AI-Driven Deal Origination for Capital Markets

September 2018

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Introduction

The wider financial Services (FS) sector is one that has been transformed by technology over the past decade. The rise of online banking and mobile applications have transformed the consumer FS space and it's a sector that has seen untold disruption and innovation in that time.

The same isn't quite true of capital markets however. Because the workflows in capital markets – both debt and equity - are intrinsically more complex than in consumer and retail FS, the technology adoption has been that bit slower.

But that is starting to change. Capital markets - both Equity Capital Markets (ECM) and Debt Capital Markets (DCM) - is a sector that is under pressure. It is facing ever-increasing regulation that is adding more complexity. There are start-ups making inroads into market share; capital is more scarce than it was; and there are many firms held back by outdated infrastructure that makes digitization much harder to accomplish.

Revenue generation has never been so important as it is now. Firms within capital markets have realized that technology can play a major role as the industry changes and evolves and as they seek to protect and grow their market share. The capital markets sector already looks very different now compared to how it did 10 years ago, and in another 10 years it will have changed even more dramatically.

Earlier in 2018, the **Ernst & Young Global Capital Confidence Barometer**, revealed that 27% of the global executives surveyed, cited digital technology as the most disruptive force in their industry and it is true that emerging technology can be hugely

transformative in capital markets. **Squirro's own research** in Q2 2018 revealed that 83% global tier one banks have already evaluated artificial intelligence (AI) and machine learning, but only 17% were aware on how to apply it to improving business processes, despite the fact that over 80% defined AI driven recommendations and deal origination as very important.

Capital markets firms know they must adapt to keep pace with the market and are looking for ways to leverage AI for that. However, deal origination remains at the very core of capital markets. This has an ongoing importance that will also be there, and the very best technologies are those that aim to support deal origination.

That's where Squirro plays a major role in supporting capital markets firms. Our augmented intelligence solutions are designed to enhance human intelligence rather than replace it and with people and machines working together in this way, much can be achieved. Capital markets is under pressure and there is a constant and growing need for revenue generation. This is how Squirro can help.

Challenging Times in Capital Markets

The financial crisis of 2008 was hugely impactful in many ways and its impact was felt particularly keenly by both ECM and DCM, where investment bankers help clients raise capital – via equity and debt respectively. Not only was there a short to mid-term effect of decreased market confidence, the crisis also set in motion a sequence that has had long-term ramifications for the sector and that have heightened the need for smart and effective deal origination.

INCREASED REGULATION

After the financial crisis there was a pressing desire to see more regulation and governance within the wider FS market, including capital markets. This meant legislation such as IFRS 9 and Basel III, both of which entailed capital markets firms to meet much more stringent requirements. In some instances, firms even adapted their business model to focus more on provisioning. This double pressure to be compliant and change business models has served to add an additional layer of complexity to capital market operations.

A SHIFT OF CAPITAL

One important effect of Basel III is that it has drastically altered product profitability. The structured derivatives and long-dated transactions that were so common before Basel III are now seen as bad for Return on Equity (ROE). This meant more divisions have been set up to remove unprofitable transactions and portfolios, and an increase in commoditized exchange-traded OTC products that have brought about a shift in capital management.

PRESSURE TO REDUCE COSTS

With more onerous compliance and regulatory demands on capital markets firms, they needed to find additional resources to try and meet those demands. This meant that resources across the business were more stretched, and costs needed to be reduced elsewhere. There was also more pressure on investments to deliver ROI and the pressure for revenue generation via deal origination grew ever greater.

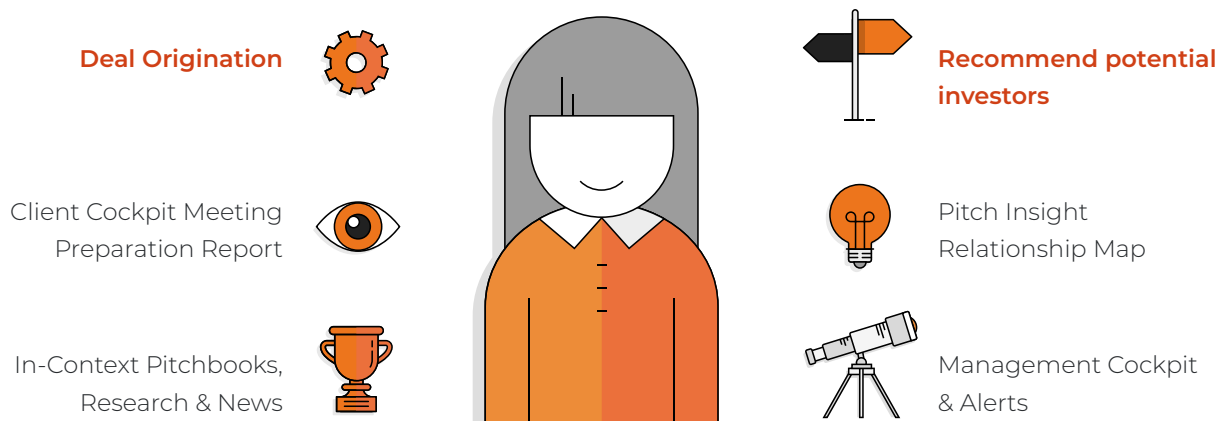### NEW BUSINESS AND MODELS ENCROACHING ON MARKET SHARE

The emergence of fintech start-ups in the decade since the financial crisis has brought a further challenge to capital markets firms. These firms are more agile, disruptive and innovative than capital markets firms that have been doing business in mostly the same way for decades and have new approaches that are already threatening and encroaching on market share.
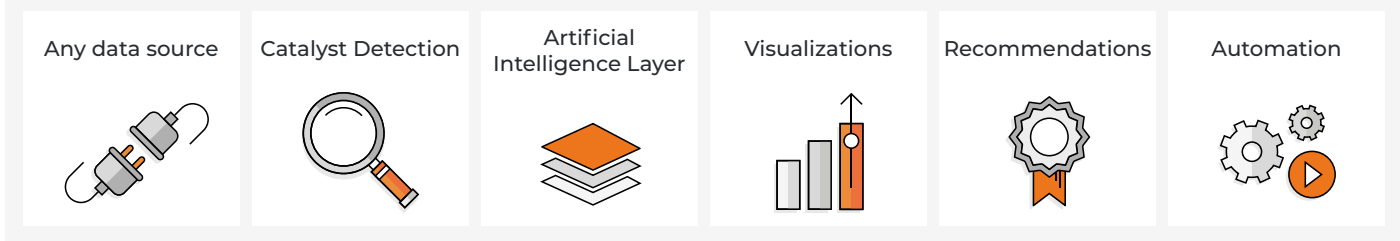
LEGACY INFRASTRUCTURE

Because capital markets firms have not, on the whole, invested heavily in their infrastructure (physical and technical) over a period of years, many have been rendered not fit for purpose in the digital era. It has left them inflexible and unable to adapt easily to the digital age and highly vulnerable to losing market share.

This all means that capital markets firms must improve their revenue generation as a business priority. Deal origination and counterparty recommendation are two of the most important elements of operations, yet many capital markets firms are not set up to address this themselves. This is why they are starting to embrace AI via the technological expertise of firms such as Squirro.

SQUIRRO INVESTMENT BANKING APP
EQUITY & DEBT CAPITAL MARKETS

Deal Origination

Client Cockpit Meeting Preparation Report

In-Context Pitchbooks, Research & News

Recommend potential investors

Pitch Insight Relationship Map

Management Cockpit & Alerts

Augmented Intelligence Platform

Any data source	Catalyst Detection	Artificial Intelligence Layer	Visualizations	Recommendations	Automation

AI-driven Insight

By applying AI, and especially augmented intelligence solutions that enhance and augment human intelligence with automation, capital markets firms can make a substantial and tangible impact on their business. Enhanced judgement uses AI to augment human intelligence by evaluating and elevating options for consideration and improving decision making.

For example, next-best-action services use cognitive insights technologies that draw on inductive modelling and research to produce timely insights on markets and clients that, in turn, provide AI-driven recommendations to financial advisors.

Put simply, this technology enhances profitability. **Goldman Sachs analysis** predicted that by 2025, machine learning and AI will have enabled $34 billion to $43 billion in annual cost savings and new revenue opportunities. This is a powerful prospect for capital markets firms. Using AI, they can utilize their customer data to retain and grow their customer returns through smarter and more accurate cross selling strategies. Forrester indicated in its "The Insights-Driven Business" Report that growth rates for insights driven companies are at +27% for public companies and +40% for private companies, compared to +3.5% average growth.

AI-driven insight can also help capital markets firms adopt a bolder approach when it comes to sales, a growing requirement within corporate FS. Senior exeutives at both Deutsche Bank and Barclays Investment Bank have recently highlighted the need for staff to be less timid and to exhibit more commercial zeal.

Some capital markets firms are too passive when it comes to deal origination, content to 'farm' instead of 'hunt' deals. But by utilizing the AI-driven insight provided by Squirro, sales teams can now be much more pro-active in sourcing (and winning) new business.

Squirro and deal origination

Deal origination, also known by the industry as deal sourcing, is a process that identifies investment opportunities. The overall objective is to ensure the greatest volume of deals is found in a given period. But capital markets professionals are working with an incredible volume of data from internal and external sources. Understanding the data and using the insights held within it is virtually impossible to do without AI or Machine Learning.

Using the **Investment Banking Application** of Squirro's Corporate Financial Services solution, users can work with enormous data sets – internal and external, structured and unstructured – to unearth deals that otherwise may never have been noticed. As most CRM systems are incapable of working with unstructured data, capital markets firms have previously been at a significant disadvantage when trying to work with such data.

Via the use of pre-trained models, Squirro can detect a range of events and catalysts that could signify a potential deal, including: companies outlining plans to raise capital (equity or debt), companies exploring IPO's, expansion plans, management changes, or capital structure changes.

Any potential deals are then presented back to the user, integrated into their current workflows, either as a standalone solution or directly integrated within a core banking or CRM system. The recommendations present a score highlighting the strength of the catalysts found. Users can review the sources and the catalyst with ease by filtering the events and have the opportunity to provide active feedback to the AI engine to further tune the models.

Squirro's research from earlier in 2018 revealed that 83% of respondents wanted deals presented to them within their CRM system.

By delivering potential deals to them in this way, it is easier for capital markets professionals to then approach clients with those deals. First-mover advantage is important in capital markets. Using Squirro means that such professionals can contact clients quickly and with confidence, that the deal is a strong one and needs to be acted on.

ECM & DEAL ORIGINATION
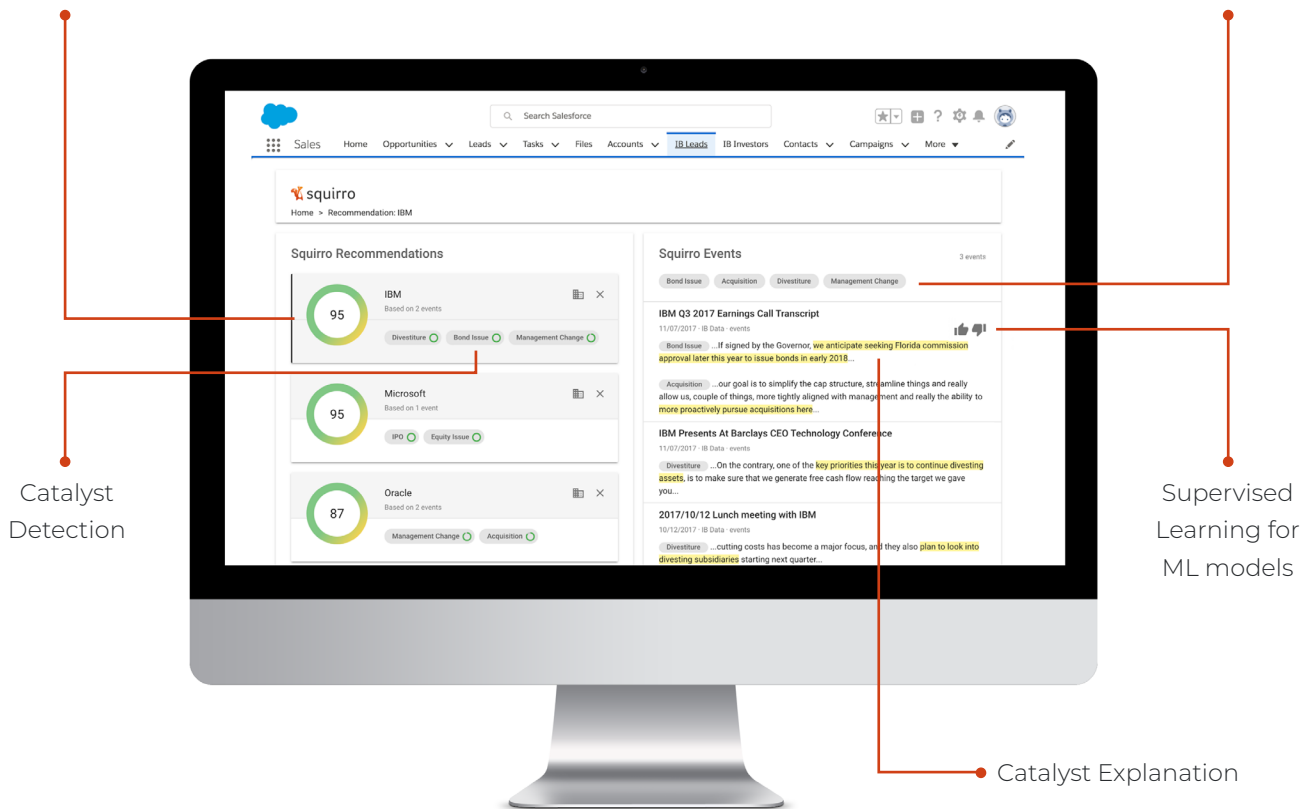
Squirro and counterparty recommendation

Another key area where Squirro's Augmented Intelligence platform adds value in capital markets is in counterparty recommendation. This is a process that can be time-consuming and highly challenging. Finding the right investor for a deal is a highly value-added proposition but also one that a number of capital markets firms have struggled with at times.

ECM & DCM INVESTOR RECOMMENDATION
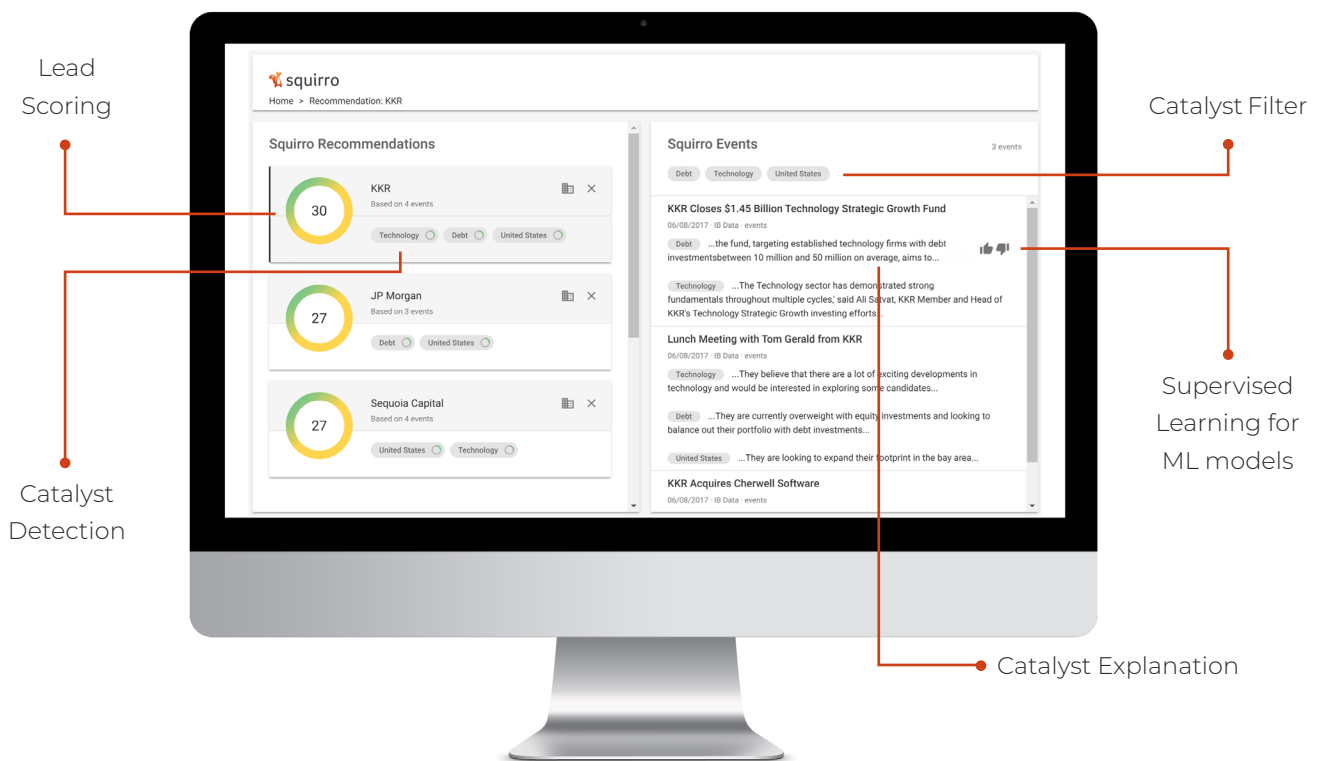
Deploying AI makes a great deal of difference to the process. Once the mandate has been officially confirmed, Squirro can play a central role in identifying investors. Taking a range of data sources, including CRM meeting notes, news articles, 10K/Q Filings, earnings call transcripts, investment history database, email interactions and much more, Squirro will then map that data with the current deal parameters, such as geography, industry, type (equity or debt) and size among many others.

From there, Squirro will focus on each investor, profiling them to understand their past activity and their forward-looking statements, as well looking at potential deal catalysts in the context of that investor. It can then recommend the investors most likely to be interested in the deal and will even rank them in order of likelyhood.

What was once a laborious task, is now more straightforward and effective than would once have been thought possible. For capital markets firms this is a powerful way of adding value to clients, and AI makes it infinitely easier.

Smart automation and client cockpits

Smart automation allows the user to deploy automation in areas that had always been thought of to require human intelligence. By applying augmented intelligence to such tasks, Squirro can power enormous performance improvements in a range of business disciplines within capital markets – one of these is meeting preparation reports.

This is something that, prior to AI, was conducted exclusively by humans and was a highly time consuming task. With Squirro, it is easy to automatically consolidate relevant data from a wide variety of sources and deploy auto population to deliver meeting preparation reports in a fraction of the time.

Not only does this automation make the production of these reports much easier and quicker, but in doing so it frees up the time of those spent working on it to turn their attention to something else more meaningful and tangible.

In capital markets, having a customer-centric approach is vital. It is a competitive industry and there are many competitors that would love to take business away. To deliver the best service and experience, capital markets professionals need 360-degree insight into clients. To enable this, Squirro has developed a Client Cockpit.

Squirro provides that 360-degree insight by collating and unifying siloed data, both internal and external, structured as well as unstructured. Squirro's Client Cockpit provides a 100% holistic view of each client and the markets they operate in, all within your existing workflows. This makes knowing what clients are doing, what events might trigger activity, and what opportunities might arise, easier than ever for client-facing professionals within capital markets.

Conclusion

Capital markets is a sector that needs to change rapidly, given the challenges it is trying to address. Revenue generation is of the highest importance and that requires a deep dive into Augmented Intelligence.

Squirro works with different corporate FS providers in Europe, South East Asia and the US. We have a deep understanding of the specific pressures and challenges they are facing in their sector. Because we are a global firm we also understand the nature and nuances of the global capital markets sector and our AI platform is proven to make a real impact to our corporate FS customers' bottom lines.

We improve deal origination and counterparty recommendation, meaning that capital markets firms using our Augmented Intelligence solutions will see the value and feel the benefits from doing so almost immediately. Squirro makes a true difference to capital markets organizations and will help futureproof such business for years to come.

For details of how Squirro can help capital markets professionals with deal origination, counterparty recommendations and more, please email us at **contact@squirro.com**, or call us on **www.squirro.com/contact**.

About Squirro

Squirro provides Augmented Intelligence solutions. Its unique technology marries Artificial Intelligence, Machine Learning and predictive analytics, empowering organizations to transform enterprise data into AI-driven insights. Organizations using Squirro take advantage of its ability to source leads and recommend the next best action in an automated way. Its real time 360 degree client cockpit provides a holistic and comprehensive understanding of the customer journey.

Squirro's applications for Corporate Financial Services, Insurance and Manufacturing are successfully used by leading global organizations, such as ING, Investec, Helvetia, AXIS Re, Sony and Bühler. Founded in 2012, Squirro currently has offices in Zurich, London, Munich, New York, San Francisco and Singapore.

For more information, please visit: **https://squirro.com/**

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