

# Strategy Roadmap for the Wholesale Bank

## THE CORE CONCERNS OF BANKS (Developing the strategic competencies required for success)

<b>RETHINKING RISK MANAGEMENT</b>	<b>RETHINKING ASSET PORTFOLIOS</b>	<b>RETHINKING CAPITAL AND LIQUIDITY</b>	<b>RETHINKING GOVERNANCE</b>
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## IMPLEMENTING A STRATEGY OF DIFFERENTIATION (How can Banks navigate through "Blue Oceans"?)

FORMULATING THE STRATEGY (What are the strategic levers?)	CUSTOMER COVERAGE APPROACH (The integrating framework for strategy implementation)	SENIOR MANAGEMENT PRACTICES (How will Banks manage and monitor the strategy?)
<b>CUSTOMERS</b> Selecting the desired market position	<b>CUSTOMER-DRIVEN APPROACH ("Customer Pull")</b> Strategic Financial Advisor Global Relationship Manager Coordination Role	<b>ORGANIZATIONAL STRUCTURE</b> Cross Functional Cooperation Deal Teams Delivering the Bank to the Customer
<b>ORGANIZATION</b> Aligning bank capabilities with desired market position		<b>PERFORMANCE METRICS / MANAGEMENT CONTROLS</b> Economic Profits Wallet Share / Wallet Complexity Risk and Returns
<b>PEOPLE</b> Preparing the professional staff to implement the strategy	<b>PRODUCT-DRIVEN APPROACH ("Product Push")</b> Opportunity Identification Role Specialist Team Individual Specialist	<b>INCENTIVE COMPENSATION</b> Alignment with Metrics Long-term versus Short-term Individual versus Team Performance



## CUSTOMER COVERAGE -- CRITICAL COMPETENCIES (What skills and behaviors are required by your people to implement your strategy?)

<b>CUSTOMER COMPETENCIES</b> Problem Solving	<b>BANK COMPETENCIES</b> Managing the Bank's Resources	<b>INTERPERSONAL COMPETENCIES</b> Building Customer Relationships
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## FINQUEST PROGRAMS (Preparing your professional staff for success)

<b>SENIOR MANAGEMENT WORKSHOPS</b> Strategy Implementation Workshops Leadership / Team Building Workshops Credit / Risk Policy Workshops	<b>EXPERIENCED BANKER PROGRAMS</b> Core Banker Competency Program Advanced Corporate Banking Programs Advanced Sales Programs	<b>ANALYST / ASSOCIATE PROGRAMS</b> Corporate Finance Sales and Trading Product/Market Skills
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# Implementing Winning Strategies in the New Financial World Order

## Key Discussion Points

The global economic and financial systems have experienced fundamental changes over the last several years. These changes represent opportunities – and risks – that will shape the banking markets for years to come. In order to benefit from these changes and to mitigate the risks, senior bank managers will need to consider a chain of events that will ultimately impact the successful implementation of the bank’s strategy:

- Secular financial and economic trends will have a significant impact on the core concerns of banks
- The core concerns of banks will drive the development of bank strategy.
- Bank strategy will determine the appropriate customer coverage approach.
- The customer coverage approach will define the relevant competencies of front line bankers.
- The desired competencies of front line bankers will be the basis for any professional development programs offered to banking staff.

This article provides a discussion template which is intended to assist in the development of a concrete action plan for bank strategy implementation.

### **Macro Factors: Secular Trends in the Capital Markets** **(Where are we going?)**

- Emerging Markets – the growth engines of the global economy
  - Emerging markets will reduce their reliance on exports to developed economies
    - “Export-dependence” will be replaced by the increasing importance of domestic and regional economies
  - This shift will result in:
    - Rapid growth in emerging markets
    - Greater balance in trade between emerging markets and developed economies
    - Decoupling with developed economies (growth, monetary policy, exchange rates, etc.)
  - The net result will be a realignment of global economic power and influence...debtor and borrower nations have become creditors and investors

- Pricing – the return of inflation
  - Increased domestic needs of emerging markets – and recovery of developed markets – will raise commodity prices
  - Strengthening domestic markets in emerging markets will increase wages
  - Large government deficits (as a result of bailouts) will place additional pressure on prices
  - Potential “stagflation” in developed economies
    - Global inflation
    - Local economies burdened with overleveraged consumers and institutions
  
- New Sources of Capital – the growing importance of non-bank alternatives
  - Long term capital
    - Private Equity
    - Sovereign Wealth Funds
  - Liquidity
    - Hedge Funds as lenders
    - Return of shadow banking
  - Shifting investment profile of Sovereign Wealth Funds
    - Transform from very conservative (primarily US Treasuries) to highly strategic (securing sources of commodities, financial assets)
    - The systemic influence of Sovereign Wealth Funds is likely to reshape the new financial order. Who will have the capital...who will call the shots?
  
- The Evolution of Risk – the continued proliferation of new financial instruments
  - Return of Structured Finance
    - Securitization markets will be subject to increased regulation (“skin in the game”)
  - But ... the world of risk is not the same.
    - Sequential financial disruptions have given way to simultaneous disruptions...or market turmoil.
    - Risk factors, previously negatively correlated...are positively correlated
    - Risk diversification has lost much of its past potency and comfort

## **More Macro Factors: Structural and Regulatory Sources of Volatility** **(How bumpy will the ride be?)**

- Disintermediation trend accelerates
  - Continuing potential for “market accidents” due to ill-advised scope expansions by financial institutions
  - New products that have deeply altered the barriers of entry to many markets...risk transference (Greenspan camp) or weapons of mass destruction (Buffet camp)?
  - Increased participant conflict...the exchanges, OTC markets, simple products or solutions, etc?
  - Will resulting decreases in the ability of investors to diversify their risks lead them to more complex financial solutions and clean-ups thereafter?
  
- Increased financial markets regulation
  - Continuing potential for “policy mistakes” due to reactionary or ill-advised government regulation
  - Central banks job is becoming more difficult
    - “Endogenous liquidity” (for example, private equity funds) may not respond, or may respond negatively, to usual central bank tools
    - Global economic factors may require an integrated multi-national central banking approach – this is difficult to coordinate
    - Regulatory “put” may actually encourage risky behavior
  
- Increase in national protectionism
  - Potential retreat from global banking/move toward national banking
  - Emerging market economies may suffer dislocations from large capital inflows due to the absence of an infrastructure to manage the inflows

## **The Core Concerns of Banks** **(Developing the strategic competencies required for success)**

- Rethinking ... Risk Management
- Rethinking ... Asset Portfolios
- Rethinking ... Capital and Liquidity
- Rethinking ... Governance

## **Implementing a Strategy of “Differentiation”**

### **(How can Banks navigate through “Blue Oceans”?)**

- Customers – selecting the desired market position
  - Implement Segmentation Strategies...Rationalizing Customer Base
    - Demographics (Size, Geography, Industry, Multi-National, etc.)
    - Behavioral and Diagnostic Criteria
  - Decide on Customer Relationship Strategy...Drivers and Expectations
  - Focus on Building Customer Knowledge...Risks, Appetites and Needs
  - Policies for Credit Allocation...Relationship-Building Strategies
  - Secure Non-Credit Business Opportunities...Quid Pro Quos
  - *Caveat: Client Expectations must also be aligned with selected market position*
- Organization – align bank capabilities with desired market position
  - Choose Business-Line Offerings...Commercial, Corporate, Investment Banking, Capital Markets
  - Instill Broad-Based Risk Awareness...Across Business Lines...Foreseen and Unforeseen
  - Ensure Broad-Based Funding Access...Governments, Depositors and Investor Alternatives
  - Execute Optimal Capital Allocation...Restructuring Businesses...Customer Portfolios
  - *Caveat: Bank culture must also be aligned with organizational structure*
- People – prepare your professional staff to implement the strategy
  - Build and Instill Competence...The Right Skills and Behaviors for Today’s Financial Order
  - Address Relevance...The Best Development Path for Today’s Financial Market
  - Ensure Retention and Returns...Getting the Best Return for Your Training Investment...Financial Targets and Time Horizons
  - Build Resource Relationships...Selecting The Right Learning Suppliers for Today’s Financial Order
  - *Caveat: Both professional skills and professional behaviors must be developed to ensure success*

## **Senior Management Practices**

### **(How will Banks manage and monitor the strategy?)**

- Organizational Structure
  - Cross-functional cooperation
  - Deal teams
  - Delivering the Bank to the customer
- Metrics / Management Control Systems
  - Economic Profits...Attainment and Sustainability
  - Maximize Share of Customer Wallet...Most Desired Business Opportunities
  - Return on Investment (including training)

- Incentive Compensation
  - Alignment with Metrics
  - Long-term versus Short-term
  - Team Performance versus Individual Performance

### **Customer Coverage Approach**

#### **(The integrating framework for strategy implementation)**

- Relationship (Customer) Driven Origination
  - Strategic Financial Advisor
  - GRM/LRM
  - Coordination Role (by Country)
- Product Driven Origination
  - Opportunity Identification Role
  - Specialist Teams
  - Independent Specialists

### **Critical Coverage Competencies**

- Customer Competencies: Problem Solving
  - Client problems (from the customer perspective)
  - Financial products (from both the bank and the customer perspective)
  - Financial markets (their effect on deal structure)
- Bank Competencies: Managing the Bank's Resources
  - Bank risk management (the optimum deal structure for the bank)
  - Bank profitability (how it will make money)
  - Bank's organization (for networking)
- Interpersonal Competencies: Building Customer Relationships
  - Earning trust
  - Effective communication
  - Negotiations in a Partnership

### **FinQuest Programs**

- Senior Management Workshops
  - Strategy Implementation Workshops
  - Leadership / Team Building Workshops
  - Credit / Risk Policy Workshops
- Experienced Banker Programs
  - Core Banker Competencies Program
  - Advanced Corporate Banker Programs
  - Advanced Sales Programs
- Analysts / Associate Programs
  - Corporate Finance
  - Sales and Trading
  - Capital Markets