Redesigning the Future of Finance

Global Expert Insights on:

BANKING, FINTECH, REAL ESTATE, INSURANCE, WEALTH & ASSET MANAGEMENT

Resilient Leadership:
Perspectives from Boyden's Global Financial Services Experts

As the grip of COVID-19 continues to impact us globally, Boyden is tapping into the deep collective knowledge base of our partners to bring industry insights and prescriptive learnings to the forefront.

In this issue of *Resilient Leadership*, Boyden shares the expert opinion of our Financial Services leaders across the major world markets:

- Anita Pouplard, France
- Caroline Golenko, France
- Derrick Chow, Canada
- Dina Akimova, Russia
- Dr. Dirk Friederich, Germany
- Eduardo Rabassa, U.S.A.
- Giovanni Donati, U.K.
- Juliet Hardingham, U.K.
- Kanu Rajguru, U.A.E.
- Karen Kosiba Edwards, U.S.A.
- Krista Espaldon, Singapore & China
- Richard Plaistowe, U.K.
- Russ Silvestri, U.S.A

In a virtual roundtable discussion with Boyden's Global Financial Services Practice Co-Leaders, Carlos Dafauce and Joost Goudsmit, the group explores where opportunities may lie across a series of industry segments, the accelerated focus on technology, transformational trends, and the leadership skill set to deliver.

BANKING

Carlos Dafauce: Banking is playing a significant role in a healthcare crisis, developing financial survival solutions for individuals and businesses while working with governments to ensure a level of economic stability is maintained. This has undoubtedly been a challenging time for banking institutions as they too experience significant external pressures and operational issues. What are the emerging themes for a post-crisis strategy within banking?

Juliet Hardingham (U.K.): Businesses continue to look for ways to reshape their business and operating models, accelerate their digital transformation data and technology capability to deliver better customer solutions. Customer behaviours have rapidly changed with a significant rise in digital adoption in everyday transactions, contactless payments as well as increasing customer needs for digital services. Secondly, as customer expectations have shifted, businesses compete to focus on more innovative customer propositions and services aimed at improving customer engagement. Growth of partnerships and ecosystems is a predicted trend between traditional and non- traditional partners to create new value propositions.

This crisis has accelerated customer and public expectations for the Banking sector to behave more responsibly and sensitively, by demonstrating real care and integrity for their customers and employees. Embedding social responsibility and purpose is emerging as a key priority for leaders.

Finally, leading firms in the sector are taking steps to improve their ability to deal with unexpected risks in the future.

Eduardo Rabassa (U.S.A.): This crisis has demonstrated digitalization was not ready enough to face the situation we are still living. Retail banking will need to speed up the conversion to a friendly digital model; there is no other option. In financial services, in general, with a special focus on private banking and CIB, compliance associated with an environment with (much) less human contact will need to be reinforced. Cyber-security will be on the agenda as a clear protagonist of our day-to-day. Finally, new models of home working and the subsequent impact on both residential (more space?) and commercial real estate (less?) will be an important topic too.

Carlos Dafauce: Are new functions being emphasized?

Dr. Dirk Friederich (Germany): In my view, some functions in the banking sector are currently in increasing demand:

- Transformation managers, i.e. large project managers who drive transformation and change with large project groups, this happens in banking as well as in insurance
- Cost cutter
- CFO's and controllers
- All types of digital experts and digital leaders

My thesis is that currently, very successful and intelligent banks know how to recruit in exactly the opposite direction, i.e. not only the so-called controlling, cost-cutting, transformation, and digital processes but exactly the opposite, namely innovative, sales-oriented business leaders who can also do an excellent job in the digital world. These executives are currently being "sidelined" by the established banks and are currently the most volatile. And my thesis is: those banks and FinTechs who hire exactly these people today will be the winners of tomorrow. In other words, an anticipatory or rather contrary recruiting model as an intelligent approach to bank recruitment.

Eduardo Rabassa (U.S.A.): Yes, some functions are taking the spotlight as a result. These include: Digital Transformation, Analytics, Digital Marketing, Compliance, Cyber-security, and Legal.

INSURANCE

Joost Goudsmit: Crisis can be a catalyst for innovation, with unique considerations in the insurance space. What opportunities do you see in the general and life insurance segments due to the new reality?

Caroline Golenko (France): We have seen in Europe, and in particular in France, a certain number of pure digital players such as *Alan* or *Friday* that have become popular and that correspond to a digital-native need: user-friendly, efficient, rational, and cost-conscious as well as ethical.

Insurance on a pay by kilometer or pay by use mode is most probably a trend that will be adopted by the market. Flexibility and adaptability are becoming a real business trend facilitated by digital interface/contact with the client. That means that important budgets must be oriented into R&D, marketing and innovation. This also implicates that some traditional players will have to reorganize or change their business model to survive. Some acquisitions and concentrations will take place, in order to compose new flexible and credible players on the one or the other segment.

Due to this, a leadership transition will be taking place. The current generation will likely organize its succession sooner than originally scheduled as the crisis has revealed talent but also demonstrated that some leaders were not the right ones to deal with the new challenges.

Juliet Hardingham (U.K.): That's right. It seems the spotlight on digital innovation is exemplified across the insurance sector. Literally overnight, just about everyone knows what virtual health is. Whether that is a GP in your pocket or access to other health care professionals, this crisis continues to stimulate innovation to respond to customer demand for these services. Due to growing concerns and interest around mental and physical well-being for customers and employees, we are seeing a continued emergence of new well- being and data-driven digital applications and online tools. Many businesses expect the volumes in health and life insurance to grow. This crisis has enhanced the overall concern for personal health and wellbeing and raised consumer awareness of the importance of adequate life and health insurance plans.

We've also seen how this crisis has further shifted how customers want to buy insurance with greater demand for more flexible on-demand solutions; leading to a bigger spotlight for Insutech providers and innovative insurance providers leveraging AI and advanced analytics to provide competitive advantage through agile and accurate pricing.

REAL ESTATE

Carlos Dafauce: From remote work to new social distancing restrictions, there is significant uncertainty within real estate. How is the segment adjusting in the short term? What can we expect to see in the long term?

Derrick Chow (Canada): From a macro perspective, the real estate asset class remains an attractive investment class for well-capitalized owners given this low interest rate environment but allocation within the various asset classes has likely shifted. Retail has certainly been most affected but COVID-19 has only sped up a trend that was already occurring in recent years – a general diversification away from this asset class and redevelopment opportunities to more mix-used (retail/residential/office) type asset type. The clear winner here is the industrial asset class. We are seeing a renewed focus on industrial asset class given the focus now on e-commerce, distribution and logistics. Commercial demand has shifted slightly but I think most are still bullish on the long-term prospects in this area – but with a focus on different floorplates and configurations. The office environment has likely been forever changed with more openness toward remote work arrangements but that doesn't mean office demand will go away. From a residential standpoint, there is some evidence to support that sale prices have remained stable if not increased during COVID-19. Developers and builders will gain from this but you are seeing pressure on rent prices though which will affect owners.

In summary, while there are short-term challenges affecting the industry, we are seeing real estate organizations adapt and adjust. Organizations that are well-capitalized are taking a long term perspective and taking this opportunity to be opportunistic in the market. The demand for talent remains high with an enhanced focus on diversity and executives who can be adaptable, innovative, and creative in a sector that is not traditionally known for being progressive.

Richard Plaistowe (U.K.): With global transaction volumes in the first half of the year down by 30%, it has absolutely been a challenging time for the Real Estate sector. There are certain areas of the sector that are holding out better than others. As Derrick mentioned, Logistics is a key area that is booming as on-line purchasing has rocketed and the requirement for space from the likes of Amazon and other online retailers is growing. We will continue to see the growth of large-scale distribution and logistics centres close to our main transport links.

The retail sector has seen the decline that was already occurring speed up. As it continues to fall, there will be plenty of unoccupied space on High Streets and Retail Parks, which can be repurposed for other uses.

Within the residential sector – there has been a short term boost with the help of low-interest rates and (within the UK) the Stamp Duty Holiday, coupled with buyers looking to increase their living space to set up home-offices and potentially moving away from City Centres to rural/ semi-rural locations.

Karen Kosiba Edwards (U.S.A): I'd add that continued consolidation over the last several decades of real estate ownership into large, well-financed corporate owners means there will be opportunities for these players to grow larger as low-cost financing abounds. Existing, trusting relationships between borrowers and lenders are more important than ever in this period of uncertainty.

Some investors view this as a good time to acquire office properties that can be repositioned to reflect more flexible requirements in the future. While many leaders have admitted to being surprised at how effectively their organizations are functioning on a remote basis, almost no one sees a future where work from home prevails. When it is safe to go back, most anticipate a return to the office, although the tolerance for some remote working has greatly increased. Still, organizations value the information-sharing, collaboration, and reinforcement of cultural norms that come from joining others on-site.

There is temporarily an extremely short supply of homes available; homebuilders' stocks are soaring as low-interest rates and families staying home have increased single-family housing demand away from the highest cost markets. Any disruption in multi-family is minimal compared to retail, hospitality, and leisure properties, which will take a while to recover; some mall properties may be repurposed into industrial distribution centers or affordable housing, which could happen more quickly as a result of the COVID-19 disruption in value. While the multi-family sector has engendered some concern, loan servicers are more well-capitalized, having consolidated and improved operating practices since the last recession. Fannie Mae and Freddie Mac continue to offer support for a significant portion of the multifamily and single-family home mortgage debt markets in the US.

Life sciences and lab spaces continue to proliferate under current conditions attracting increased investment and development capital. And the "prop-tech" industry is racing to innovate, with everything from using AI to provide rapid analysis of millions of real estate contracts to manufacturing and installing "touchless entry", surveillance/monitoring, and locking devices to keep owners and tenants safe and facilitate a return to work.

WEALTH & ASSET MANAGEMENT

Joost Goudsmit: Due to extreme volatility during the pandemic, wealth and asset management may be an industry where we'll see a rise in consolidation and M&A activity. Have you seen indication of that taking place already?

Giovanni Donati (U.K.): Definitely. Private banks, despite slimming down on costs post-2008, have been affected by increased spending including digitization as well as costs for legal and compliance. The volatility caused by the pandemic has unquestionably accelerated this process. If we look at Switzerland for example, one of the key European international private banking centers, the current forecast is that one fourth of private banks will disappear by 2025 due to consolidation. In 2010, the ten largest Swiss private banks held 72% of assets managed in Switzerland; by last year the number rose to 75% and is expected to rise to 80% by 2024.

We have all witnessed an exponential growth of Multi-Family Office (MFO) and External Asset

Management (EAM) structures. They have been emerging as one of the preferred options for wealthy clients and have been gaining increased market share over the past decade. Despite a growing client demand for these structures; we see this segment starting to consolidate as well, especially in more mature markets. With a growing number of MFOs and EAMs globally, regulators have been implementing new frameworks to control the industry, which are expected to continue intensifying. Going back to Switzerland for example, recent legislation has just brought in new measures for multi-family offices that create more complexity and higher costs. This is an issue for the smaller players that are going to struggle with profitability and it will push consolidation and/or collaborations. There are currently more than 2,500 independent wealth managers in Switzerland with an average of three members of staff and about CHF 200 million in assets under management which are expected to be hugely affected.

Krista Espaldon (Singapore & China): I would add that Private Banks are reshuffling their investments, markets and business focus not only because of COVID-19 disruption but also because of regulatory changes. On the aspect of a big private bank acquiring a smaller private bank, we don't see of this happening anytime soon in Asia but perhaps in a year or two. Right now, cash is king, and cost-saving and revenue generation are the focus.

External Asset Management (EAM)/Independent Asset Management (IAM) companies are taking into consideration of buy-out or capability exchange opportunities. Because the margins are so squeezed at this current market climate, even large EAMs/IAMs are re-thinking their formula pay-out scheme to a much lesser percentage.

For ultra-high-net-worth clients, we see the opposite. In times of extreme volatility, clients pay more attention to the professionals helping manage their wealth, regardless of the institutions they represent. Clients care about the timeliness of info and responsive of managers than the institutions. Therefore, less consolidation may take place due to the renewed attention of clients on the various managers they are dealing with.

Joost Goudsmit: Are there other industry trends on the rise as we look towards the recovery and strengthening of models?

Krista Espaldon (Singapore & China): Delivery of timely market info and the ability to act on the info will be key. FIs need to invest fast to digitize their processes to allow managers to deal with clients at speed. I add that Robinhood and very small investors are taking advantage of new digital platforms to get into equity markets and commodities. You can make a case that the last 10% of the market rise has been driven by this new pool of "investors/gamblers".

Giovanni Donati (U.K.): There remains a need for wealth managers to integrate technology for every part of the value chain, and to re-evaluate decisions related to the speed of automation and digital transformation. This goes from the onboarding process, with tools such as video conferencing and biometric authentication, all the way to digital trading and reporting.

The role of technology needs to be reprioritized and leveraged as a competitive advantage to win and retain clients, while at the same time wealth managers should also focus on value differentiation which requires long-term strategic thinking and development. Alongside this, they need to provide bankers with the tools and insights needed to communicate often and effectively with clients, wherever they are.

FINTECH

Carlos Dafauce: Consumer behaviours have rapidly changed, very clearly demonstrating accelerated demand for, and use of, financial digital solutions. What evolutions can we expect to see from FinTech?

Anita Pouplard (France): The FinTech industry is one of the fastest-growing and paced industries around, and it's changing the financial services industry as we know it daily. Customers have now accustomed to top-notch omnichannel experiences thanks to Amazon, Uber, and other apps making once-daunting processes a one-click breeze. Gradually, most of us developed a neat digital ecosystem of products to fulfill our every need. FinTech apps have the opportunity to find their place in the heart of that ecosystem.

This growing popularity and adoption of digital banking has empowered banks to provide a growing number of real-time and same-day banking services through multiple online channels at once. From personal digital assistants, saving and investment tools, payment processing, and more, the FinTech industry is responsible for some of the most innovative and intuitive ways humans interact with technology that truly make their lives easier.

Millennial and Gen Z consumers are the driving consumer force — the key target demographics for 2020–2030 — want to see their banking products as their companions and advisors who are helping them reach their financial goals and gradually building up their wealth.

Russ Silvestri (U.S.A): I would add that the battle for the peer to peer payments whether Apple Pay, Venmo, Zelle for the most part is over and is, in essence, a free service provided by banks.

There are three areas that I believe are up for battle:

- Point of presence, pay when you need it, think supermarket you pay for it when you drop it in your cart versus standing in line.

- Paying providers, business networks the supplier, and service circle (think travel business, commissions, taxes, and fees for world travel with commissions returning to host country).
- Utilizing purchase points anywhere. Consolidate all your airline miles and credit card discounts one-stop access whether online or in-person, you can apply a percentage to the purchase price or use all your points, it is a currency that today represents tens of billions that if utilized could accelerate sales. Amazon is leading in this and is using this tool as a primary driver to its dominance. Shoppers swear by it.

The theme is utilization. All FinTech providers are focused solely on utilization and adoption; they are willing to pay a lot to acquire customers whose lifetime value to exceed the cost of acquisition will take more years than they can fund. The inflection of consolidation versus investment is what we should be watching for. Because in this game, to scale is the only way you win.

Dr. Dirk Friederich (Germany): Regarding the need for a categorical focus on customers, banks and FinTechs are mostly in agreement. This unity makes successful cooperation possible, which we are currently seeing increasingly, that is, cooperation between banks and FinTechs and not a fight against each other.

In summary, the following skills will be increasingly needed in banking in the future:

- Technological and innovative skills
- Work culture and working atmosphere
- Customer focus

In times of artificial intelligence or advanced automation and machine learning, it is not surprising that classic customer service in local branches is an outdated concept. Even if this has been proven many times, other forms of customer contact must now be found in order to continue to work efficiently. The fact that in many cases this can be supported very specifically by technologies or even completely replaced also implies the realization of many FinTechs that specific know-how and the industry expertise of numerous consultants will no longer be necessary.

FINANCIAL SERVICES

Joost Goudsmit: Who are the likely winners post COVID-19 in the Financial Services sector?

Dina Akimova (Russia): It's clear the world isn't going to simultaneously come out of this in one unified fashion and the lingering effects of this could very well run deep into 2021. The Initial winners are likely to be those financial institutions that were early adopters and heavier investors in their digital channels and technology over the past few years. They have been able to swiftly and relatively seamlessly transition their customers into alternative channels and help navigate them through the worst of these challenging times. Some other likely post-COVID-19 winners will include contactless payments and mobile money companies as customers use less cash.

Companies built around savings and investments have been doing well in 2020 and this trend is likely to continue as people look to take greater control of their finances in the future. Consumer and SME lending platforms as mainstream banks take less risk and lend less at this level, whilst smaller and less well established fintech's could end up being the winners as the market clears out post-COVID-19 and could attract further investment thereafter.

Kanu Rajguru (U.A.E.): We've also seen the usual flight-to-quality and flight-to-safety. Companies with the best market reputations and stronger brands, as well as higher levels of service quality, have benefited from the migration of customers seeking to minimize their risks and losses (capital preservation) as well and take advantage of the opportunities in the market (capital appreciation). In addition, financial institutions that placed customer-centricity and personalization at the heart of their strategies are now reaping the benefits. Optimizing their customer experience and value propositions without completely removing the human interaction elements within the customer journey is the key.

From a talent perspective: With COVID-19 merely further accelerating the inevitable push towards digitization and use of technology within the industry, banks and FI's will morph even quicker into quasi technology companies. In order to continually innovate, introduce new solutions, and rewire from the inside out, institutions that can attract the best designers, engineers, and technologists, especially from outside of the sector, are going to have a competitive advantage. Firms will also need to effectively communicate and demonstrate their employee value propositions in order to have a better chance of prizing away talent from the tech and other alternative sectors.

Dina Akimova (Russia): I'd add that with digital technology no longer a nice-to-have but a must-have, banks and FI's will need to ensure that their boards and senior management teams are "fit for purpose" as many organizations migrate away from the traditional modes of working and reconfigure their business and operating models towards online digital channels, automation, data analytics, AI, etc. This will require restructuring boards and management teams by appointing more technologically minded individuals with different skills set and knowledge to inject a new kind of thinking in order to fast-track their transformation and change management strategies. Those that can start implementing this now (and we are currently seeing more restructuring taking place at this level) will have a better chance of coming out in front once the pandemic is behind us.

Kanu Rajguru (U.A.E.): As for long-term vision, with many institutions facing reduced profitability and lower share prices it would be easier for boards and senior management teams to focus squarely on shareholder value and improving returns (RoE) in the shorter term. However, the importance of investing in the business and supporting its recovery and growth post-pandemic is going to be critical now more than ever to attain longer-term growth and success. Those institutions where the board and management teams can successfully strike the right balance between the shorter-term needs of institutional investors whilst continually investing in the longer-term growth plans are more likely to succeed in the post-COVID-19 era.

The first half of 2020 has seen record levels of investment in ESG (Environmental, Social, and Governance) and more and more investors will place greater importance on where they invest their money and is it being done so responsibly in the future. Those institutions that can offer the best solutions around impact investing, socially responsible investing (SRI), and values-based investing will ultimately benefit greatly in the future. Furthermore, this pandemic has served as a large-scale stress test in the resilience of corporations across the globe and those with higher governance scores have performed better so far in 2020 that their peers and this trend will very likely to continue post-COVID-19.

LEADERSHIP LESSONS

Carlos Dafauce: Many leadership lessons will be learned from the pandemic. What do you feel will be one of those top lessons?

Eduardo Rabassa (U.S.A.): I've had the privilege of working with great leaders during this crisis. Top lesson: ADAPTABILITY.

Nobody was prepared to keep teams motivated and focused on a 100% remote world. Meetings, confidential info, strategic discussions, debates, hard decisions….everything has transitioned from "in person" to "virtual" without time to learn and be prepared.

I saw great leaders who have developed new skills through initiative, curiosity and passion to keep all teams engaged in such a difficult time.

Dr. Dirk Friederich (Germany): From my point of view, the main lesson that could be learned in the COVID-19 time is that one should keep calm, and in addition to a sound response, continue to tackle the relevant issues that were there pre-crisis, and not fall into unrest.

Juliet Hardingham (U.K.): From a leadership perspective, attributes around resilience, agility, trust, and empathetic leadership have been the making of many but will also be the detriment of leaders lacking in these qualities.

Boyden's Global Financial Services Practice

We help clients drive strategic change by thinking more broadly, hiring leaders to reshape the business and leverage market evolution.

Meet members of Boyden's Financial Services Practice Group:

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