Why Technology Won't Make Investment Bankers Obsolete

By Danielle Fugazy
November 7, 2018

With the explosion of technology, the question of what an investment bank's role will be in the M&A process in 25 years from now is not a crazy one.

"You can take some guidance from looking at where banking was 25 years ago. There was huge information asymmetry. There were no web sites to find information on funds and you couldn't compare groups so easily," says Bryan Cummings, a managing director and head of financial sponsor coverage with D.A. Davidson. "Today, there are many more private equity firms to know and they have to work harder to convince business owners to sell to them. All this competition has driven more transparency in the marketplace. When you think about the future, it's hard to think there won't be more capital and more competition. Deals will be highly sought after. Buyers will have to figure how to portray themselves as the best in the sea of buyers and investment bankers have to figure out how to portray themselves as the best, most trusted advisor who will get the seller the highest price. How do they do that?"

Some argue technology will help and that it will play a larger role in helping investment banks do their job. The theory goes something like this: Through various technologies such as AI, automation, and big data, computer programs will be able to do much of what bankers spend their time doing today. Some believe technology will be able to spit out comprehensive buyer lists, and that they will be more comprehensive and precise than anything a human would be able to produce.

Lots of industries are using artificial intelligence today and more are expected to embrace the technology in the future. According to Hampleton Research, the AI market size is forecast to grow from $21.46 billion in 2018 to a whopping $190 billion by 2025 at a CAGR of 36.62 percent. While technology is slow to take hold of the banking industry, it is happening. According to an MIT Technology Review article, the U.S. equity trading desk at Goldman Sach's New York headquarters employed 600 traders. Today they employ two; 598 traders have been replaced by automated trading programs and they are supported by 200 computer engineers. Apparently, 45 percent of the revenue from cash equities comes from electronic trades. Complex algorithms are being built that can understand what a trader would do, not just across equities but even asset classes like currencies and credit. AI has already been used by hedge funds in stock trading, according to Imarticus Learning Inc.

More technology and less human interaction wouldn't be so different than what happened in the travel industry, for example, where the travel agent's role became diminished with the invention of online travel booking services like priceline.com and Airbnb. In the mortgage industry, sites like Zillow.com and realtor.com have forced mortgage brokers to change how they do business.

However, some argue that just because technology can provide more information doesn't mean it will be more useful to sellers. "Even if a computer can show a seller 1,000 potential buyers, why is that more helpful than showing the seller 100 of the right buyers? The computer can't evaluate how a buyer handles closing negotiations or what the players will likely do, but a banker will have some past experience that will shed light on behaviors," says Cummings.

The reality is many believe buyers and sellers will still want to work with investment banks and will favor those who use technology to enhance the process. Investment banking is dependent on human emotion, which is unique. "The middle market and the lower middle market is still a very human business. Technology is enhancing what we do, but not replacing us," says Cummings. "You still have to personalize the experience."

Many believe bankers will play an important role moving forward. Algorithms or AI still require human input to make sure their suggestions make sense and that the right questions are being asked. What's more, algorithms can't negotiate. The human touch is essential in helping buyers and sellers come to terms for a deal.

James Cassel, chairman of Cassel Salpeter & Co., argues that most bankers are already using technology to their advantage already. “Many firms are already using tools like Capital IQ and Axial to help get information on buyers and sellers. It’s become much easier to put together a buyers list and gather intelligence. Technology will continue to make this easier, and more efficient, but those lists still need to be vetted by a human.”

A human voice is needed to tell the story. “Companies are complicated. You can’t just send a one-pager. Having the technology speeds up the processes, but there has to be a balance between the personal and the impersonal. Bankers are now challenged with finding the right balance between doing their jobs and using technology to help their clients to the best of their ability. Technology should continue to be an enhancement to good service, not the answer to providing it,” says Cassel.