TylerMangan
Change. Direction.

Financial Services – an Industry in Transition

Tyler Mangan hosts a discussion on how the industry is fundamentally changing in the aftermath of the global financial crisis, with many financial institutions facing a wide range of external and internal factors, generating a period of significant transformation.

Roger Bootle delivers a thought provoking talk on the global economic factors affecting the financial services industry today, and what it would take to 'fix the system'.

Slow road to recovery

Roger started by explaining why recovery from the economic crisis is *'pitifully slow'*. He stated that the main problem is that the banking systems are broken, and the government is *'pussyfooting around'* and not doing enough to fix this. He feels that they rely on monetary policies rather than making the bold moves that are required.

Surging commodity prices, particularly in oil, are also to blame for the slow recovery, as well as countries suffering from *'savings disease'* and not spending (he cites Germany as a prime example), which is sucking the demand out of the world economy.

Eurozone breakup would drive growth

He also stated the Eurozone, which he describes as *'the greatest monetary experiment in history gone wrong'*, as another key factor hindering recovery. Although the world is terrified that the Eurozone will fall apart, Roger feels it is the very thing we need to fix the economy. He feels the Eurozone breakup would be best for all, especially for the peripheral countries, such as Spain, Portugal and Greece who cannot compete and will suffer continued depression otherwise.

He describes the potential collapse of the Eurozone *as 'Lehman's on steroids'*, but recognises that we at least have better knowledge of what to expect this time around, which will help us to cope more effectively.

Light at the end of the tunnel

Roger moved on to discuss how we might pull ourselves out of continued economic depression. His view is that policy makers will eventually opt to increase inflation, but only in a few years' time once they have realised that austerity and waiting for economic growth *'won't work'*.

When the need for higher inflation is recognised, quantitative easing will certainly be ramped up. He sees the challenge in this to be maintaining the right level of inflation once it has increased, without it getting out of control.

Financial activity is a game of luck

Although Roger recognises the value in having a successful financial system, he feels that it can go too far, with institutions becoming '*bloated'* and producing nothing of collective value. He describes the best financial innovation to date as the ATM machine!

He explained the difficulties in accounting for gains and losses and knowing what is profitable in financial activity, yet the rewards for winners are enormous. He feels that there is a lot of '*betting"* involved, and when things go right for people it is attributed to skill and talent, but when they go badly, it is blamed on luck. Regulatory pressure, he feels, will *'put finance back in its box'* and will continue to reduce levels of financial activity and rewards.

Roger concluded more optimistically, sharing his view that financial services in the City of London will retain competitive advantage and survive the economic turmoil, with their services very much in demand.

Jonathan Chocqueel-Mangan from Tyler Mangan provides insight into what leaders in financial services are worrying about, and what they need to do differently to succeed.

The case for change in financial services

Jonathan began by acknowledging that many financial leaders are in denial and are hoping things will go back to pre-crisis normality; however, as Jonathan frequently reminds them: *'hope is not a strategy'*.

Some leaders are realising that they need to do things differently and are trying to fix their businesses in light of the challenges being faced, such as the regulatory environment, increased competition and the need for better risk management.

Focus on customers

Jonathan highlighted that some leaders are seeing the need to focus on customers more explicitly, and that regulation can no longer be blamed as a barrier to customer centricity. However, he finds that many businesses think that they are being customer focused by *'using the word customer more often'*, but are still far from it.

Many financial institutions are still unable to measure customer profitability, which is essential to being customer focused. Customer research also often misses the mark, with financial institutions frequently asking the wrong questions of their customers, or using non-customer-friendly language. For example, asking customers what would drive them to recommend the bank is far more valuable than asking customers what additional products they need.

Jonathan explained how fundamental assumptions around what customers really value are being challenged. For example, some retail banks have identified that not all customers are seeking a relationship with their bank, but are instead seeking efficiency and quick service. He recognises that many clients face a significant challenge in understanding what it really means to put customers at the heart of the business, and how to put the processes in place to make it happen.

Drive out cost efficiencies

Financial institutions recognise the need to cut costs and enhance efficiency, and are putting this into practice by rewarding people less and restructuring. In Jonathan's experience, back office centralisation, if not done properly, results in complicated matrix structures that can be difficult to understand, increasing internal complexity and negatively impacting efficiency, meaning that cost savings are not delivered.

Banks could be more rigorous and thoughtful in their cost reduction activities; less cost isn't always better. Some areas may require a 90% cost reduction, but in other areas costs will need to increase to enhance efficiency, e.g. in risk management.

Lead more effectively in times of uncertainty

Jonathan described that in today's market, *'the one constant that we have is uncertainty'*. This requires a different kind of leader in terms of technical skills, competencies, style and values. What is required specifically will depend on the business' strategy; it is not a one size fits all approach. He states that changing the values of an organisation requires *'more than putting everyone through a 3 hour workshop'*. Rather, the processes within the business, including how people are rewarded, need to be examined and refined to promote new values.

He summarised by challenging financial services leaders to stop debating or talking about these three areas, and *'start doing'*.

So how should leaders in financial services respond to these challenges?

We would love to discuss insights from the event with you further, as well share some of our experiences across the globe, in particular around how we are seeing leaders responding to these external and internal pressures, with varying degrees of success!

Leaders who concentrate on being effective rather than busy, and doing 'fewer things brilliantly' tend to be winning in today's environment. Some of the strongest leaders we have seen are making bold decisions and trade-offs in 4 key areas to drive tangible business results:

It's all about the customer

- Financial institutions can only increase customer profitability once they truly understand the factors that drive customer satisfaction, advocacy and a positive reputation.
- We have noticed that many new entrants in financial services, who are rapidly growing their market share, have invested in understanding what customers are really looking for, and are subsequently differentiating on 'ease and speed of service', rather than the 'quality of customer relationships'. They have been able to deliver exceptional service by structuring themselves around their customers, rather than products or siloed business areas.

Focused execution

- Strategies are properly executed when leaders stay focused on a few strategic priorities, whilst ensuring the entire organisation is 'on-strategy', and that standards and principles are applied consistently throughout. Successful leaders also govern in a way that allows them to monitor whether their strategy is working or not.
- In our experience, the key to staying focused on executing strategic priorities amidst the ambiguity is rigorous and overt prioritisation of all investments. In other words, any new investments that are not 'on-strategy' should not make it onto the business' 'to do' list, and any existing investments that are not 'on-strategy' should be stopped or delayed.

Strategy-led leadership

- Different qualities are required from leaders now than in the past, and a leader who looks superb on paper may not always be the right person for the job. Leaders are most effective when their skills and experience match the challenges they are facing and the strategy they need to drive. The most successful leaders we see today provide clearer direction, have more impact, lead with confidence, and engage staff by communicating the business strategy or 'story' to ensure the organisation stays focused.
- We strongly believe that leadership development is never a 'one size fits all approach', and that the most effective development programmes are closely linked to business strategy, and drive tangible business results by focusing on outcomes and solving real problems in real time.

Smart operational efficiency

- Not all costs savings are good savings; leaders need to think carefully about where efficiencies will come from, and plan and manage trade-offs more effectively (e.g. which services should be central and which should be embedded?) to ensure fit-for-purpose capital utilisation to support the strategic priorities.
- We find that efficient businesses do not shy away from increasing costs in areas that will drive longer-term efficiencies and returns, such as the partnering of support functions with the business. In addition, the most efficient and effective centralised support functions tend to be those that fully understand and embed 'the voice of the business' into their way of operating.

Please don't hesitate to get in touch with us if you would like to discuss this further and exchange thoughts or ideas: +44 (0) 207 492 1969 or info@tylermangan.com.

What financial service institutions has Tyler Mangan worked with?

"Your pragmatic approach and you took the time to understand the business and our issues. More than this you quickly understood the different characters and tailored the advice and approach towards this. This is where you added real value to the team."

- Head of Managed Assets, Major Financial Institution

"Consistency of the team. On-going direct access of senior partners. Focused set of services where it is easy for us to understand the Tyler Mangan value proposition."

- Group Head of OE, Large Financial Services Group

"Tyler Mangan not only brings useful insights on management issues, they are keen to engage in finding solutions that work for our stakeholders. We know that they are as focussed on the creation of long term sustainable value as we are."

- Portfolio Company Chairman

"They are bright, personable and experts in their area of focus. They brought clarity and elegance to confusion and complexity."

- MD, Financial Services