
AN OPERATIONAL OVERVIEW OF INVESTMENT BANKING

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Abstract

The researcher has attempted to explore the possible models that can be applied across various segments of the operational workflow emphasising the impact of application of Blockchain technology reaping enormous advantages to the Investment banks. The implementation of the technology offers increased security & transparency, lower costs, smart contracts, anti- money laundering, integrated ledger. Trade reconciliation, Customer document verification, compliance tracking and automating risk management process. Blockchain technology is an innovative transformation which is based on the mathematical, cryptographic and economic principles of secured distributed database, tamper-proof between various parties through validation of the transactions by all the parties.

Keywords: Blockchain, Investment Banks, Hash, Smart contracts

1. INTRODUCTION

Blockchain technology is a value-exchange software protocol comprising of blocks carrying the information managed at decentralised, distributed and public digital ledger which can be used to record economic transactions on the digital platform providing access to all the parties involved instantaneously (Singh, S., & Singh, N, 2016). It ensures the financial industry to optimise their complete business process by sharing the data in more transparent, effective and efficient manner. It is revamping and restructuring the existing inefficient business models across the financial service landscape. It has exorbitant benefits across the service industries. The application of this technology is currently at 30 % banking & finance, 13 % Government & public sector, 12 % corporates, 8 % healthcare, media, entertainment, gaming, 6 % generic, technological services, 4% professional services, 3% energy, manufacturing & utilities and 7 % others (Garrick H & Michel R, 2017).

2. LITERATURE REVIEW

The technology comprises of a block which gets added in a linear and chronological order of the financial transactions comprising of the timestamp and links of the information relevant to the previous transactions as a decentralised ledger allowing all the parties involved to exchange the digital currency more securely creating a database preventing tampering of the data structures. It is an innovation promising a drastic transformation in the capital markets and other financial services. (Buitenhek. M, 2016) The focus of the paper attempts to unfold the impact and transformation the banking industry can experience with the technology with regards to the smart contracts emphasising the designing of a computer program which directly controls the transfer of digital currencies or assets between the parties involved through Blockchain on a decentralised ledger. (Nguyen, Q. K, 2016) The downfall of the economy due to global financial crunch post-2008, the governments of various nations have been attempting to prevent the similar incidents and tighten the regulatory framework to ensure more transparency is allowed to the general public, and the parties involved the financial transactions.

RESEARCH METHODOLOGY

The research is descriptively attempted to explore the opportunities of practical implications of the innovative Blockchain technology in the operational models of the Investment banks across the various segments. Investment banks play a pivotal role in the creation of capital accumulation, generating foreign exchange reserves, employment creation and promotes Foreign Direct

Investments (FDI) especially to the emerging economies of Asian countries. Hence, the proposed workflow model breaks the knowledge gap between the academics and the industry. It also facilitates in using the content as classroom material in training the new employees among the Investment banks, and it conveys the logical connectivity of the entire workflow and the different roles played by the players in the ecosystem of these banks. The researcher has focused on proposing the model of operational workflow emphasising the impact of Blockchain technology facilitating with immense benefits of resilience, time reduction, reliability, secure transactions, transparency, prevention of frauds and decentralized information in the areas of front, middle & back office segments. The technology is not complete with limitations of higher costs, slower transactions, smaller ledgers, transaction costs, network speed, errors, nodal repeats, investment, and training of staff. There is a further scope of research in this area of performing a comparative study of the technology applied to examine the after-effects across the Investment banks in each segment of their operational levels. The concept suits the portfolio management of validating the stock and cash balances in different currencies at real-time. Hence, it offers scope to go deeper into specific activities of all the three segments of operations.

IMPACT OF BLOCKCHAIN IN OPERATIONAL SEGMENT

Investment banks are a special segment of banking operations that facilitates in creating capital to corporate houses, high net worth individuals, government organisations, offers financial consultancy, act as intermediaries between security issuers and investors, hold the custody of securities & cash, underwriting of securities etc. State Bank of India, Kotak Mahindra Bank, Goldman Sachs, State Street, Northern Trust, etc. are some of the popular investment banks. The operational workflow reflects the Investment Banking (IB) Cycle refers to the process involved from the phase of client approaching the I-Banks for the consultation through client reporting. These are broadly classified into three major segments namely as front office, middle office and back-office operations from the phase of consultation to reporting to the clients in pictorial format (Vedapradha. R et al., 2016).

Front Office Operations: It begins with Clients approaching the banks authorised official at the front office desk to see advisory services concerning their Investments strategies and portfolio construction. Investment banks can be significantly effective with the implementation of Blockchain technology. It eradicates the tedious process of KYC verification, maintenance of database to record the client details and validation of the documents can be much faster.

Settlement Process: The adoption of Blockchain technology facilitates the settlement process in much organized and foolproof manner by eliminating the clearinghouses who otherwise charge a huge chunk of money to the buying and selling fund managers to enable in trade settlements. All the parties involved in the process of trading gets directly integrated with financial markets through this technology who can access the fair information with secured transactions.

Back Office Operations: Portfolio activation ensures there is inflow & outflow of cash or securities based on the transactions like trades, cash contribution, cash redemption, fees paid or received, Margin call, interest received, coupon received, rights share etc. Blockchain technology facilitates in cost-effective to the investment banks when implemented in their workflow model of back-office almost reducing the cost up to 50 % due to the transparent and distributed ledger accessible to all the parties involved. There will be no need for Portfolio and Net asset value (NAV) reconciliation due to the fact of all transactions being distributed on cloud relieving the custodian, clearinghouses, brokers and Investment banks (sell-side & buy-side fund) from sending the swift message feeds to the reconciliation tool.

FINDINGS, DISCUSSION & CONCLUSION

It is a unique technique of recording each online transaction as a “block” that gets broadcasted to all the parties in the network, approving the validity of the transaction. This block later ensures to connect to the chain, providing an indelible and transparent record of a series of transactions. This

technology can create competitive advantage across these banks in securing their transactions, reducing the operational costs, enhancing regulatory and compliance measures to a larger extent.

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