

HEIDRICK & STRUGGLES

Emerging Talent

How diverse leadership
is driving success in
Transaction Services

Introduction

Transaction Services has emerged as a core and important business for financial institutions, particularly following the global financial crisis of 2008 / 2009. Its business lines have low capital utilisation, are annuity in nature and include services such as trade finance, cash management, trust and security services, fund servicing, prime finance, clearing and custody. The attraction of its stable and reliable income has led many global banks, as well as specialist players, to channel more money into developing this arm of their business.

As supply increases, and the demand for improved service propositions also increases, businesses offering Transaction Services must understand their clients' changing needs in the broader macro environment in order to remain competitive, and adapt their business models accordingly.

In order to do this, industry players must identify, attract and retain the very best talent. The purpose of this paper is to argue that this talent is not necessarily already sitting within Transaction Services. Rather, there is an untapped pool of professionals who, although lacking the sector knowledge, possess the skills required to excel within this field. In order to demonstrate this fact, this paper will touch on current market issues, such as client demands and regulation. It will then examine how operating models in the industry are changing and the impact this has on what makes an excellent Transaction Services professional, and where they can be found.

Market drivers

Regulation

Transaction Services, as with the banking industry at large, are subject to constantly evolving regulation. As such, many financial institutions are setting up committees to monitor and act on the regulatory developments.

However, the institutions that set themselves a cut above the rest are those that are proactively shaping regulation. The larger Transaction Services firms have appointed lobbyists whose focus is to liaise with government officials in Brussels or Washington, as well as at the State / Country level. Needless to say, this allows these institutions to exploit business development opportunities that arise as a result of these changes; it will arguably be these banks that emerge as industry leaders.

Some of the more notable regulatory developments of late include:

Single Euro Payments Area (SEPA)

By pushing SEPA through, the European Central Bank is promoting a standardized payment zone, which reduces costs of electronic money and of payment transactions.

Target 2 Securities (T2S)

T2S is closely related to SEPA, regulating cross-border integrated securities settlement infrastructure in the European Union. The IT platform is owned and run by the European Central Bank and will allow a more competitive market as well as reduced settlement costs.

Basel III

This is seen as a potentially inefficient and counter-effective measure. If capital and liquidity requirements are too stringent they risk swinging too far in the opposite direction and stifling business. Ironically, Basel III may harm the very economies and businesses it was designed to protect. It will be difficult to find the very fine line that delineates providing support for growing businesses, whilst at the same time protecting them from excessive over expansion without sufficient underlying capital security.

OTC Derivatives clearing

In September 2010, the European Commission introduced a reporting obligation for OTC derivatives and obliging certain OTC derivatives to be cleared centrally. The purpose of this is to regulate risk and establish common practice in this space, as well as drive competition and further platform developments amongst the central counterparties (CCPs).

What do clients want?

There are now many more participants in the Transaction Services market, who have entered the sector due to the apparent low risk profile of the business. This has increased competition and gives corporate and financial institutions seeking Transaction Services greater choice in terms of providers. In addition, due to increased connectivity and sophisticated technology solutions, it is easier than ever for corporate clients to use multiple banking partners.

Transaction Services providers must therefore react to their prospective clients' needs. For most of their clients, access to working capital and to liquidity is essential to help them to rebuild, future proof and de-risk their businesses. Taking the ability of a Transaction Services business to provide these solutions as a given, corporate or financial institutions will select their Transaction Services partners based on three further criteria: the efficiency and effectiveness of the technology available; a global reach; and the breadth of solutions – and advice – available.

Efficiency and effectiveness of the technology available

Technology is driving the Transaction Services industry at all levels from the market infrastructure (exchanges and clearing houses) upwards. Joint ventures are becoming increasingly attractive for Transaction Services businesses, due to the rapid pace at which technology driven platforms are being upgraded and revolutionized, and the lack of capacity to build independent in-house systems. Here, the more established banks, with legacy systems and established client bases, are at a disadvantage compared with newer emerging banks which will not face such high costs to rebuild new systems.

Global reach

Today's global economy dictates that clients need Transaction Services that are also global in their reach. We are increasingly seeing the larger global players partnering with smaller local banks in order to provide a worldwide network without losing local expertise and knowledge. The emerging Latin American, African, Asian and Middle Eastern regions are becoming a target area and the ability to offer services in these regions is increasingly desirable.

Breadth of solutions and advice

Smart Transaction Services institutions enter into strategic dialogue with their clients, and are able to create and offer a suite of solutions which will often cross-multiple product lines. By becoming trusted advisors to their clients they thereby ensure core business retention, but also win cross-business sales. We explore below how business models are changing to facilitate these solutions.

Convergence of business and operating models

To meet the evolving requirements of clients, as well as the changing regulatory environment, Transaction Services businesses are adapting their operating models. We have identified three predominant patterns:

- Different product lines within the broader Transaction Services world are becoming more closely aligned, allowing not only for an increased customer-centric ethos, but also providing operational efficiencies. Where banks are pushed to offer competitive services with low margin, for example in the custody space, they must make up losses in other product lines. The ability to cross-sell and offer a portfolio of services will therefore both improve the depth of relationship they can provide a client and improve margins across the broader Transaction Services business.
- Additionally the changing regulations (such as SEPA) and increased client desire to operate in a truly global industry are opening up the market for regional and domestic players, particularly in Emerging Markets.

By providing on the ground services in less traditional markets, the regional players are able to compete in some areas with the global giants. However, we are likely to see acquisitions and consolidations in the market as regional players continue to lose out at the hands of other regulations such as T2S.

- We have observed that the global universal banks are formulating cross-business committees of executives from the Investment Bank, Global Markets, and Corporate & Transaction banks to respond, with a multilateral but consistent approach, to the regulatory and market changes we have discussed. However, the challenge of coordinating cross-business initiatives and the absence of a universal interpretation of the regulatory impact means that we are yet to see any banks step forward to lead the assault.

Talent model interventions

The changing demands on Transaction Services businesses mean that the demands on the executives of these businesses are also evolving. As internal talent management teams, or external Executive Search providers, we must adapt our approaches to building executive teams in order to increase our likelihood of success.

- Be clear on future operating model strategy.
- Create a new leadership competency framework for your company that links to the above and use this framework to assess your current leadership team and where there are gaps.
- Derive a recruiting strategy from the new framework, which analyses in detail where the most logical talent for your business could be sourced.
- Cast the net wide and think outside of the box – some of the logical sources of talent may come from outside of direct competitors.
- Spend time on the process of on-boarding new hires and integrating them into the team.

The evolution of desired talent competencies naturally has a knock on effect for businesses thinking about their talent pipeline. Transaction Services are shifting and expanding their traditional talent pools and we are witnessing the emergence of a broader and more diverse talent market.

As the Transaction Services market is largely shaped by two things, regulation and clients' needs, the individuals who successfully operate within this field need to possess skills that allow them to: firstly, shape and exploit changing regulation to the benefit of their business; secondly, identify and respond to their clients' changing needs; thirdly, understand how technology is changing their own service provision.

Future leaders must therefore be, first and foremost, technologically savvy and intellectually sharp.

Talent competencies of the future

In order to navigate an evolving macro and micro environment, the new leaders of Transaction Services will have:

- Strong commercial skills and solution-based service experience.
- Awareness of and the ability to determine and implement best practice.
- Excellent relationship management skills and the ability to instil these in their teams.
- Intellectual agility which will allow them to continue to adapt to change, and respond to regulatory pressures.
- A good grasp of technology and how this can enable business, as well as a desire to constantly innovate.
- A truly global reach and experience working beyond the traditional markets.

Sources of new talent

The most obvious source of senior leadership candidates is the existing talent pool within the firm. Transaction Services are looking to promote internal talent who have grown up in the business, as well as nurture post-graduate and MBA recruits who bring academic qualities to the table. An internal succession planning strategy fosters the sort of 'reward' culture that makes an organisation a desirable place to work.

The second source of talent is from within direct competitors. Naturally, this is the pool that is the most active, with many executives moving between the various Transaction Services institutions relatively fluidly.

However, there is a new and untapped pool of talent for Transaction Services leaders. This pool offers a process driven mentality, in-depth understanding of the technology platforms that have emerged as key to Transaction Services, as well as a client focused mind-set. This pool is that of the technology companies such as Google, PayPal and IBM that provide multiple products and solutions to global customers. Top high-tech businesses attract high calibre and intellectually curious professionals who may lack sector knowledge, but do possess the requisite competencies to be very successful within the transaction world.

Conclusion

In this paper we have seen how the Transaction Services industry is evolving and expanding, both through regulatory changes at the macro level, evolving client needs and, as a direct consequence, the convergence of internal operating models. We have then considered how executives at the helm must have the leadership skills and competencies required to ensure that their business succeeds in the face of very tough competition.

We argue that, whilst some of this talent will sit internally within current Transaction Services market, leaders must not only be aware of, but actively seek out sources of external talent and be ready to recruit their future leaders from outside of industry. An obvious talent pool to be explored is that of the client-focused executives, sitting in technology based businesses providing global solutions to global clients. Internal and external talent managers must be ready to recognise the skill-sets and competencies missing from their current leadership teams, and seek these skill sets from other sources. ■

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Transaction Services team

Heidrick & Struggles has a dedicated Transaction Services team who provide executive search and leadership consulting solutions to clients globally. For more information please contact one of our regional sector heads:

Gavin Holland – EMEA

+44 20 7075 4310
gholland@heidrick.com

Paul Gibson – USA

+1 (212) 699 3173
pgibson@heidrick.com

Dan Coone – APAC

+61 2 8205 2065
dcoone@heidrick.com

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