fintech firms may help facilitate such transformations.

“Singapore’s financial technology sector is poised for



There are collaboration opportunities for investment banks and fintech firms

growth, facilitated by its highly mature ICT market and supportive regulatory landscape. The country has one of the world’s most technologically advanced telecommunications markets, with 3G/4G subscribers reaching 8.4m and broadband internet subscribers at 4.3m in 2016,” says BMI Research in a report. “We expect the development of sandbox regulations to further advance the spread of fintech within the city-state, whilst its status as a regional banking hub will increase its attractiveness to fintech startups that are looking to enter the region.”

According to KPMG, around 200 fintech firms operating in Singapore were opened in the past two years – the fastest growth rate in Asia. Add to this Singapore’s financial inclusion rate – the highest in Asia in 2014 at 96.4%, according to World Bank data. “In our view, the government’s active participation in the development of a fintech-friendly regulatory environment is key to fintech development. As part of its efforts to develop Singapore into a smart financial centre where innovation and technology are used to enhance value and increase efficiency, the government released sandbox regulatory guidelines in June 2016,” explains BMI Research.



Liew Nam Soon



Marcus Chow



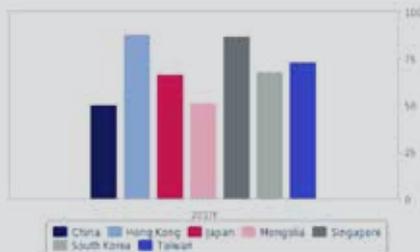
Ow Kim Kit

2016 slowdown

The cautiously optimistic outlook for investment banks in Singapore follows a difficult 2016 during which investment banking activities decelerated and the Singapore’s gross domestic product (GDP) growth weakened. “Mergers and acquisitions (M&A) deals and initial public offerings were fewer in 2016 and this slowdown is felt in investment banking,” says Liew. “Soft commodity prices have also affected the performance of trading desks.”

He reckons the slowdown in China’s economic growth and Singapore’s GDP growth have reduced the appetite for business expansion, which negatively affected loans growth. Amidst this slowing market, local investment banks have begun to feel the heat as Chinese investment banks raised their competitive aggression. A small consolation for investment banks in Singapore is that

Strong banking and investment environment in Singapore



Source: BMI Trade and Investment Risk Index (100 = lowest risk; 0 = highest risk)

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Strong mobile penetration to facilitate fintech



Source: National sources/BMI (f = BMI forecast)

the government will likely rally to bring GDP growth back on track. “We expect the government to introduce new policy measures based on the recommendations of the Committee on the Future Economy – and in the Singapore budget announcements – to help businesses improve local value creation and expand overseas,” says **Irvin Seah**, senior economist at DBS. Still, he expects 2017 to be a year of consolidation, noting that whilst growth has bottomed it will remain tepid due to “challenging” global conditions such as stronger US trade protectionism, tightening monetary policy from the Federal Reserve, and a slowdown in China.

“2016 was somewhat of an ‘annus horribilis’ for the equity teams of investment banks in Singapore,” says Chow. “Investment banks already burdened by enhanced regulatory oversight continue a struggle against weak market and fundraising conditions.” However, Chow adds, “The reprieve is that M&A work continues to thrive and the uptick in activities on the buy and sell sides is providing a consistent stream of work for the M&A teams in investment banks.”

Silver lining

Analysts note that despite the dire conditions in 2016, there were notable deals that continued to pull through. Ow says in 2016 she was working on an estimated US\$400m collateralised loan obligation special purpose vehicle. It will securitise Asia emerging markets loans to borrowers in the Asia-Pacific region that were originated by both global and regional banks in Asia, and is envisioned to help revive the Asian securitisation market. A leading American investment firm, alongside leading banking institutions in Asia, are joint-arrangers on the transaction.

In terms of sector focus and deal value, Liew reckons a large proportion of the deals have been in real estate, industrials, and technology. State and sovereign wealth funds executed a sizeable proportion of the deals. Investment banks in Singapore may continue to find success in these sectors, provided they can shape their business to suit the prevailing slow-growth, fintech-influenced, compliance-heavy environment.

“Although we are facing slower growth, businesses will continue to need help in raising capital, managing risks, and facilitating trade,” he says. “Investment banks have restructured their businesses and it is a journey and still work in progress. Controls and compliance are key.”

Mergers and acquisitions deals and initial public offerings were fewer in 2016 and this slowdown is felt in investment banking.



HONG KONG VIEW

Global goliaths get humbled in HK

When 2016 rang in, the Hong Kong investment banking scene took a sudden underdog storyline: Smaller local players began gobbling up more deals in equity capital markets (ECM), eating into a market previously cornered by global players. Analysts reckon this trend favouring smaller, as well as mainland, players will persist in 2017 due to the challenging environment that has put dominant international houses on a slump.

“The market in Hong Kong is changing rapidly. It used to be dominated by Western-oriented international and global investment banks,” notes Keith Pogson, senior partner, Asia-Pacific financial services at EY. “But this has changed quite dramatically, with both a combination of mainland players and smaller local players having a much larger share of the action and role to play.”

Dividing the deals pie

In the ECM space, in which Hong Kong has remained as one of the most vibrant markets globally, deals are increasingly managed and underwritten by mainland or local houses. Pogson reckons this reflects China’s dominance of the deal flow at the large end of the market, and the abundance of deals with local houses and boutiques at the smaller end.

Global players, by contrast, have been constricted to super large deals or deals that require a wider market nexus, and they will not likely regain their dominance in the coming years. “Capital markets deal flow has become more bifurcated, between the previously dominant international houses, who are generally getting a smaller slice of what was a reasonable sized pie in 2016, versus local and mainland players who have clearly been on an upswing in terms of market share,” says Pogson. “Pricing has remained tight given the dynamics and this, in the long run, is difficult to see recovering back to the richer levels historically enjoyed.”

A key theme in 2017 will be a shift in focus to seizing “smaller deals with great potential,” says Mark Chan, managing partner at HM Chan & Co in association with Taylor Wessing, although there will be an occasional mega transaction. He notes a lack of sizeable transactions, especially in the initial public offering (IPO) space in Hong Kong.

Investment banks’ operating performance (inUS\$b)



Sources: Company accounts, EY analysis