

The Economic Times Online

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## Why is an I-banker paid so much?

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ET CONTRIBUTORS [ MONDAY, APRIL 17, 2006 12:00:00 AM]

### **The grand \$0 offer! NRIs invest now!**

One of the top headlines last month announced a \$1,93,000 job offer that was snapped up by an IIM Bangalore student. A number of people couldn't quite understand how a person on the threshold of his or her career could be paid so much. They overlooked a few factors in their state of awe and disbelief.

One, that the person in question probably had work experience in between his graduation and IIM stints. Second, that the salary was offered by an investment bank. And finally that the salary was for an overseas position, and couldn't realistically be converted to rupees and ogled at. The general fact, however, is that irrespective of geography, about 50% of an i-bank's total revenues goes out as compensation to employees

Statistics indicate that globally i-bankers earn fat pay packets. In the UK, the average starting salary for graduates in the top 100 blue-chip firms is around £23,000; while i-bankers get a starting salary of £35,000, with an end-of-year bonus that can amount to as much as £30,000 for some i-banking divisions. This puts the year-one salary for a 20-something i-banker at £70,000 — approximately 4.5 times the average salary in any other sector.

The US is no different. Graduates, typically of top universities, are hired to fill analyst positions in i-banks and are commonly paid a \$70,000 salary, a \$10,000 sign-on bonus, and an annual bonus between \$40,000 to \$60,000 for their first year. MBAs usually start at the associate level with a \$95,000 base salary, a sign-on bonus, and an expected bonus of around \$100,000.

Back home too, the salaries and bonuses paid out in the i-banking sector are extremely tempting compared to other sectors. A fresh MBA, with absolutely no work experience, could earn between Rs three lakh to Rs six lakh per annum depending on the ranking of his business school.

Someone once said that if you spot a person looking sleep-deprived and extremely harried sitting in the lobby of a five-star hotel, chances are that she is an investment banker. However, the brighter side is that investment bankers fly business class, live in five-star suites, frequently holiday abroad and eat in plush restaurants. But all this happens either as part of a gruelling work schedule or as a reward for a job well done. For the uninitiated, let's delve into what investment banking is all about.

### **What Are Investment Banks?**

Investment banks, or i-banks as they are commonly known, are financial intermediaries in the business of providing governments and corporations with investment services, including buying, selling and trading securities; managing assets; and giving financial advice. Leading global i-banking firms include Morgan Stanley-Dean Witter, Merrill Lynch, Salomon-Smith-Barney, Goldman Sachs, Barclays Capital and many more. I-banks can be classified as:

1. Full-service i-banks provide a complete set of services to their clients with top expertise in most areas, and operate on a global basis. The leading full-service i-banks include Goldman Sachs, Merrill Lynch, Morgan Stanley Dean Witter, Deutsche

Bank, Salomon Smith Barney (a division of Citigroup), among others.

2. Regional i-banks are concentrated in a particular region. Piper Jaffrey is one such example.

3. Boutiques are much smaller firms organised at a local level. These firms specialise in a particular product or industry. Products can include merger and acquisition (M&A) advisory, programme trading or arbitrage.

### Insights Into I-Banking Career

It is difficult to get your foot in the i-banking door, and those who make it do so by getting the right education and experience. Typically you start your career as an analyst. Success can only be a result of complete dedication to the profession

You need a knowledge of spreadsheets and must have fine analytical skills, speed and accuracy in thinking. At the entry-level, you will often write reports, do research, and handle trades, run spreadsheets, and code programmes. The next step up the ladder is an associate position. As you gain experience, you will have the chance to work with clients. You get rewarded handsomely for efforts to increase the customer base.

I-banks have specific compartments dealing with various areas of investment. You could be working in any of the following areas:

**Corporate finance** : Starting as a team member, you will assist corporate clients in raising capital to finance their operations. You will be expected to assess the capital requirements of your client and recommend appropriate investment strategies. Simply stated, you are expected to dress up your client organisation to present it to potential investors or venture capitalists.

**Merger & acquisition advisory** : This is a highly glamourised term and is an area of i-banking that is growing. You can be sure that while Mittal Steel's LN Mittal works to acquire Arcelor, his M&A executives will work 24x7 till the deal is in place. As an M&A professional you will be required to support corporations in the merger and acquisition process by helping them settle on equitable, profitable deals. You will get opportunities to work directly with the top brass of your client organisation. You need to be really good at spreadsheets and valuation models.

**Trading and sales** : This is the greenback area of i-banking. As a trader your duties will include carrying out bond, currency, equity, futures and options sales. You are expected to have knowledge of financial tools and stock markets. You need to be good at people management and handling a chaotic work environment. Compensation varies a lot as it is closely attached to the profit generated by each trader. On performing well, you can expect an exponential rise in income through bonuses. Six-figure pay packets are considered normal at the associate level.

**Derivative trading** : The derivatives (futures and options) market is huge and growing, and requires specialists with above average selling, analytical and technical skills.

**International sales/ emerging markets** : As globalisation opens up new markets, analysts who specialise in international investing will be required. The younger the better, as travelling is frequent. The need for multi-lingual professionals will also grow.

**Equity & fixed income research** : You will analyse specific industries and offer advice to your investor clients.

**Structuring or structured finance** : Structured finance is a growing and lucrative field for i-banks. Working in structured finance, your duties will include creating complex structured products such as asset-backed securities, which typically offer much greater margins and returns than underlying cash securities. You need to be highly technical and numerate for this profile.

**Retail brokerage (stockbroker)**: The area of retail brokerage is the most exposed area of i-banking. Retail brokerage involves buying and selling stocks, bonds, derivatives and other financial instruments on behalf of small, individual clients. Retail brokerage is a difficult career, particularly if you are young. To succeed in this area you need to have selling and networking abilities and good communication skills.

Private client services (PCS): PCS is a sub-division of retail, and deals only with very high net-worth individuals. The perks in this area are also much better than in other areas of retail brokerage, though the job description remains essentially that of a salesman. PCS tends to have somewhat more experienced or successful brokers in it, since the clients that they deal with are a lot more important and lucrative for the i-banks.

**I-Banker Quotient** To be a successful i-banker, you need to have quick mental reflexes, and strong analytical and interpersonal skills. You also need to be market savvy and have excellent selling and negotiation skills. Most of all, you need to have the passion and capacity to work hard just like a good doctor.

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