

Big Issue debate 3

What keeps CEOs awake at night?

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Sleepless in Vienna

Nightmares on Wall St. may be keeping both CEOs and delegates awake this week but to avoid insomnia senior executives need to overcome the challenge of nurturing talent and managing risk across multiple business lines

Achieving a balance between long-term growth and short-term risks and opportunities – such as integrating with a global investment bank – is the key to an uninterrupted night's sleep for banks' CEOs, according to panelists at yesterday morning's Big Issue debate. Failing that, try Prozac, suggested moderator Juan Senor.

With the independence of specialist financial institutions such as broker-dealers under increasing threat, panelists said CEOs would have to demonstrate the ability to nurture talent – and manage risks – across business lines.

"We need to ensure that the depth of skills and specialisation that exists in 'mono-line' businesses can thrive in a commercial banking environment," said Karen Fawcett, global head of transaction banking, Standard Chartered.

Tim Ryan, CEO of the Securities Industry and Financial Markets Association (SIFMA), said that the



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Tim Ryan, CEO, Securities Industry and Financial Markets Association

current "serious challenge to all entities that depend on wholesale funding" meant that dramatic change to investment banking was

inevitable. Already, only a handful of SIFMA's 680+ members were specialist broker-dealers, said Ryan. "Most are part of multi-

product line firms. Investment banking operations will continue to exist, but their funding and regulation will change," he said. ▶



“Risk systems cannot replace common sense.”

Hans van der Noordaa, executive board member, ING

As yesterday's news reports indicated that UK retail banks HBOS and Lloyds TSB were ready to follow the shotgun weddings of Bear Stearns to J.P.Morgan, Lehman Brothers to Barclays, and Merrill Lynch to Bank of America, Brian Stevenson, chief executive, RBS Global Transaction Services, offered advice based on his recent experience of choosing a team to run the merged transaction banking operations of the Royal Bank of Scotland and ABN AMRO Bank. “When merging the two organisations, we spent a lot of time getting the customer service culture right, but risk awareness also has to be a fundamental part of the agenda,” he said. Concurrent with this, companies also have to make an adequate assessment of what it is appropriate to outsource and

what it isn't, said S. Ramadorai, CEO and managing director, Tata Consultancy Services.

Understanding the nature of risk

Following the finance sector's collective failure to understand the risks of investing in the US sub-prime mortgage market via securitisation, the question of how to manage risks better in the future was high on the panelists' list of priorities. ING, the banking and insurance group, adopted a company-wide risk strategy six years ago, according to executive board member Hans van der Noordaa. “As well as investing in our risk management infrastructure, we trained our CEOs at all levels to understand the nature of the risks in our business,” he said.

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June Felix, general manager, global banking and financial markets, IBM

Risk systems and models, he warned, were only as good as their assumptions. “Don't fly on auto-pilot. Risk systems cannot replace common sense,” he said.

While acknowledging the important role of appropriate processes and systems in running complex multi-product financial institutions, June Felix, general manager, global banking and financial markets, IBM, asserted that many banks were still being run on too-narrow business lines.

“There's a big difference between banks that really take advantage of the information that's available to them and those that just have it for compliance purposes,” she said. Whether going through a merger or developing innovative new business lines, banks must always maintain their focus on the customer, Felix added. “Our survey of 5,000 clients of financial institutions found that customers are not getting what they want from products 75% of the time. Firms should at least understand the first and second most important reasons why their clients have a relationship with them,” she said. The need to respond quickly to changes in customer demand, Felix observed, was why firms that mastered business model innovation generally delivered “much more sustainable” shareholder value.

As CEOs of banking businesses – or of organisations that serve the finance sector – the panel's most common sources of insomnia related to the crisis that has domi-

nated headlines and session debates throughout Sibos 2008.

SIFMA's Ryan was perhaps the most optimistic. Having sold USD 4 billion of savings and loans assets in four years as a regulator, Ryan asserted that, despite the continued knocks to market confidence, asset prices could be stabilised. “Right now, there's a huge delta between the prices at which people are willing to buy and sell. Although it may need financing to enable firms to sell at market clearing prices, I believe it could be done within three years,” he said.

Ryan also suggested that one thing that wasn't keeping him awake was the regulatory response to the financial crisis. “Will the regulators coordinate? Are they making the right decisions? Regulators need to be bold and smart. And so far they have been,” he said.

Asked by Senor how confidence could be restored in the banking sector, panelists agreed that strong relationships with customers would help to get reassuring messages across, but Ryan worried that communication could be lost “in the fog” because there was simply “too much information” for firms to digest.

As well as his professional worries, ING's van der Noordaa had personal reasons for his lack of sleep. “My oldest son has a new girlfriend,” he said. Too much information, indeed. <<