Reaching the next level of simplicity in financial services

Leaders of financial services firms can maintain, and even build on, the level of simplicity that surviving the COVID-19 pandemic forced many to achieve.

As the world is resetting amid the COVID-19 pandemic, the financial services sector is trying to assess the long-term impact of the crisis. As the provider of one of the most critical services for both private individuals and organizations, financial institutions have had to make fundamental changes to the way they serve their clients, many of which will last for the foreseeable future. From individuals having to rely on state support or access insurance policies in unprecedented numbers to managing credit risk through exceptional volatility and a potential deep recession, every element of how financial services companies operate has been impacted.

Despite the uncertain environment, it's becoming clear that the organizations that acted with speed and agility have developed not only a competitive advantage but also a new norm of work going forward. At the core of speed and agility is radical simplicity: some financial services organizations have thrived by rapidly and radically removing layers of legacy complexity—in systems, processes, or structures—or by reducing their number of priorities and expediting decision making.

As organizations plan for the long term, figuring out which of the changes they made during the crisis should last and which should not, all financial services organizations should reflect on how they relied—or didn't—on simplicity to support them through the crisis and how they can maintain or improve their level of simplicity going forward and intentionally embrace the spirit of simplicity in a reconfigured world. Radical simplicity means driving those activities that accelerate organizational performance and, by definition, constantly seeking to filter out anything that does not.

Increasing complexity in financial services

The business case is clear. Heidrick & Struggles' research shows[1] that simplicity is the aspect of organizations that is most strongly correlated with high organizational acceleration. And the high-accelerating teams we analyzed had, on average, a 22.8% higher economic impact than other senior teams, while the performance ratings of high-accelerating organizations were twice as high as those of their low-accelerating peers.[2] Without exception, these high-acceleration companies that we have come to call "superaccelerators" have a laser-like focus on simplicity in their strategy, operating model, and culture, at all times.[3]

But, for every superaccelerator, there are hundreds of organizations that struggle with the effects of complexity. Over the last decades, research estimates that organizational complexity—as measured by the number of processes, decision-making bodies, procedures, priorities, and systems—is increasing by 6.7% per year.[4] Even as organizations embrace digital and automate, complexity continues to increase in the background.

Financial services is one industry particularly prone to complexity because of its tangle of legacy technologies, new customer behaviors, and heavy regulation. We see complexity in financial services developing in the following five areas: risk and regulation, customer, strategy, operating model, and culture.

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Risk and regulation

A certain amount of complexity in financial services organizations is inevitable. They are highly regulated, often work across jurisdictions, and are exposed to the macroeconomic context like few other industries. After the global financial crisis in 2008, risk and compliance functions increased in power and size, as did the complexity they created for their organizations.

Customer

Some banking products are naturally complicated, and evolving consumer and business needs are constantly changing what financial institutions need to offer and how. The fintech revolution will continue to change and challenge legacy and traditional banking services, and more customers than ever are open to use financial products owned by other sectors, especially technology and retail companies. Customer metrics are becoming central to financial services, and the expectations from different generations of customers are diverging from low-investment options for millennials and Generation Z and tailored professional advice for Generation X and baby boomers. Institutional investors are asking for better portfolio transparency, tailored investment solutions, and global products.[5] That has created an explosion of customer experience programs and tools and an overload of data that many financial services companies haven't yet figured out how to best put to use.

Strategy

Where to play, what to offer, and what to focus on can be a source of complexity for financial services organizations, which are notoriously famous for the complexity of their products and offerings and the added cross-selling they layer on top of that. This, in turn, creates complexity for customers and internally as companies align team structures to services. This puts them at a disadvantage when competing with fintechs in particular, which tend to focus on a small number of accessible, easy-to-use products. It can also leave financial services companies vulnerable to competition from within their own industry. The trick for managing strategy is getting clear on the value adding complexity to the strategy seeks to create and trying to continually manage and minimize the bad complexities.

1 Colin Price and Sharon Toye, *Accelerating Performance: How Organizations Can Mobilize, Execute, and Transform with Agility*, Hoboken, NJ: John Wiley & Sons, 2017.

2 Alice Breeden, Becky Hogan, and TA Mitchell, "Bringing your organization up to speed," Heidrick & Struggles, September 12, 2019, heidrick.com.

3 Superaccelerators are companies that have been in the top 20% for revenue in the past three and seven years, generate no more than 20% of their growth inorganically, receive no more than 20% of revenue from the government, and haven't seen their profit margins reduced as a percentage of revenue while growing.

4 Yves Morieux, "Smart rules: Six ways to get people to solve problems without you," *Harvard Business Review*, September 2011, hbr.org.

5 *2019 Investment Management Outlook*, Deloitte, 2018, deloitte.com.

Operating model

Financial services organizations are typically set up in heavily siloed, heavily layered structures. Accountabilities and decision rights tend to be unclear, meaning that consensus and over-collaboration create complexity. Critical processes run across key teams and functions, with complexity breeding at intersections and handoffs. Typically, financial services organizations are primarily structured by product or service offered, rather than by the customer or client covered. Big corporate functions create complexity with good intentions when trying to change the organization and move it forward, particularly when going through big transformations. The exponential increase in technology and digitization creates both simplicity and complexity. Advances in automation and artificial intelligence could provide potentially cost-effective avenues for companies to build leaner workforces and improve efficiency, but the majority of companies are still trying to understand how to best take advantage of these technologies.

Culture

In any organization, culture is the biggest source of complexity and the biggest hope for simplicity. Financial services organizations are no different. Larger, legacy financial services companies are built on years of trust and conservatism. While these are not negative traits, a fast-changing world means that financial services leaders will need to embrace and demand a mindset that embodies challenge, change, and opportunity—what we describe as simplicity thinking.

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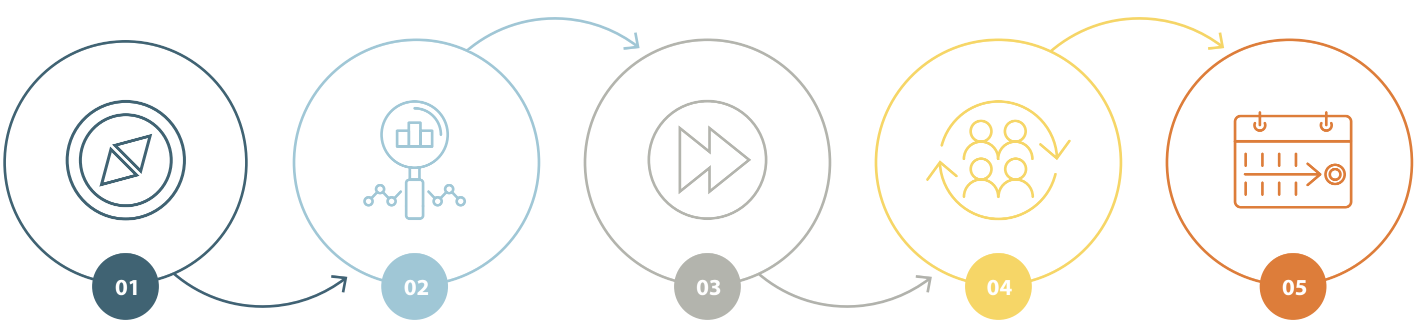
Getting intentional about simplicity

Now is the time for financial services organizations to codify the simplicity they built during COVID-19 into a new organization and culture blueprint. If they miss this window, they risk snapping back to the unnecessarily complex ways that preceded the pandemic.

For instance, core technology systems at financial services organizations have been famously difficult to change—a situation the COVID-19 pandemic has already helped end. One UK bank, for example, was receiving up to 43,000 calls a day from customers looking to exercise mortgage holidays. In just 36 hours, it created a digital solution to handle that call volume. This is, of course, a customer interface that can be developed as a plug-in, but, in time, it will need to be seamlessly integrated into core IT applications. PNB MetLife, a leading Indian insurance company, has been simplifying its claim process to keep up with the increase in service usage during the pandemic and is planning to use the data collected through this new process to improve its services going forward.[6]

Create a simplicity-focused organization and culture blueprint



(Re)define the ambition

Get clear on what to simplify.

- What impact has the COVID-19 pandemic had on your organization?
- What is your redefined simplicity ambition?
- How do you get the teams' buy-in?

Look in the mirror

Assess the post-COVID-19 changes.

- What complexity did you notice pre-COVID-19? What was driving it?
- What newfound simplicity do you see?
- What temporary changes to strategy, operational model, and culture have made this possible?

Design for the future

Create or adapt your simplicity strategy.

- What of this simplicity do you want to codify and embed into your organization?
- What permanent changes to strategy, operational model, and culture would you need to make?
- What other simplicity opportunities are there?

Make it happen

Implement your new strategy.

- How will these changes be made? Who will be accountable for them?
- What support will they need?
- How can you integrate these changes within the bigger-picture strategy?
- What is the simplicity through digital opportunity?

Make it last

Embed your changes in daily behaviors.

- What do you need to put in place to ensure simplicity sustains and complexity does not creep back in?
- How will you reward simplicity?
- How can you embed simplicity into the organization's rhythms and routines?

6 Vaishnavi J. Desai, "Redefine, simplify, digitize: PNB MetLife's lessons for post-COVID disruption," ET CIO, May 21, 2020, CIO.economictimes.indiatimes.com.

Right now, a good start for financial services leaders is to address these four questions, which could provide important insights:

- How are you demonstrating radical simplicity right now?
- On a scale of 1 (low) to 10 (high), what score would you get now for embodying radical simplicity?
- How would you have scored yourself before the COVID-19 crisis?
- If your organization can radically simplify during a crisis, why does it accept complexity in other times?

Organizations are in a state of simplicity when activity (what actually happens) optimally aligns to strategy (what really matters). This lens can be applied to any team or function in any organization. Every individual, team, or organization needs to identify where the highest value lies and how to achieve that without unnecessary complexity taxing the outcome.

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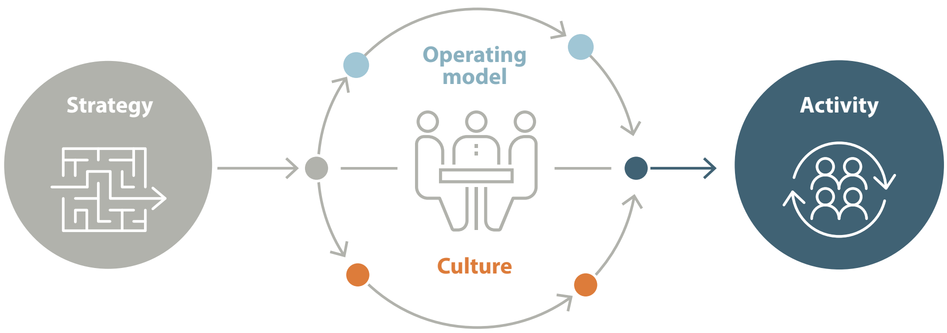

While some causes of complexity, such as the regulatory system and customer preferences, are external and therefore difficult to influence, companies can benefit from introducing simplicity thinking in their strategy, operational model, and culture.

Strategy

One of the most difficult things for companies to do can be deciding what not to do. First Republic Bank, a US-based financial services institution that offers private banking, business banking, and private wealth management including investment, trust, and brokerage services, has made it a habit of sharing in its investor reports the list of activities it currently does not get involved in, in a bid to keep its offerings clear and simple and highlight instead the areas in which it does specialize in order to focus and provide a high level of customer service. In its April 2020 report, First Republic attributed just over 50% of its growth rate to current clients doing more with the company, and another 20% to 25% of its growth rate to client word-of-mouth referrals. This is the result of the extraordinary client service consistently delivered at every level of the organization and proved by the bank's net-promoter score, which shows its clients' satisfaction and loyalty is more than double the US industry average. Mike Selfridge, chief banking officer at First Republic Bank, makes the connection clear: "Simplicity is one of the most intuitive concepts for us to understand, and yet it is one of the most difficult concepts on which a leader and executive team can execute. Simplicity is at the heart of our strategy and business model, and the key to our growth. Most importantly, it is the discipline for the team and the company to stay focused on what matters most and not get easily distracted by the many, many tempting initiatives that can pull away from the core competency and culture of the organization. Distractions and complexity often get in the way of growth, while keeping it simple complements it."

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Chief Banking Officer, First Republic Bank

A South African bank, Capitec, goes even further. It became famous by offering just a single type of client account in poor, rural areas of the country.[7] The established South African banks ignored Capitec, and by the time Capitec began targeting mid-market customers, it was too late for other banks to blunt its growth.

In 2017, AXA, a France-based global insurance company, repositioned itself as a brand closer to the consumer, and simplicity was one of the four core traits of the new brand, alongside modernity, warmth, and emotion.

7 Freek Vermeulen, "How Capitec became South Africa's biggest bank," *Harvard Business Review*, October 10, 2018, hbr.org.

One way other leaders can set and communicate strategic priorities internally and externally is to put the strategy on a page, an overview that can include the company's three to four major strategic priorities and the signature activities to deliver them, the main areas targeted to simplify, and metrics that address customer satisfaction, employee engagement, and baseline earnings before interest, taxes, depreciation, and amortization per employee.

Operating model

Before the pandemic, one large North American retail bank and wealth manager found that one way to naturally simplify its organizational structure was to redistribute the responsibilities of senior executives who left the company in what was called an "organic delayering." This, of course, works better for some roles than others, but in a context where the COVID-19 pandemic has increased the pace of digital transformation, it's worth considering the way roles evolve in the organization, and whether old structures serve new customer and strategic needs. Since complexity breeds at the interfaces between teams and functions, the fewer interfaces there are, the less complexity will be generated. Can financial services leaders reimagine processes so that they occur inside a single team or function? Or script the critical moves between teams for simplicity through principles or a playbook?

Another area on which leaders should focus is internal functions such as human resources, compliance, and IT departments, which, at times, can form state-within-state structures in organizations. The key role of such functions should be to serve and improve business outcomes, not their own purposes, though the latter tends to happen over time. Double-dotted lines of reporting at a functional level, such as marketing, human resources, finance, and procurement—typically into a functional and a business unit leader—creates additional layers of managing and communications. When reassessing the effectiveness of functions, leaders should start from how their structures respond to customer preferences and how they will increase sales or customer experiences.

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New digital technologies can both improve performance and reduce operating model complexity. Financial services firms can, for example, see significant benefits from adopting applications such as robotic process automation, which can significantly improve the claims process in insurance,[8] and artificial intelligence, which has great potential in reducing false positives in financial crime and fraud fighting.[9]

Culture

Embedding simplicity into an organization's culture is both the most critical and most difficult step. As previously mentioned, complexity is created by thinking, actions, and decisions. Financial services organizations could learn from some of the big tech companies such as Microsoft and Google about the benefits and pitfalls of an environment with a bias toward pace and an aversion to bureaucracy.

Simplicity is not necessarily a new concept in many large financial services organizations, but in the past, leaders have taken it to mean divesting non-core businesses, streamlining processes, or bluntly cutting headcount. While there may be a place for this, organizations that follow this playbook don't enjoy the full organizational simplicity long term because they didn't actually address the root of the problem: leadership behaviors and mindsets. Indeed, large finance companies still feel anything but simple for employees and customers. Being sustainably successful with simplicity means not only driving simplicity in strategy and operating model but embedding it into the organizational culture.

To make simplicity last, it must be built as a core organizational capability into regular rhythms and routines, from mindsets to behaviors, building and reinforcing simplicity as a skill. That will mean saying no to anything that isn't mission critical. It will also mean empowering others to commit to simplicity and focusing on the organization's most important stakeholders.

For example, UK-based global insurer Aviva has made "kill complexity" one of its core values, runs simplicity hackathons, and expects all leaders to be able to demonstrate specific complexity they have "killed." But even those events are just the starting point of what needs to be a concerted effort of embedding simplicity thinking into people's behaviors and mindsets. As Mike Selfridge explains, "First Republic has a simple business model, but simply stating that fact is not what matters. What matters is the continuous practice, demonstration, execution, and communication of such simplicity, and what it means to our strategy and, ultimately, to our many stakeholders—be it clients, shareholders, employees, or regulators. This is a core value leading to our growth, and it requires a great deal of hard work and the discipline to stay focused on keeping it simple."

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8 Nicole Michaels, "How RPA can improve the claims process," EY, May 10, 2019, ey.com.

9 Soumik Roy, "How artificial intelligence is fighting financial crime," Fintech News, June 17, 2019, fintechnews.org.

Leave complexity behind

As financial services organizations return to their offices and retail branches, they must take care not to return to complexity. Instead, leaders must look to embrace the radical simplicity that has helped some thrive and many endure through the first months of 2020, and embed it into their strategy, operating model, and culture. Embracing radical simplicity now will help all financial services firms accelerate their long-term performance. "The key is knowing what you do well, how you do this well, and why it is important to your clients," says Selfridge. "In many regards, it is all about adapting to a changing environment, while being true to core values and culture, and then empowering your employees to do what they do best."

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Acknowledgment

The authors wish to thank **Mike Selfridge**, chief banking officer at First Republic Bank, for sharing his insights. His views are personal and do not necessarily represent the views of the company he is affiliated with.

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