Friday the 13th – rise of the machine

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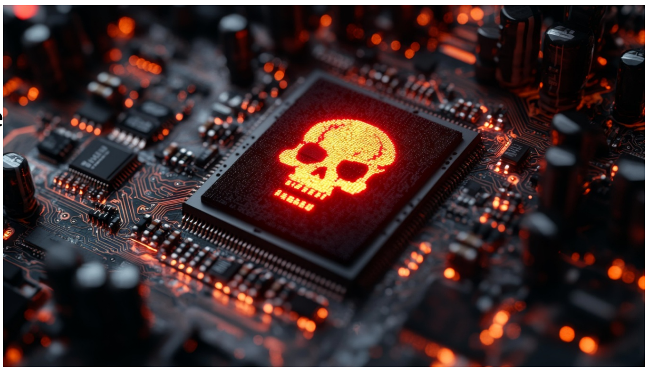
13/12/2024

The festive season is almost upon us. Cheer and goodwill abound… but it’s Friday The 13th, so this Grinch feels it’s only right to send the infra community into the holidays with a tale that’ll ripple chills up (some of) your spines.

Today’s Friday Editorial turns the spotlight on the increasing role artificial intelligence – the Fourth Industrial Revolution (4IR) – is playing in the financing of infrastructure… from financial modelling through to drafting legal documents, and the impact it’s going to have on talent pools.



AI first reared its head for this hack when IJGlobal was owned by Euromoney. Half-hearted efforts were nonchalantly put into (making me redundant, and) propelling the publishing house into the technological vanguard. The inevitable result was that absolutely nothing changed.

As is always the case, half-hearted won’t cut it with AI and – as a trade (journalism) – we’re a long way from ripping the guts out of news teams to replace them with ChatGPT.

What stands true for journalism – we’ve all been suckered into reading interminable stories “written” by machines – stands true for infrastructure finance (hopefully with less woeful results).

By pure chance, the other day I stumbled across a LinkedIn post by Kenny Whitelaw-Jones of Gridlines who was conducting a survey to assess the impact of AI adoption on financial modelling. The findings of that survey are now live.

Primary among these is that financial modellers are up-to-speed on AI tools, however only 10% currently use it for tasks directly related to financial modelling. Mostly they’re using ChatGPT and Copilot.

But they know it’s going to feature a lot more in their daily lives. Most modellers believe AI will “significantly impact” or “revolutionise” financial modelling, automating repetitive tasks, enhancing predictive analytics and increasing efficiency.

However, what they’d really like from AI is for it to create advanced scenario modelling, allow real-time data integration along with enhanced forecasting accuracy and simplified model building.

The survey found that greater adoption of AI will result in financial modelling roles shifting to strategic and analytical work (more on that later), embracing increased collaboration and movement towards enhanced decision-making jobs.

And that leads to the 4IR inflexion point that will result in fewer people in entry-level roles… with the inevitable consequence that you’re working with a shrinking pool of talent that REALLY understands a financial models / legal docs to promote into client-facing roles.

When nightmare becomes reality

There are few bloodless revolutions, but when it comes to “industrial revolutions” it’s usually the fear of change and reluctance to embrace new technologies that lead people to reach for fiery brands and pitchforks.

In the case of 4IR, concerns being voiced by many across the industry are not without reason. However, for every naysayer there’s a zealot who views AI as the primary enabler to hugely increased productivity. The Nvidia chief exec recently said that using AI for coding made his programmers and designers 14x more profitable.

On the legal font, one old chum says: “The invention of the steam engine and electricity were a disaster for horse drawn carriage builders, horse breeders, muck collectors and lamplighters. Their talents and contribution to the economy were huge but forgettable.

“Fortunately, engineers, manufacturing of everything – including light bulbs – created new industries.

“In truth, AI 1.0 – AI 3.0 in my view – will relieve junior lawyers of the drudgery of low-end contract work, accountants of repetitive modelling of scenarios and updating sensitivities.

“We will therefore put them to work on more interesting stuff – engaging with clients even – and retain better talent. Bored talent moves on.”

This is echoed by another friend of the legal persuasion who points to the pyramid structure where, after 10 years of filtering, the path leads to partnership or… elsewhere. This process will be made all the more difficult when sifting through half the junior intake from a decade before.

On the legal side – and, indeed, for financial modelling – AI was preceded by offshoring which has seen the lion’s share of the junior work carried out in Northern Ireland, India, South Africa, Australia… and everywhere in between.

So, with this offshoring process already well underway on the grunt work, with greater adoption of AI – by the time you get to associate level – to progress your career to VP level, you’ll have to be a pretty damned skilled customer of AI.

However, it’s banking, financial advisory and model audit where the impact is going to be felt most.

Modelling the latest fashion

There’s a breed of creature out there that goes by the name of “financial modeller”. Some choose it. Some have it forced upon them.

Some are self-proclaimed geeks and are rarely happier than when working on a spreadsheet. Some (bankers and infra fund juniors) are hired for their interpersonal skills and fundamental intelligence, and then horsewhipped into becoming financial modellers as an essential function/skill.

Those who embrace the “geek” moniker will fear the revolution more than those who are forced into it… and this latter group will merrily drop it like something (possibly steaming) they never wanted to hold in the first place.

For the likes of banks that always complain of understaffing, the adoption of AI will be a god send.

Talking to one banker about the inevitable reduction in juniors as a result of AI adoption and whether it would diminish the pool of talent to promote to client-facing roles and erode fundamental talents (whether they wanted to learn financial modelling or not) – he was entirely comfortable with the notion.

“The reality is that the financial services industry as a whole is enormously bloated by all the administrative and regulatory functionality that has grown exponentially in the last 20 years,” he says.

“AI will disproportionately reduce the need for junior hours to be taken up by these.

“When I started in banking, I was the only junior in a team and perfectly capable of doing the KYC, docs lodgement, etc.”

He adds: “Nowadays a typical debt house will have a far greater proportion of junior resource. And don't be fooled by teams that say they’re not that way, because inevitably they have separate KYC, loans admin, portfolio teams.

“The reality is that staffing levels per £ out the door are at an all-time peak in the industry.”

He rounds off: “Perhaps junior roles are under threat from AI, and the skills of the next generation of financier will inevitably be different. Excel lowered the bar for financial wizardry, and AI will do it again. But AI can't yet take a client to lunch.”

And that’s just it… the very point of this whole Friday Editorial.

AI will put the fear of god into a certain type of person (pure modellers) involved in infrastructure finance – financial services, really – and the revolution will see a new breed of person drive the industry forward.

Geek… out

Talking to folk around the industry this week, there is a view that these junior roles will evolve into functions that are more commercial… strategic… analytical – than working a discount cash flow model.

If you fall into the “geek” category, now (or soon) is the time to evolve or move on. You are about to be replaced by a more personable version of yourself who likely doesn’t fully understand the financial model, but will be less likely to believe that what it says will definitely happen!

So, if there’s going to be a revolution – and there is (it even has a name) – the end result will be that personal skills will be driven to the fore… from among those left standing.

As one renowned infra lender says: “If I still see the human interaction – at all levels, including risk – it takes to bid, win, execute and close project finance deals in infrastructure, with tailored structures ever evolving ... I’m not so pessimistic.

“In fact, I would like to see AI taking over more ‘automated’ tasks so that we can focus our scarce and talented staff on client interactions. The human element is key and paramount in infra financing.”

Meanwhile, another lender concludes: “More exciting is the impact of AI on the businesses we invest and lend to.

“AI-driven smart grids will be a significant contributor to addressing energy needs. AI applied to self-driving cars and traffic management systems will revolutionise urban transportation and upend investment cases in all sorts of weird and wonderful ways.

“Maybe that's for another editorial though?”