Corporate and Investment Banking

Module Introduction and Overview

Contents

1 Introduction to the Module

This module on *Corporate and Investment Banking* has three main aims, to:

1. examine the financial needs of companies in relation to corporate and investment banking
2. illustrate the financial services provided by corporate and investment banks and how they support companies in their business
3. analyse the structure and management of corporate and investment banks.

The module examines corporate and investment banking from the point of view of companies that require financial support, and from the perspective of the banks that provide financial solutions. In this way you will develop a broader understanding of how corporate and investment banks operate, the factors that drive the demand for their services, how banks respond to the needs of clients, and how banks develop and maintain their competitiveness.

During the module you will address the main areas of business in corporate and investment banking, combining the general principles of corporate and investment banking and the study of best practice by the leading banks. For example, in Unit 3 you will consider money management: in this unit you will analyse the functioning of a company to understand where the financial requirements related to money management originate; and you will learn about the products and techniques that corporate and investment banks offer to meet these demands. Similarly in Unit 7 you will study initial public offerings, and you will discuss the advantages and disadvantages of going public from the firm's point of view, and you will analyse how to plan for an IPO from the investment bank's perspective.

The role of financial management in non-financial firms is sometimes underestimated. If a company does not give adequate attention to financial management, this can lead to problems that can seriously affect the performance of the business. Inappropriate or uninformed financial decisions can compromise the performance of a company by increasing costs, decreasing revenues, or jeopardising the functioning of the business. For example, a company could be obtaining finance at a cost that is too high and which could be reduced; the company might be using too much leverage, with implications for the perceived risk of the company and its cost of capital; or a company could be managing risk inefficiently.

For a bank to provide useful financial solutions for companies it is essential for the bank to have a good understanding of how the company operates. In addition, banks develop a broad and deep understanding of how financial markets operate, and will have experience of working with a large number of companies. This wide experience is useful in developing products and providing services for each client. For example, the knowledge of cash management techniques can improve the performance of companies that do their business in different countries, by reducing the number of currency trades. Banks will also be aware of what type and maturity of securities are preferred by investors and financial markets at a particular time: this can increase the chances of a company obtaining adequate finance and at the lowest cost.

The module highlights the differences between various banking businesses. For example, a retail bank operates in a very different way to an investment bank: the way in which they fund their operations is different, they provide different services, and they work with different kinds of customers.

As you study the main areas of business in corporate and investment banking you will develop an understanding of how the banks operate, how their services and advice can be of benefit to their clients, and the impact of corporate and investment banking on the wider economy.

A good understanding of the main areas of business of corporate and investment banks, and of the financial services they provide, has wide relevance and application. It is essential for anyone working or intending to work in a corporate bank or an investment bank. It is also important that regulators and policymakers have a deep understanding of corporate and investment banking. For example, regulation is intended to ensure that banking and financial markets are stable, but it should also take into consideration the contribution that corporate and investment banks make to business performance and to economic growth and development. This is especially important given the increasing sophistication of financial products, and the growing interrelationships between markets.

2 The Module Authors

Gianni Nicolini is an Associate Professor of Finance at the University of Rome 'Tor Vergata' (Rome, Italy). Professor Nicolini has taught at the University of Georgia Athens (GA, USA), at the University of Malta 'Link-Campus' and at the University of Rome 'Tor Vergata'. His research articles in banking and finance have been published in academic journals, including the *Journal of International Consumer Studies, Financial Service Review,* and *Managerial Finance*.

Duccio Martelli is an Assistant Professor at the University of Perugia (Perugia, Italy). Professor Martelli has taught at the University of Applied Sciences (Augsburg, Germany), at the University of Teramo (Teramo, Italy), and at the University of Perugia (Perugia, Italy). His research articles in banking and finance have been published in academic journals, including *European Financial Management*, and *Qualitative Research in Financial Markets*.

Antonio Meles is Associate Professor of Finance at University of Campania 'Luigi Vanvitelli'. His research interests focus on private equity financing, IPOs, bank-firm relationships and corporate governance. He is a member of ADEIMF, the Italian Association of Scholars of Banking and Finance and FINEST, the Financial Intermediation Network of European Studies. His work has been published in international academic journals such as the Journal of Corporate Finance, Journal of Financial Research, International Review of Finance and Applied Financial Economics.

Jonathan Simms is a tutor for CeFiMS, and has taught at Manchester Business School, University of Manchester, University of Durham and University of London. Dr Simms has contributed to development of various CeFiMS modules including *Risk Management: Principles and Applications*, *Econometric Principles and Data Analysis*, *Econometric Analysis and Applications*, *Financial Econometrics*, *Introduction to Valuation*, *Advanced Topics in Valuation*, *Public Financial Management: Reporting and Audit*, *Banking Strategy*, and *Introduction to Law and to Finance*.

3 Study Resources

The materials provided for this module comprise the study guide, presented in eight units of text covering different topics. The module units introduce and explain the core elements of corporate and investment banking, and analyse the various financial products and financial services used in corporate and investment banking. The units are designed in the expectation that you will devote about 15–20 hours to studying each topic, including all the associated readings. The study resources used to develop the topics comprise a key text and module readings.

Key text

The key text for this module is:

> Glen Arnold (2014) *The Financial Times Guide to Banking*. Harlow UK: Pearson Education Ltd.

Glen Arnold offers a comprehensive analysis of the banking industry. We will use several chapters of this book, and most of the units will refer to at least one chapter. What makes this book fit well with the module is the ability to analyse single topics in detail, without losing the big picture of the whole banking industry. With the readings from this book you will be able to learn about single elements of corporate and investment banking and, at the same time, compare these activities with other areas of banking. Arnold provides very useful explanations and applications of the methods used in corporate and investment banking, and also gives a wide-ranging overview of recent and ongoing developments in the banking sector.

Module readings

The module readings consist of academic articles, papers and reports. You are expected to read them as an essential part of the module and you will be advised in the study guide when to read them. We have selected articles and reports which reinforce your understanding of the material in the study guide and key text, and which also demonstrate how the contents you are studying are applicable and relevant in the corporate and investment banking markets You will also see that some of the module units refer you to a number of references online which you may find useful in giving these topics an extra dimension.

Study advice

When you study each unit, it is essential that you:

- read the module units when you approach the topic
- study the relevant sections of the key text
- read the module reading articles indicated.

You must read and think about the key text chapters and module readings you are asked to read at the points indicated. It is important that you understand each topic well, before moving on to the next one. The material presented in the module follows a logical sequence, and you will find it difficult to understand the later topics if you do not fully understand the previous ones.

4 Module Overview

Unit 1 The Role of Banks in Corporate Business

1.1 Introduction
1.2 What is Banking?
1.3 Retail banking, Corporate banking and Investment Banking
1.4 The Demand for Corporate and Investment Banking
1.5 Conclusion

Unit 2 Corporate Banking: Lending

2.1 Introduction
2.2 Equity, Debt, and the use of Leverage
2.3 Optimising Capital Structure
2.4 Capital Raising: Debt and Bonds
2.5 Corporate Banking and Credit Risk Assessment
2.6 Conclusion

Unit 3 Money and Financial Management

3.1 Introduction
3.2 Production Cycles, Working Capital and Financial Management
3.3 Financial Solutions for Working Capital and Money Management
3.4 Domestic and Cross-border Payments
3.5 Cash Management and Clearing Strategies in Multinational Firms
3.6 Conclusion

Unit 4 International Banking

4.1 Introduction
4.2 Banking across Borders

5 Learning Outcomes

When you have completed this module, you will be able to:

- explain the core elements of corporate and investment banking services, and how these support non-financial firms
- discuss the roles that corporate and investment banks play in the fundraising process of a company

- assess the quality of the capital structure of a company, and discuss a variety of credit solutions
- analyse working capital, money management, and money management strategies
- assess the factors that drive the internationalisation of banking
- discuss the organisation, financial strategy and performance of the largest corporate and investment banks
- discuss the main sources of risk in the financial sector
- explain and develop risk management strategies using simple derivative contracts
- analyse and assess structured finance, including securitisation, credit derivatives, project finance, and mezzanine finance
- explain the steps in an initial public offering, IPO pricing, and the role played by the IPO underwriting syndicate
- discuss the key characteristics of private equity investments
- examine the role of investment banks in mergers and acquisitions.