

INFINITELY
DEFINITIVE



northhighland®
HIGHLAND WORLDWIDE

BEYOND SURVIVAL

EIGHT KEY IMPERATIVES FOR FINANCIAL
SERVICES IN THE POST-CRISIS ERA

Written by Daniel Durham | Vice President

OVERVIEW

As the Financial Services Industry emerges into the post -crisis era, there is a great amount of uncertainty. This uncertainty presents significant challenges as well as opportunities. Companies must not only adapt to new regulation, but simultaneously transform their business models in order to compete and win in this new landscape. It is a unique opportunity for companies to reposition themselves for competitive advantage. Doing this will require unique thinking across many areas:

- **Risk and Compliance** – Managing risk and adapting to the emerging regulatory changes within the industry
- **Efficiency** – Driving operational efficiency to keep costs in line with the new regulatory revenue landscape
- **Customer Experience** – Organizing around customer needs and changing preferences
- **Driving ROE** – Identifying and delivering new sources of value for customers
- **Information** – Leveraging customer and risk information in new ways

At North Highland, we are **helping Financial Services clients adapt to the post-crisis marketplace and the evolving regulatory environment by tailoring solutions to their specific needs in innovative, yet practical ways.** We are able to uniquely help our clients transform by bringing together:

- **Deep Financial Services industry and regulatory expertise**
- **A holistic business perspective**
- **Cross industry perspectives and best practices**
- **An intimate understanding of our clients based on our high relationship orientation**

Clients from all areas of Financial Services are seeing the benefits of this approach—**Banking, Credit Unions, Capital Markets, Wealth Management, and Insurance.** At North Highland, we are proud to have helped a large portfolio of great clients including the five largest Financial Services companies in the world and 17 of the top 25.

PERSPECTIVE

Who will be the winners and who will be the losers in the new post-crisis landscape? What must financial services companies do now in order to position themselves for competitive advantage in this uncharted time within the industry? At North Highland, we have identified eight key imperatives that have major implications for our clients. We believe that how well companies address these imperatives will determine their success in the next three to five years:

1. **Taking Advantage of Adversity:** Banks are challenged to return to pre-recession Return on Equity (ROE) performance. Cyclical factors such as non-performing loan provisions and narrow net interest spreads are contributing to this challenge. Systemic factors such as higher capital requirements and reduced fee income due to regulation is another major cause. This challenge presents the need and opportunity for banks to reform, retool, and reposition their businesses and operational models for future high performance.
2. **Risk and Regulatory Compliance:** Banks are dealing with a plethora of new regulations that will mandate people, process, and technology changes for the foreseeable future. It is uncertain what changes will be required as the regulatory rulemaking process plays out and the political landscape potentially shifts. It is also uncertain what unintended consequences may arise from this cocktail of change. It will be vital for banks to implement these changes at the right time and in a way that optimizes their business models.

3. **Cost Optimization:** Flat revenues and high compliance costs are exerting heavy cost pressure on banks. Industry wide, revenues are down 17% from their peak in 2007, and compliance costs are up 159% since 2000 -- and costs are expected to increase exponentially. In response to these pressures, many companies are making painful short-term cuts such as across-the-board headcount reductions. Our position is that companies who are able to strategically optimize their cost base will be in a better competitive position than those who respond primarily with short-term cuts.
4. **Shifting Customer Dynamics:** Many customers have lost trust in the banking system. Furthermore, customers (and regulators) are requiring more transparency in practices, pricing and fees. As a result, customers are demanding better pricing and service. Paradoxically, banks need to charge more for these services to offset revenue loss resulting from new regulation. Banks must focus on restoring trust and profitability levels by developing relationship-based solutions that resonate with customers.
5. **Next Generation Analytics:** Banks must get better about leveraging their information and using analytics to both satisfy regulator demands and enable their business strategies. Banks will be required to develop improved credit and market risk analytics in order to more accurately measure risk and asset exposure. Additionally, real-time analytics along with a true 360-degree view of the customer is essential to organic revenue growth, retention, and optimizing risk/return.
6. **New Channels, Mobility, and e-Payments:** The means of payment and the number of payment intermediaries have increased dramatically in the past decade. The level of change shows no signs of abating. Banks must adapt in the rapidly evolving payments space by developing cross LOB approaches that focus balancing innovation with investment in declining payment channels, and influencing customers toward win-win payment vehicles.

7. **Human Resource Transformation:** Due to mergers and acquisitions, organizational structures and workforce capacities are not optimized and are stressed to breaking points. Additionally, shifts in customer experience strategy are disrupting boundaries between and across organizations. There is a pressure to reduce cost and complexity without sacrificing customer experience. An institution's ability to respond to the challenges and demands of the changing industry depends to a very large degree on the quality and productivity of its workforce. As a result, financial services companies are reliant on human capital more today than ever before.

8. **Merger Integration:** The financial crisis spawned many mergers and acquisitions within the industry. While many companies have completed their basic integration efforts, we believe this has resulted in business models that are encumbered with legacy issues. In addition to significant inefficiencies, these legacy business models have not created value equal to their potential. Companies who are able to strategically integrate beyond converting the basics are better positioned for optimizing their cost basis and generating accretive revenue growth.

At North Highland, we are focusing our capabilities and expertise to help our clients understand the implications and address these eight imperatives. Each of the eight key imperatives will be discussed in greater depth on our website at www.northhighland.com.

ABOUT THE AUTHOR

Daniel Durham

Vice President and Financial Services Lead, North Highland

Daniel Durham is North Highland's Financial Services lead. His financial services expertise spans retail banking, mortgage, wealth and investment management. Daniel has a broad range of experience in helping financial services clients grow revenue, improve customer satisfaction, optimize processes, and better manage risk.

Acknowledgements

Many thanks to the entire Financial Services team for their collective contributions with special thanks to Mike Bartholomew, Betsy Deupree, Jeff Gill, Scott Mullen, and Banu Venkat for articulating their experience into insights.

ABOUT NORTH HIGHLAND

North Highland is a global consulting firm that has changed the model of how a consultancy serves its clients. We hire only experienced consultants who live and work where our clients live and work, leveraging our global network of service area expertise. We also guarantee our work. As a result, we achieve exceptional results for some of the most recognizable names in the world.



INFINITELY DEFINITIVE

Of what value is a great solution that's not fully understood and embraced by those invested in it? As far as we're concerned—not much. That's why we don't jam our work with pages of obscure data and industry jargon. We are concise and to the point, seeking clarity in all communication. Yet all of our work is informed by our broad and deep expertise in industry best practices.