

A Chairman's Survey:

Chairman and the CEO -
**Has the relationship
changed?**

A follow up survey by the Board Practice of Per Ardua Associates

For Chairmen in Financial Services | MAY 2014



PER ARDUA ASSOCIATES LTD
EXECUTIVE SEARCH

FOREWORD



In 2009 the UK, along with the majority of the Western developed world, was in the grip of a deep recession, the likes of which had not been seen since the Great Depression. Many corporate boardrooms, particularly in the financial services sector, found themselves under significant pressure as the global downturn took its toll on business and investor confidence. During that time, Per Ardua Associates interviewed many of the FTSE 100 and 250 Chairmen in financial services to discuss the changing relationship between the Chairman and his / her CEO since the downturn struck. Five years on, a great deal has changed and the economy is gaining momentum as meaningful levels of GDP growth return after a prolonged absence. The concept behind this second Chairman survey was to ascertain how the relationship between the CEO and Chairmen has altered over this time (if at all), what has impacted that relationship (e.g. governance issues, reward and succession etc.) and how Boards are operating now.

This time round we interviewed Chairmen of FTSE 350 companies and their subsidiaries over a two month period and overall we have found that Chairmen were open, thoughtful and often passionate on subjects ranging from the UK economic picture, to women on Boards and the new relationship between the Chairmen and his / her CEO.

On the whole, we found real consensus, particularly around subjects such as how the relationship between Chairmen and CEOs has become closer, all the way to significant opposition to the separation from Scotland and a significant number that thought we were better off remaining in the European Union.

With regulatory change and a much more significant focus on risk within financial services companies, it is perhaps unsurprising that Chairmen have a strong view on the subject. Interestingly, 100% of those interviewed agreed that the regulators would be unable to prevent another financial services disaster in the future.

The issue of succession has come up as a significant area of weakness for many companies and Chairmen were open about their principal worry – the lack of succession planning for senior executives. Most agree that the larger the business, the more important succession planning is and more likely it will be that it is underdeveloped.

One of the most heartening findings was that, despite the considerable pressures, especially regulatory, the vast majority of Chairmen really enjoy their role.

This has been a most interesting exercise with some great debates and interesting views. We hope you enjoy reading this report.



Simon Hearn
Chief Executive

SUMMARY FINDINGS

A surprising **80%** of Chairmen consider themselves **proactive** and **more hands on** than they would have been before 2007.

Few businesses have planned for **Scottish independence** on the basis that they **do not believe secession** to be a likely outcome.

Interestingly, **far greater importance** is given by FTSE 350 Chairmen **to the prospect of an EU 'In-Out' referendum**. Whilst there is frustration with the cost / bureaucracy of the EU, most Chairmen believe that, overall, we will be better off remaining in Europe than coming out.

The majority of Chairmen are **optimistic and confident about the growth prospects** for the UK economy, although there are concerns about Government and consumer debt dependency that may undermine a sustained recovery.

Risk Committees are consistently rated as the **most challenging** Board Committee although, perhaps unsurprisingly, a number of banks cited the Remuneration Committee ahead of Risk.

The vast majority of Chairmen say that their **Boards are now very focused on Risk and Regulatory issues** and this has been **a significant change** over the last five years. Some see an inherent danger in this because Boards are being created to satisfy the regulator rather than having the broader skill set that the Company needs.

FTSE 100 **Chairmen are interacting with shareholders more**, increasingly without the CEO, a trend they believe the FTSE 250 would do well to follow.

Chairmen and their Boards think that the **Prudential Regulation Authority (PRA)** is **fulfilling its role** with greater success than the Financial Conduct Authority (FCA). The PRA has settled down quicker and generally has better people, whilst the **FCA** is seen as constantly looking for scalps **without any real clarity or purpose**.

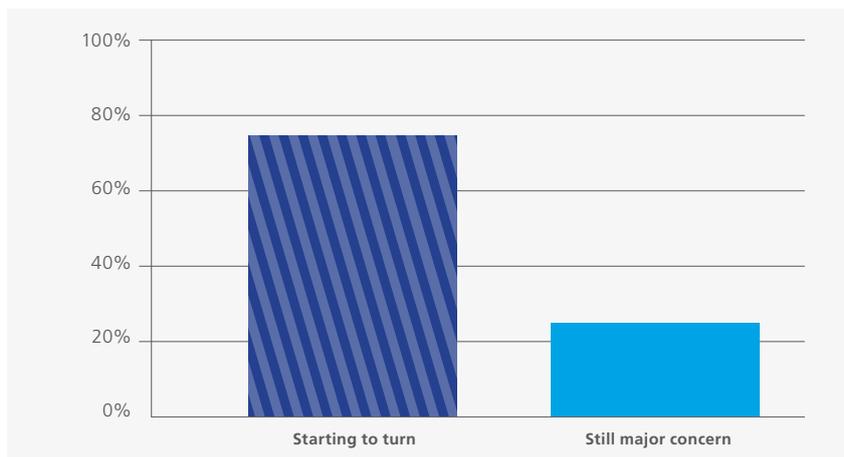
The majority of Chairmen are **most worried by the flight risk of senior people**, particularly the CEO, and that succession planning can never account for 'unknown unknowns'.

Although the vast majority of Chairmen have got women on their Boards, many have found it difficult to grow the number because of the **lack of women in the Executive pool**. Most Chairmen are anti-quotas but also reflect on a sense of real progress in female NEDs getting onto Boards over the last five years.

It was significant that whatever skills the CEO needs for his / her own company's agenda, **80%** of Chairmen thought there was a need for a **strong technical understanding** of their market and ever **increasing numeracy skills**.

100% of Chairmen think that the **regulators will not be able to prevent another financial services disaster** although there is also a view that with such onerous capital requirements, big institutions are less likely to fail.

How do you see the economy and prospects at the moment?



"The UK economy is starting to turn. The question is, is it sustainable? Confidence is definitely improving." **INSURANCE**

"The Tories will keep this economy going until the next election and then there is a chance for Labour to run it into the ground for the third time in my business career. The bigger international banks are better capitalised and there is unlikely to be a crash of the same extent." **BANKING**

"I think this is improving gradually, although there is still a lot of indebtedness in an environment where interest rates are bound to rise soon." **BANKING**

"The US is doing well and I think the UK has been good for some while. France is the issue in Europe; this is the wrong time to have a socialist Government." **INSURANCE**

"Some of the banks in Europe will need major recapitalisation, particularly if they apply the same rules that were applied to Ireland. In this scenario, politics will have a big part to play. A slow, slightly bumpy recovery with a little bit of spookiness on the way." **BANKING**

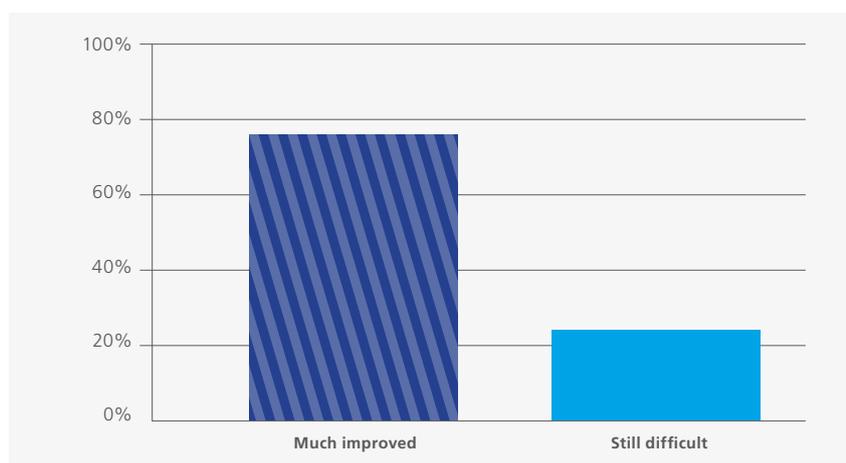
"In the UK, it is picking up slowly but still fragile, but there is certainly some confidence most of which is fuelled by house building and I am not sure this is the right model. In the US, it is an improving environment and whilst people are nervous about emerging markets, I think this is fine and there is plenty of room for growth." **BANKING**

"Far less bad than it was but too early to declare victory. The cataclysmic negatives have gone, some negatives still remain. The economy is fragile and the recovery consumer led. We still have a £100bn of debt in this country and we mustn't forget that." **INSURANCE / ASSET MANAGEMENT**

Most Chairmen are more optimistic and confident about the state of the economy and outlook. There are clear concerns, however, about structural imbalances, the continuing high level of debt and the sustainability of another consumer led recovery.

How is your business coping in the current economic climate? How do you see the outlook for your business?

Across both banks and insurers, most Chairmen feel their businesses are performing better and the outlook is positive. For asset managers, however, it is still not easy to decide where to invest.



“At the moment, things are going well for us and we are growing the credit card and lending business which has been happening over the last three years.” **BANKING**

“This is not an easy market for a pension fund. We spend a lot of time analysing where and how we invest.” **ASSET MANAGEMENT**

“We have a diversified model and it works. I think the insurance cycle is now almost non-existent.” **INSURANCE**

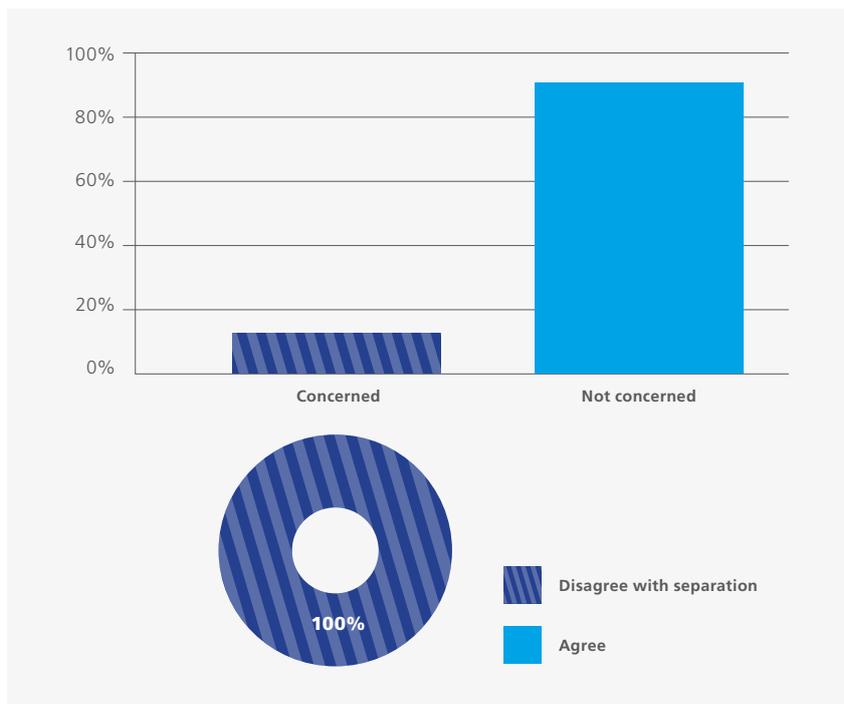
“Since 2007, we have had our best results for over 100 years. We have a more developed risk model.” **INSURANCE**

“I am cautiously optimistic and we are performing well in the short term. This is despite regulation, consumer pressures and corporate intrusions.” **INSURANCE**

“It is coming out of the crisis and getting in to business as usual - out of the mud and onto the tarmac. The main issues are managing the mortgage arrears position, which is heavily politically oversighted. Growth in asset lending will continue to be a challenge and will require careful focus on how to build the balance sheet, whilst not operating in the shadows of the risk envelope. Demand for lending in the SME sector is not there in Ireland or the UK.” **BANKING**

“The regulator could just be damaging London’s position irrevocably.” **BANKING**

Have you prepared detailed business plans to address the possibility of Scotland seceding from the Union and do you agree with the separation?



The majority of Chairmen believe that secession is not in Scotland's interests but should it go ahead, it is unlikely to have any impact on their businesses. Any issue would be resolved by re-domiciling. Few businesses have planned for it – most think it will not happen.

"I haven't met a businessman who is for it. I think Edinburgh is probably the second financial services centre in the UK and they can certainly do without this. They need to stay in the Union. Should this happen, you won't hear about us leaving Edinburgh but we certainly will and will do it quietly." **BANKING**

"Most Scottish businesses are worried about retribution from the Nationalists if they stick their head above the parapet." **BANKING**

"The fund manager for our business is north of the border and we have had long and serious discussions about Scotland's position in the Union. They have assured me that, should Scotland cede from the Union, they will redomicile if necessary." **INSURANCE / ASSET MANAGEMENT**

"Look at what happened in Canada with Quebec. This did a large amount of damage to the Quebec based financial services industry, hitting jobs and headquarters significantly. We do not want this to happen to Scotland." **INSURANCE**

"We have some plans – if the currency changes, we move. They have always taken the English shilling but in this case I think they will vote against." **INSURANCE / ASSET MANAGEMENT**

"We've had an active discussion about this, we happen to have 500 people sat in Edinburgh but we won't waste a lot of time on contingency planning. If they vote 'Yes' there will be ample time to sort it out, but in my view it will be a 'No' vote." **BANKING**

"Asset management clients managed in Scotland would be a problem. We have written to Alex Salmond. There are a host of areas where we need clarity but he won't be able to answer 99% of our questions. Any lack of certainty would lead to re-domiciling and this would be relatively easy." **ASSET MANAGEMENT**

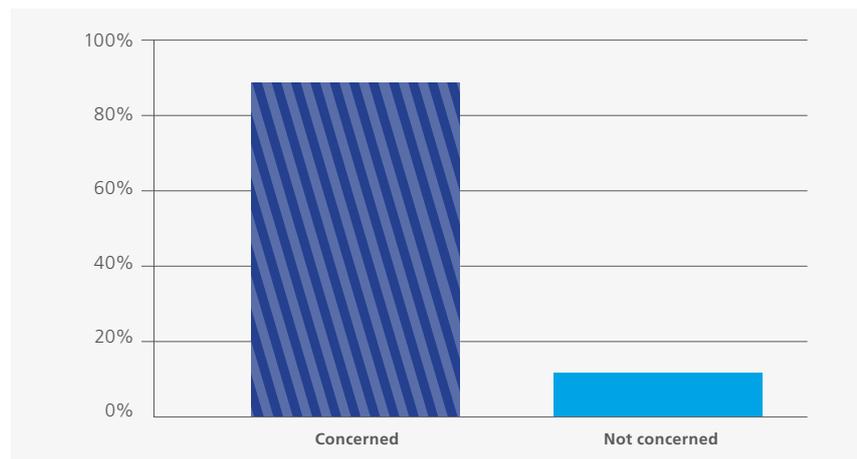
Are you concerned about the prospect of a referendum on the UK's membership of the European Union?

Whilst there is frustration with the cost / bureaucracy of the EU, the majority of Chairmen are highly concerned about an EU referendum. Far greater importance is attached to this decision than Scotland seceding from the UK.

"This is much more important [than Scotland] and worries me more. I am sympathetic with the objections to bureaucracy and cost and we have lost the principles of it with unelected bureaucrats in charge. But it would be more dangerous to be out than in." **INSURANCE**

"I am concerned, all businessmen think we should stay – it is obvious." **INSURANCE**

"I think there is a lot of concern here. We are not a Switzerland – we are a global market place." **INSURANCE**



"Ireland is very worried about the UK coming out of Europe, they would see the UK out of Europe as very negative and bad news for the UK. It would lead to relocation of manufacturers, particularly in the auto industry and a lot of inward investment would go." **BANKING**

"I am more concerned about the fundamentals of Europe. How the smaller states work with Germany and will Europe sort itself out. I think the UK should be a part of this." **ASSET MANAGEMENT**

"This does not concern me from a business point of view. Personally, I think we could trade with the EU whilst being outside of it. I dislike the bureaucracy and centralisation." **ASSET MANAGEMENT**

"I am increasingly uncertain that we will gain more than we lose by being in the European Union. I think a lot of legislation is designed to hurt London." **BANKING**

"I would be very concerned if we exited or anything like it. We should be in there for better or worse." **INSURANCE**

"I am in the "remove uncertainty" camp. BMW will still sell cars in Europe. The world will not fall apart if we came out. 7% of our UK businesses trade in Europe, but 93% don't and are today considerably hampered by EU regulations. A compromise needs to be reached. But the debate needs to be resolved and it would be good for Europe too, to do that. Europe, in my view, is a bankrupt model." **INSURANCE**

20/20 hindsight since the crisis – what have you learnt as Chairman? What would you have done differently?

"In the financial services arena we have learnt a lot about risk. I never thought I would see a run on a bank in my lifetime and I have seen more than one now. I think I have learnt to respect risk and we take it very seriously. I have learnt that Boards need to understand the risks they are running. Greenspan, Brown and Balls thought a light touch on the wholesale markets was right because they thought wholesale markets would be self-correcting. They thought this up to 2007 and how wrong they were. Greenspan thought the slicing and dicing of debt would spread the risk and it didn't work." **BANKING**

"A heightened focus on liquidity. We had to build everything from scratch and four years later we are in good shape, but then it was, I suppose, touch and go for a while." **BANKING**

"Don't be prescriptive. Let Chief Executives work into the role and then guide them." **ASSET MANAGEMENT**

"Time. My predecessor would have been two days a week, I am now four days a week. This is much more intensive. I see the regulator at least once a month and I have just seen our top 17 shareholders." **INSURANCE**

"I was in banks when the insurers blew up and I was in insurers when the banks blew up – I have had a good war!" **BANKING**

"I would have changed the CEO more quickly than I did." **ASSET MANAGEMENT**

"Managing cash in a more rigorous fashion. I would have removed our CEO earlier if I did this again." **INSURANCE**

"I would have been quicker to change the people on the Board. We simply underestimated what was coming our way in terms of regulation and therefore had to create a risk function out of nothing." **BANKING**

"In fund management we should have reined back on performance bonuses and introduced clawbacks before. They should have existed and didn't. This could be one good thing which has come out of the crisis. Deferrals plus clawback is good practice." **ASSET MANAGEMENT**

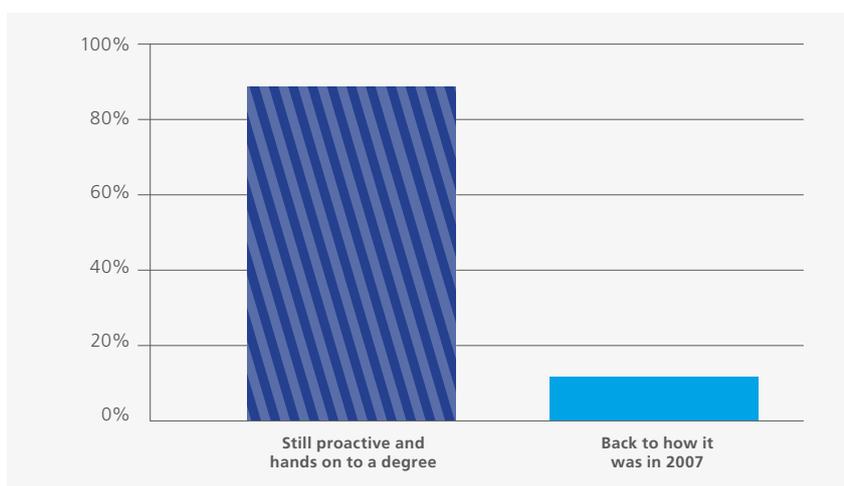
Inevitably opinions varied significantly on what Chairmen would have done differently during and after the crisis. However, what became apparent was that a significant number of Chairmen would have forced the resignation of their CEOs more rapidly than they did, and several would have changed people on the Board more thoroughly. Clearly there is now an intention to act more swiftly in crises.

In 2009, Chairmen were stepping in more with the CEO and the Board were more proactive with management – is this changing?

Chairmen and the Boards have continued to be more pro-active with CEOs and management teams, largely as a result of regulatory pressures and the increased need to challenge the business, rather than still being on crisis footing. There is a definite sense that the role of the Board is to understand the business more than pre-crisis and for this to be demonstrable to the regulator.

"I think it is true to say there was a fairly laissez faire style to Boards prior to the crisis and people have suffered major reputational risk as a result of this. I think going forward the understanding of the business is key. I always say to people on my Boards, you must challenge anything you like, the only thing I will criticise you for is the way in which you challenge." **BANKING**

"As the Chinese would say, a fish rots from the head first, the head needs checking." **INSURANCE**



"If it hasn't swung back it's not because we aren't concerned. It is because the Board is the locus for regulators. They could have chosen the CEO or investors. But they chose non-execs. That is the reason we are as engaged as we are. Not because it is necessarily right but because we can't do otherwise." **INSURANCE**

"I don't think this has moved back a long way. The level of accountability and responsibility has changed and therefore Boards and Chairmen are much more proactive." **BANKING**

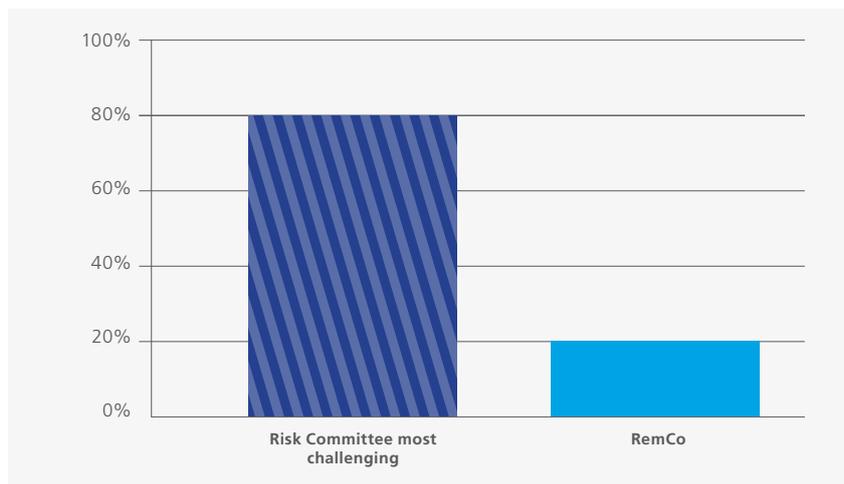
"In 2007, I was Chair of the Audit Committee and this business was on a war footing. I think we were into a lot of detail on the Board and the Committees and without a doubt subsequent to that, there has been some permanent change and this is largely around the regulatory wake up call and the regulator is beginning to ask the right questions." **INSURANCE**

"Boards are certainly more proactive. I see the Chief Executive formally every two weeks, we probably brief one another on something or other once a day or whenever is required. This is not an intimate relationship. I think in the modern day this is perhaps less appropriate, it really needs to be a commercial relationship, but also about mutual respect." **ASSET MANAGEMENT**

"Subsidiaries – huge changes between 2008 and today. Subsidiaries have more of a challenging and influencing role. The only real authority and strength comes from association with regulators." **ASSET MANAGEMENT**

"In times of crisis, Boards do have to be more proactive and I think they certainly were in our case. I think it is now mainly back to business as usual in the banks, except perhaps for RBS where Hampton will have his work cut out." **BANKING**

Which Committee on your Board is the most challenging? - for the members? - for the Executive?



The Risk Committee is consistently rated ahead of Audit as the most challenging, however a number of banks put RemCo ahead of Risk.

"Audit is pretty straightforward I think these days and looks backwards but it is the Risk Committee that is complicated and looks forwards." **BANKING**

"The Risk Committee is the most challenging and important now, with the Audit Committee following on from that. The Risk Committee because it goes into all aspects of the business." **BANKING**

"I think the Audit Committee has become easier, the Remuneration Committee is a nightmare and I can't really understand why anybody would want to do that. The Chairman of the RemCo is easily the worst job. The Risk Committee is much more detailed and technical." **INSURANCE**

"Risk, followed by RemCo. I chair two Remcos and we are working a lot harder than ever before." **INSURANCE**

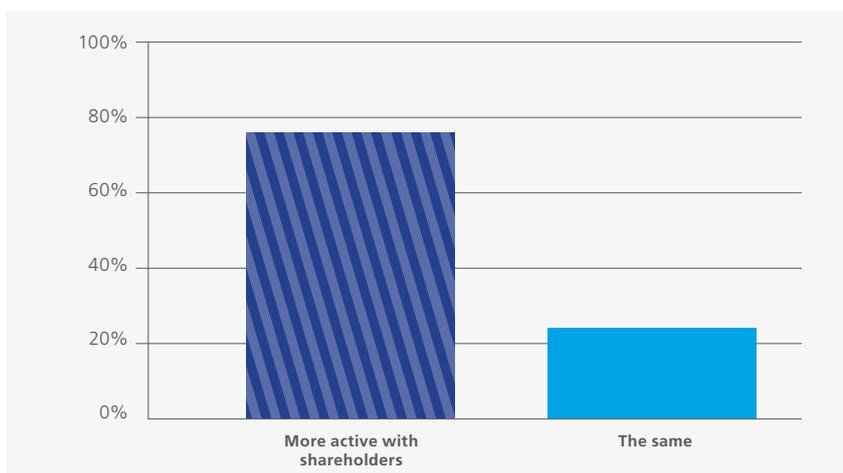
"Risk and Remuneration. It used to be Audit and arguably this should have remained. But Risk and Regulation are the enormous ones. The problem with Risk is that it is something of this year's or decade's flavour in the belief that you can quantify and control things. This is salacious. The risk appetite is not a tablet. We could be fighting yesterday's war. Big systemic risk could come from somewhere else. The RemCo is more challenging than it was. Non-Executives feel that the Executives got away with murder and were paid too much." **ASSET MANAGEMENT**

"Risk and Audit are the most challenging. As an insurance owned firm, our problem is different perceptions of risk. Life companies think only of balance sheet risk. Actually, our risk is operational, regulatory and reputational." **ASSET MANAGEMENT**

"Risk. I pay the Chairman of the Risk Committee a further £60,000 on top of the normal fee – a total of £150,000." **INSURANCE**

How has your role changed with shareholders?

Most Chairmen are more actively engaged with their shareholders and often independently of their CEOs. FTSE 100 Chairmen think FTSE 250 Chairmen do this less and should do more.



"I am very involved with shareholders, I do it on my own, the Investor Relations piece, and don't take the CEO, which I think is important. Nor do I actually take the head of Investor Relations, which is unusual, but I understand the business very well. I actually don't think the Chairman should go with the CEO, but it is important that they make themselves available and be proactive with the shareholders. This is because you have to build the relationships when things are going well so that when things get bad you have these in place." **BANKING**

"The role with us hasn't changed at all because the company has done well and I am always amazed when things do go well, how little shareholder interest there is in the business." **INSURANCE**

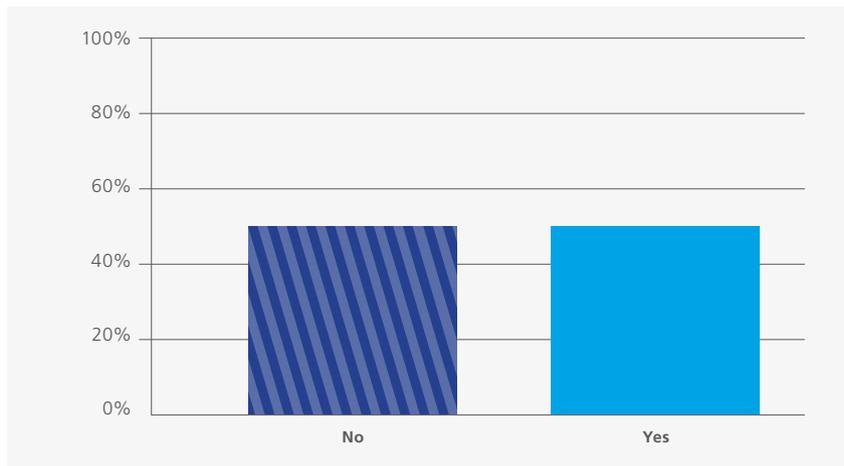
"We are a mutual and do not have analysts or roadshows. At the AGM it is the Members and they show up more than a typical AGM for a listed company. You really have to prepare for it. It will take a lot of time. This is a different type of owner." **INSURANCE**

"I am very active with them and I do it on a one-to-one basis." **INSURANCE**

"I start interacting with shareholders right at the beginning of my tenure. I normally talk to the top 20. I think this is probably much more so than in the FTSE 250." **INSURANCE**

"There must be connectivity and Chairmen need to make the effort, particularly in the FTSE 250 where I think less effort is made." **BANKING**

Is the NomCo dealing with your succession?



Larger company NomCos are generally more proactive around the Chairmen succession question whereas the smaller ones and subsidiaries will look outside when the time comes.

“Big companies are different from small ones and in our case, for both Chairman and CEO, we would have to go outside. In the bigger companies I would expect some succession planning.” **BANKING**

“My worry is that most of my non-execs have to be specialists on the Board (such as Audit, Risk etc.), and I need generalists in order to have a successor to be Chairman.” **BANKING**

“I am head of the NomCo. We have a detailed thought through process and I think it is organised and my succession is a part of that.” **INSURANCE**

“We are a small business, we will probably bring somebody in from outside.” **INSURANCE**

“There isn’t a successor on the Board and there should be. At some stage I will be starting a new NED recruitment and this individual will be a future Chairman.” **BANKING**

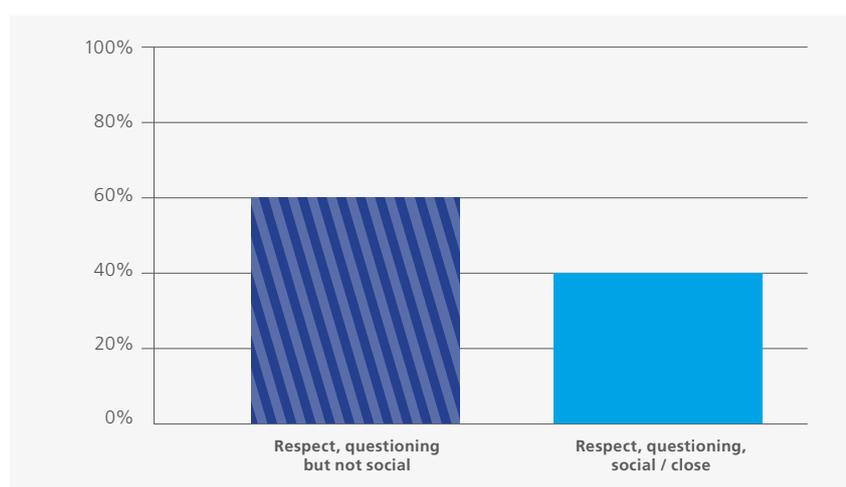
“The NomCo here is very active and we have succession planned. We do it with the Chief Executive in the room.” **INSURANCE**

How would you describe your relationship with the Chief Executive (since we last saw you), has it changed?

Mutual respect, openness, constructively critical and supportive emerged as key themes to the relationship. Some Chairmen, mainly FTSE 100, have decided that maintaining some distance from the CEO is important to the independent nature of the role, whilst in FTSE 250 companies, the relationship more often includes a social aspect. The relationship has not changed in many companies. Where it has, this has been the result of building mutual trust in a relationship where the CEO or Chairman is new in role.

"Very positive. We do have disagreements but we don't fall out. It took time to build trust initially. I now understand the business and can add more value." **INSURANCE**

"I am not sure if we like each other, that probably makes it work well." **INSURANCE**



"It is professional and quite intimate. We have open contact and open discussions. The CEO, however, is the first to be deferential. I am not formulaic about this. I do meet his wife, we do have dinner but I am not compromised by it." **INSURANCE**

"Very much team work and guidance. I haven't felt the need to take a tough line. They listen as you go along and incorporate my views." **INSURANCE**

"The job is not to be their friend, I don't go out of my way to be liked but to be respected." **BANKING**

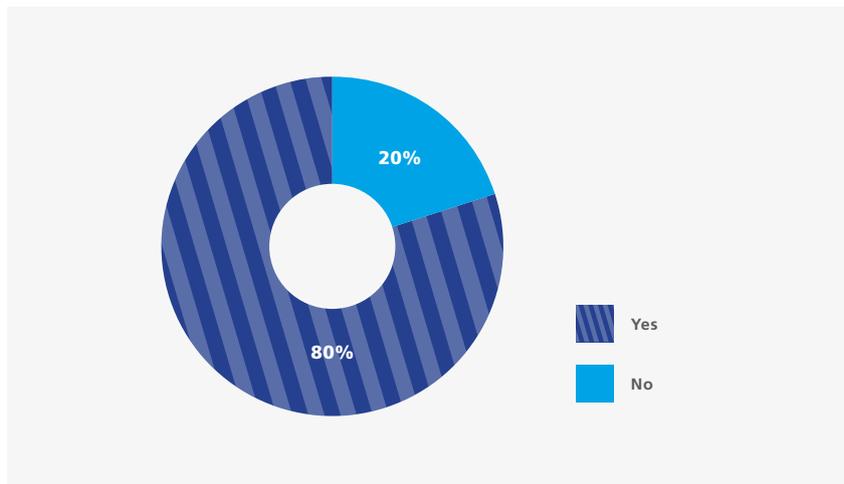
"I think it is a slow process, particularly for me as I have come from a different sector and it is about subject matter. The CEO has been doing this all his working life so it is taking me some time to be as effective as I would like to be." **ASSET MANAGEMENT**

"Positive, pretty friendly, but not without challenge. If I had been a Chairman in 06/07 and before that, then I imagine the interaction would have been a lot less. I cannot imagine the lack of respect and disengagement that existed in some areas continuing because I think it would lead to an extreme situation, leading to the ejection of the Chief Executive. I think in the current context, conflict will happen sooner in the story. Conflict is fine so long as it is based on issues, not on people." **BANKING**

"The trust is there now. In the early days it was about getting to know and understand each other. We now have a good level of trust and the key test of that is our ability to talk openly about his direct reports." **INSURANCE**

"Closely engaged. Chairmen must be a coach rather than a boss and draw things out of them. We must be trusted and therefore need to keep some distance." **BANKING**

Are you / the NomCo dealing with your CEO succession?



Whilst most NomCos have 'under the bus' plans, not one Chairman said they had a clear, long term internal successor in place. Chairmen want to develop that option internally, but most are some way off it.

"We have an internal successor but he will not be ready for a few years. If the CEO were to go under a bus we have an interim plan which would be to put the FD in, although not as the long term successor." **INSURANCE**

"The challenge in asset management is to develop an internal successor. These are generally small businesses and most of the senior skill sets are not around management. Not enough succession planning is done in my opinion." **ASSET MANAGEMENT**

"We know who would stand in, but then I think we would have to go outside for a more permanent solution. Our problem is that we are quite small to grow too many potentials." **BANKING**

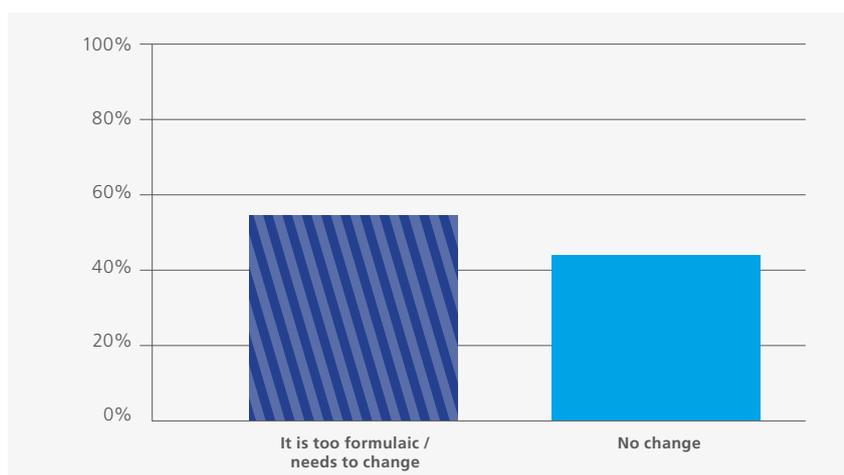
"We are thinking about potentials down the line and trying to prepare them." **BANKING**

"We will look to develop an internal successor but we are a long way off yet." **ASSET MANAGEMENT**

"Not well enough yet is the short answer. At the moment we don't have anybody to take over and we would have to go outside." **INSURANCE**

How do you appraise the CEO? Is it too formulaic / does it need to change?

Many Chairmen think the appraisals can be too formulaic but there are also a significant number who are content with the current system in place. Often, this involves the whole Board.



“With difficulty! We agree objectives at the beginning of the year, about six or seven which are very similar to the corporate ones across financial, business development and the senior leadership of the business. He completes a self-appraisal and I comment on it. The Board and Non-Execs also meet for half an hour after every Board to discuss whether the papers were good and to distil any messages for the Executive. The key points from that get fed out immediately that afternoon.” **INSURANCE**

“We appraise the CEO using objectives that are set by the Board and those objectives are very close to those of the company.” **BANKING**

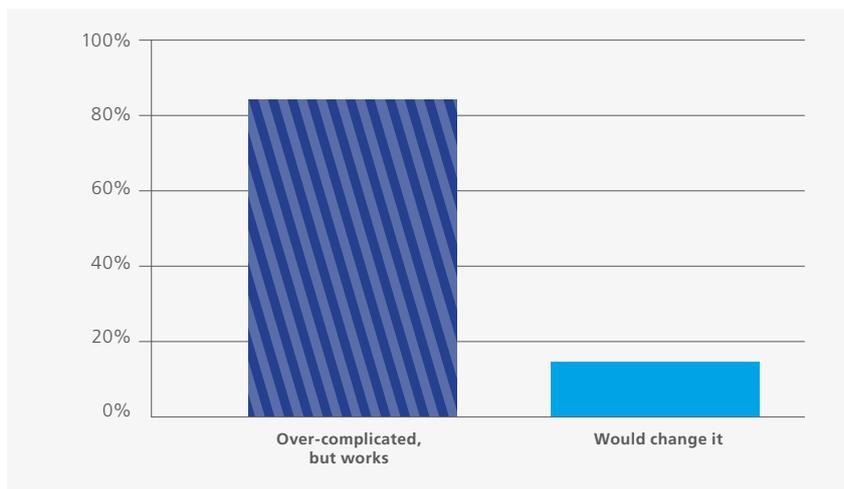
“We go through the objectives every six months.” **ASSET MANAGEMENT**

“The CEO’s appraisal is done by the Parent. It is not formulaic, there are two ratings on performance, which is scored 1-15 and behaviours which is -3 to +3. No-one can score more than 15.” **INSURANCE**

“I have reduced 27 metrics to 7. I was pretty horrified to find what the CEO was measured on. It is important that they look in the mirror every morning and can remember their objective. In terms of how we do it, a lot of soundings are taken from Board and Executive Directors in a structured way. I feed this back to him and invite his comment.” **INSURANCE**

“We are in the process of changing this, it is far too complicated. Asset management CEOs today need the complete package of three areas: good investment skills, good customer service, ensure it is a properly compliant environment. Businesses need to move towards outcome-driven solutions, so this broader understanding is key. You should not have a pure investment or a pure sales person.” **ASSET MANAGEMENT**

Does the bonus / LTIP structure work? If you had a choice, what would you do?



Whilst bonus structures were varied, most Chairmen think they do work but are too complicated. Deferral was an important theme for some. In a few cases, a completely different structure was needed. A number of Chairmen believe that Chairman fees will have to improve, although contentious at the moment.

"The LTIP conceptually works but I just think it is too complicated." **INSURANCE**

"Again, this is too complicated and needs changing." **ASSET MANAGEMENT**

"No. This is an historic accident and it is far too complicated." **BANKING**

"I don't think the LTIP structure does work for us. We are looking at it at the moment and will change it. Ours is based on a Group structure and although the STIP is okay I think the LTIP needs significantly changing. It is currently based on Group results, which won't work in a subsidiary like this." **BANKING**

"It works because everybody does it, but it is complex." **INSURANCE**

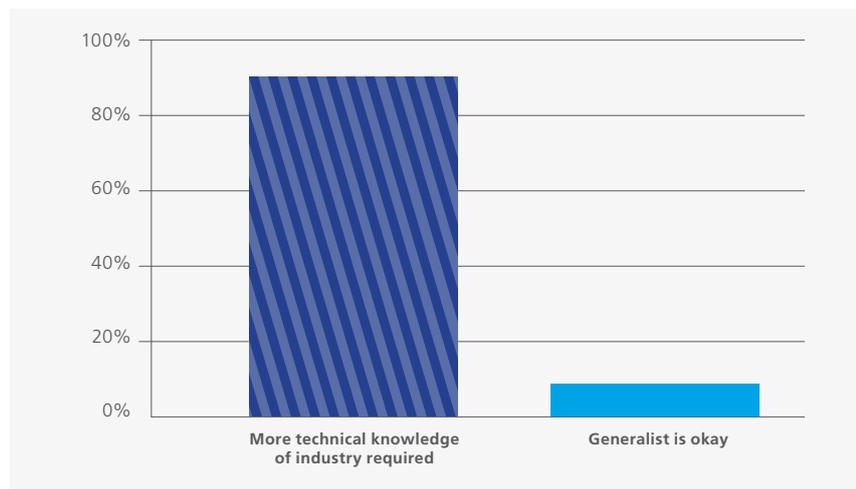
"Deferral is an important part of the package here. The CEO could get up to 4 x base and a maximum of 2½ is cash, the rest will be in shares. Of this, 50% is on a three year basis and 50% on a five year basis. Five years is our maximum deferral as far as I am concerned." **INSURANCE**

"Variable pay will be more long term and deferred in the future. Annoyingly, there will have to be higher salaries in banking." **BANKING**

"Is it right that the Chairman of a company this big is earning 8% of what the Chief Executive is earning? There has to be a change in compensation for Chairman in the FTSE." **INSURANCE**

Whatever skills the CEO needs for his / her own company's agenda, all are seen to need a very strong technical understanding of their market and ever increased numeracy skills.

Do you see future CEOs needing a different background / skill set to those who have survived the crisis? Will there be more emphasis on growth vs control / governance?



"More so in a UK context than US. In the UK there has been more emphasis on governance and control and perhaps less on strategy, performance, customers and people and we need more of this." **INSURANCE**

"Without a doubt, the Chief Executive has to have greater technical knowledge than ever before and this makes it intellectually a very demanding job." **INSURANCE**

"Being a CEO of a public company is very difficult. You need attention to detail, great leadership skills, high numeracy and the ability to communicate, not only with the business but markets. Very few CEOs will have all of this and there is some compromise in there." **BANKING**

"Deep knowledge of the industry and they must have lived life the hard way at some stage. They must have gone through the school of hard knocks." **INSURANCE**

"I think they need more awareness of social media. In the past, they had no control of the outward agenda. CEOs need to be more comfortable with this now. They still need strong financial skills, the pure marketing CEO in my view, is not going to do it." **INSURANCE**

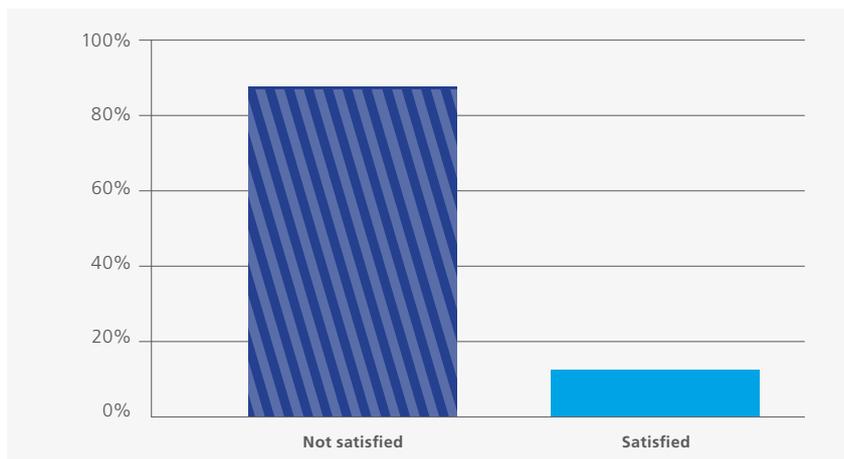
"The skill set of the CEO needs to be adaptable and my worry is, in some cases, CEOs are one trick ponies and they will need to be changed." **INSURANCE**

"Honesty, transparency and integrity, but I think they also need to be tough and resilient and all of them have to be more numerate than they ever were before." **INSURANCE**

"Investment expertise is absolutely critical to run a business like this well." **ASSET MANAGEMENT**

"Yes. Everything has become so specialist and we do need some generalist managers to be CEOs." **INSURANCE**

What is your view of the regulators in Financial Services (FCA and PRA)?



Chairmen and their Boards think that the PRA is fulfilling its role with greater success than the FCA. The PRA has settled down quicker and generally has better people, whilst the FCA is seen as looking for scalps with insufficient clarity of real purpose.

“The FCA and the PRA have set out a pretty macho stall and an aggressive regulatory stance involving more capital, more conduct and the bottom line is that we are all going to have to learn to live with it and there is no point moaning and wailing, we just need to get on with it. Lobbying at a high level with politicians won’t work anymore. The only thing that will change is if things are not working on a level playing field from an international basis. I do see the PRA as more thoughtful and intellectual, the FCA is a bit more like the Gestapo in the sense it is a “we don’t care, this is what you need to do” approach and they often have a clear, rapacious and greedy view of bankers and it is important to be careful not to react to that.” **BANKING**

“The PRA is fairly good but I think the FCA is still finding its way and is not clear about its programme and what it wants to achieve. There is too much looking for heads.” **BANKING**

“What worries me is they are interested in a level of detail we do not keep record of. What surprises me about the FCA is that they never talk to us about “integrity” at all. Things such as conflict of interest, it is quite extraordinary, that they don’t seem to focus on that, but much more on the consumer rather than the conduct and integrity of our people.” **INSURANCE**

“Both the regulators are frightened of their shadows. Even now you get Co-op Bank and Flowers getting through the SIF process. I think they are now so risk averse and they reach for the 166 too quickly. The PRA is simply too worried about its own reputation.” **INSURANCE**

“We are more worried about the FCA and less worried about the PRA. The FCA spends too much time looking for scalps and should spend more time worrying about conduct generally.” **INSURANCE**

“The PRA is pragmatic and sensible. They listen and you are allowed to make a case. The FCA has not had a good first year – they have just been showing their teeth.” **INSURANCE**

“I think the PRA had a bad summer in 2013 and dealt with some of this badly and this was really Mervyn King and Paul Tucker’s swansong. By and large, Andrew Bailey is a good, straight talking, sensible person and has bright people, but there may be too many academics and economists in there. The FCA is a different story, they have a CEO with an agenda who is not aligned to the industry and whose route to success is not aligned either.” **BANKING**

"There are some very good people at the PRA and we are moving away from a tick box philosophy. I have to say this is not the same at the FCA, which is still frustrating." **INSURANCE**

"My general real concern is the turnover of staff in those organisations. My first interview with the PRA as Chairman was with six people. Six months later all six had gone. The PRA is clearer in its view than the FCA and has settled down more quickly. The FCA seems to attract the headlines and they must learn not to and not to enjoy it." **INSURANCE**

"There are some good brains amongst the regulator but they are not commercial and not interested in commercial success. This will need to change going forward particularly if businesses are to stay in the UK." **INSURANCE**

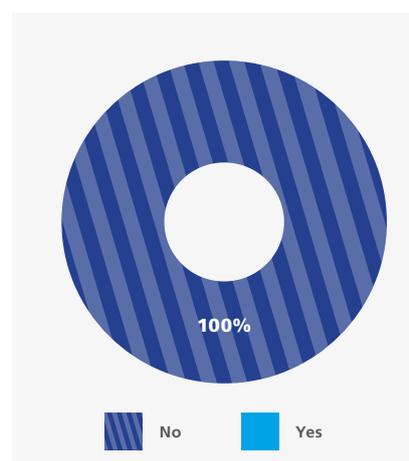
Are they going to be able to prevent another financial services disaster?

There is absolute unanimity that the regulators will not be able to do this. Although, there is also a view that with such onerous capital requirements, big institutions are less likely to fail. Some think that the risks which could cause another disaster are far more left field than the current regulatory purview and that there is a cycle.

"No they are not, but hopefully the Boards of Directors will." **INSURANCE**

"In general no, I don't think they will, certainly the FCA won't although the PRA just might." **BANKING**

"I do not think they will prevent another disaster. How can they in a global environment with local regulation." **BANKING**



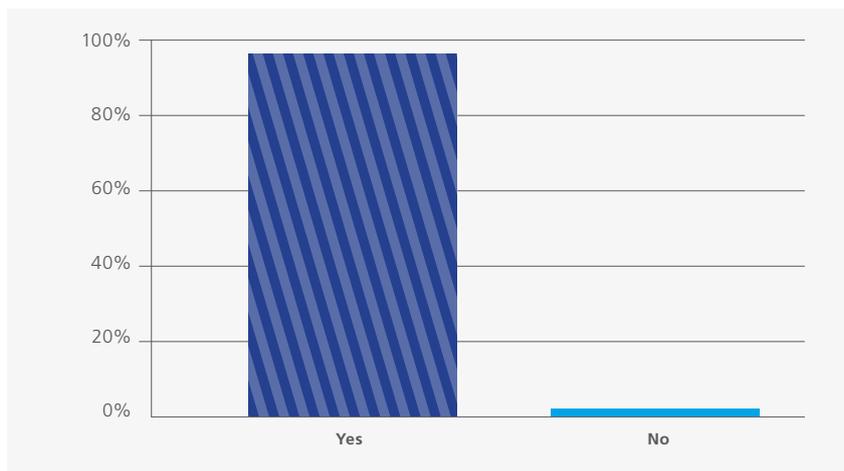
"It always slightly irritates me when people say this was investment banking. It really wasn't, it was nothing to do with M&A banking, this was a markets issue. As a result of all this, I think they are pushing over capitalisation of the Banks which is not helpful." **INSURANCE**

"No. It won't happen for another ten years, it happens in a cycle." **INSURANCE**

"The tougher capital and liquidity rules will mean that it is much less likely for big institutions to fail, although smaller ones may well do so and it means that there is a much less likely scenario in which I can envisage a repetition of the last crisis. For a few years, more of the world will be de-risking. I am worried on the conduct and redress side because there is a real danger banks are going to be clubbed on the head for doing the right things." **BANKING**

"No, because the next crisis will come out of deep left field." **BANKING**

Is the Board operating differently because of regulatory pressures?



The vast majority of Chairmen say that their Boards are now very focused on Risk and Regulatory issues and this has been a significant change. Some see an inherent danger in this because Boards are being created to satisfy the regulator rather than having the broader skill set the Company needs.

"Yes it certainly is. We are spending a lot of time on regulatory issues and this will certainly affect the type of NED that we hire and NED pay." **BANKING**

"We have changed a perfectly good noun into an extraordinary verb – evidenced." **INSURANCE**

"Yes – I think all Boards must be operating differently. We look at compliance and regulatory issues – you would be mad not to." **ASSET MANAGEMENT**

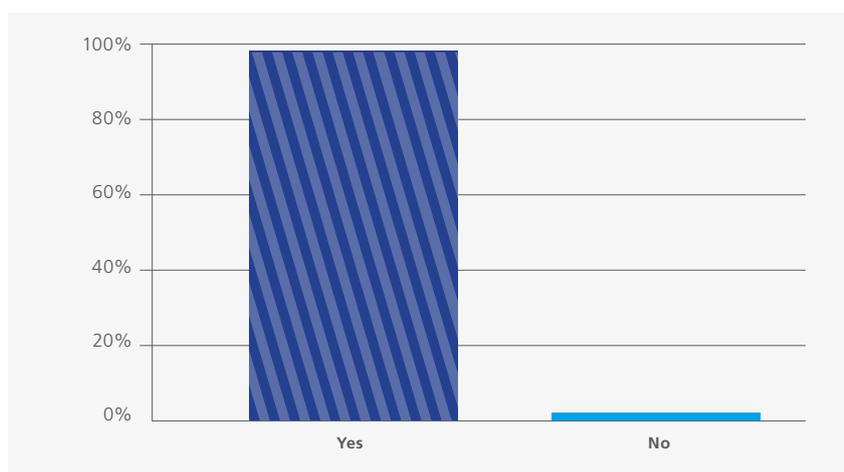
"Yes we are operating differently, particularly in respect of the minuting of decisions and the signing off of everything. The PRA focuses everybody around one particular element and they are therefore encouraging Boards to have people who focus on only one area and if you do this, everyone will have a strong risk background but there will be nobody with customer experience. The PRA are creating Boards in their risk profile image and this is not healthy." **BANKING**

"These days, minutes are written with one eye on the Regulator." **INSURANCE**

"We invite the PRA and FCA to our Board meetings. We ask them what is on their whiteboard for us at the time and they need to explain that in front of the Board. They have about an hour to do that. They didn't like this, but it worked!" **INSURANCE**

Has your Board composition changed through the crisis? Have you seen a change towards NED selection being more influenced by the requirements of the Regulator?

Most Boards have changed their NED selection in favour of deep industry / sector expertise and a specific skill to complement his / her fellow NEDs. This has been driven by the Regulator.



"I have completely changed the Board bringing in new Audit, Risk and Remuneration Committee Chairs. We needed more expertise. I also brought in an IT expert and recognised that the importance of diversity of skill set is critical." **INSURANCE**

"In terms of Board composition, it is important to have people who have really good industry knowledge, a real demonstrable skill set and are highly numerate. If they don't have these skills, you don't want them taking up a valuable boardroom seat." **BANKING**

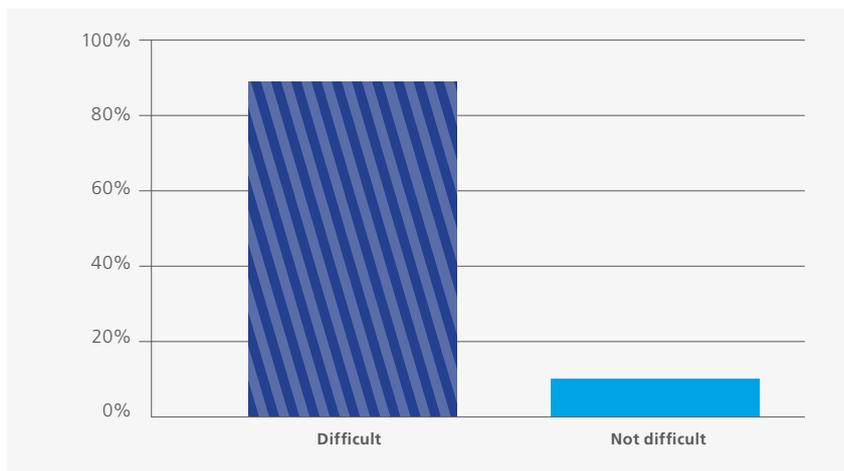
"Yes. They are specific and more focused. Board members will have more in-depth knowledge." **INSURANCE**

"Not the type necessarily but they must be people who work well with the regulator." **ASSET MANAGEMENT**

"Yes. There is more focus on getting skills that reflect the different areas of the business, rather than just collecting people who are well known in the industry. So we have an investment person, an operations person and a product / marketing person." **ASSET MANAGEMENT**

"There is less time for strategic thinking because there is so much housekeeping. It certainly has impacted NED selection." **INSURANCE**

What is your experience of getting women on the Board?



Most Chairmen have got women onto their Boards but have found it difficult because of the lack of women in the Executive pool. Many Chairmen are anti-quotas but also reflect on a sense of real effort in bringing female NEDs onto Boards over the last five years.

"I now ask for women only shortlists."

INSURANCE

"You have to work at it. I think professional services is a great place to get good women."

INSURANCE

"Bloody difficult! We have looked hard at trying to make this work."

BANKING

"I am strongly against targets but we are looking to resolve this problem and hire more women."

BANKING

"I find this a difficult issue. There are plenty around but it is difficult to find women who have run things and I have found that CEOs put up with challenge better from people who have run things, rather than people who have worked in an advisory capacity or in functional roles. The real issue here, is that we don't have enough Executive women."

BANKING

"We have been clearly committed and we have succeeded. This isn't a problem."

INSURANCE

"We have three women on a Board of sixteen; we have just hired in from the US and trained that individual and I have been coaching her."

INSURANCE

"We wouldn't have appointed the woman that we have on the Board if she hadn't been a woman. We would have probably gone for somebody else. My view is that quotas for Boards are all very well but actually the issue is around the Executive level and having good quality Executive level women who can then come through and be Non-Executives."

INSURANCE

"Five years ago the headhunters would have struggled, today it is much better."

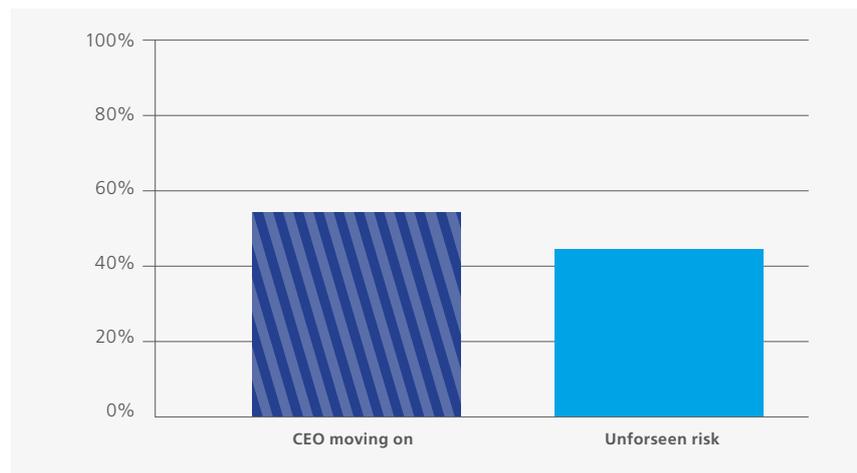
INSURANCE

"I have more women than men, this is not a problem."

ASSET MANAGEMENT

What keeps you awake at night as Chairman?

For most, it is flight risk of senior people, particularly the CEO, with the 'unknown unknowns' a close second.



"Succession and the future of the Group."

INSURANCE

"The CEO going is perhaps top of my list."

BANKING

"Not a lot – only that the CEO might move on." **ASSET MANAGEMENT**

"The storm that nobody saw coming. What might go wrong, a risk we were not aware of." **INSURANCE**

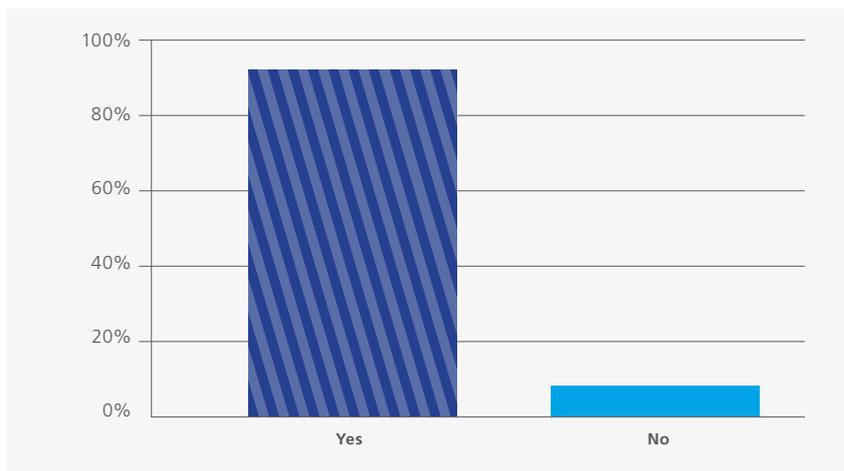
"It was cash management and effectiveness of the top team. Now it is less the cashflow, but it is the second of these things, that is all about execution." **INSURANCE**

"Not pushing hard enough to grow and develop the business. Or it will be that we miss something and it will blow up. The risk side is very important." **INSURANCE**

"It was capital restructuring and performance shares, it is now CEO succession." **BANKING**

"That we have not understood all the risks, that we are missing something. Conduct risk – breach." **ASSET MANAGEMENT**

How do you feel about your role, are you enjoying yourself?



The majority of Chairmen really enjoy their role, despite the pressures, because they enjoy business and working with good people. Of the few who weren't, these were mostly those who were new to their Companies and learning the sector or in turnaround situations.

"Yes, it's fun, intellectually stimulating, with good people who are honest, hardworking and have integrity." **INSURANCE**

"No. I suppose I am pleased and honoured and it rounds off the career but it is hardly enjoyable." **INSURANCE**

"I do, I like business. I like the content, strategy and implementation. The Chairman role is a great way to be at the heart of it." **INSURANCE**

"This was a turnaround and wasn't fun to start with but I am now enjoying myself." **INSURANCE**

"Yes, you need to be good and lucky, I have certainly been lucky! I am thoroughly enjoying myself. I've got two excellent Chief Executives and the thing to remember is that, as somebody said to me when I took on a Chairman role, 95% of what you do anyone can do, 5% of it is bloody difficult!" **INSURANCE**

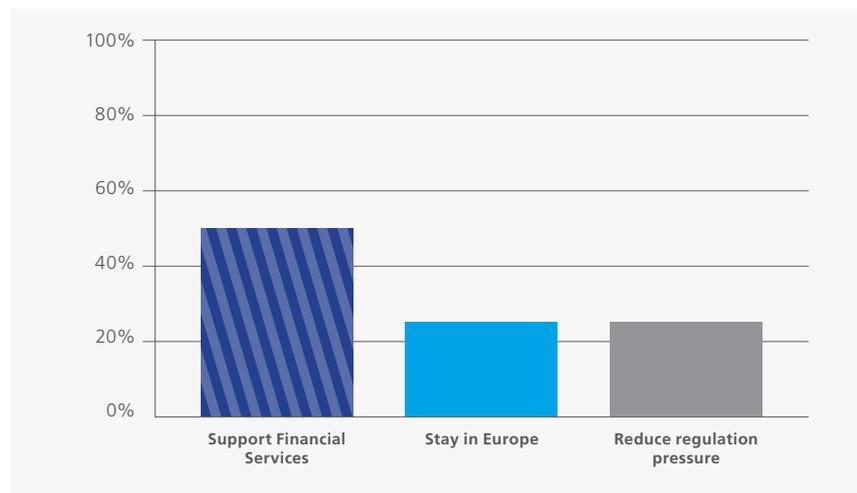
"I have four Boards and this is the one I enjoy least and this is as much about regulation than anything else. What is stupid, is that we are one of the cleanest in the game, but there are still a huge number of pressures." **BANKING**

"I absolutely love it. I love this industry." **ASSET MANAGEMENT**

"More than I was. Getting my head around it was not always enjoyable. It is like swatting for exams, but I am getting there." **INSURANCE**

What could the Government do to make your life easier?

This elicited a broad range of responses. Better and less detailed regulation was a theme but most important was overall support to businesses through a range of measures from staying in Europe to the personal tax regime.



"Stop having detailed regulation. Get back to sensible principles with sensible people and stay in Europe. Recognise the culture that exists in different countries." **INSURANCE**

"The Government should resist the temptation to fix things that are not broken and avoid grandstanding to the media." **INSURANCE**

"Stop bashing the banks – it may be good politics but it is extraordinarily destructive." **BANKING**

"Make the UK a user friendly place to do business." **INSURANCE**

"I wish they had left the regulators alone and not split it. There would then be half the meetings. I care less about the EU than others would." **INSURANCE**

"A parochial answer on mutuality. The agencies of Government haven't got it and the regulator is not in tune with it either. We want different Tier 1 capital options for mutuals. This is going through now. On a wider context we need a much more compassionate view of the role of insurance in society. At the moment the sector is somewhat demonised." **INSURANCE**

"The Government can bring equilibrium back into regulation. It doesn't have to be in the unhelpful place it is in now and they need to sort out the conduct regulator." **INSURANCE**

"Be more clearly supportive of the financial services industry in London." **INSURANCE**

"Stay in Europe." **INSURANCE**

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Chief Executive,
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Deborah Howard,
Director and Insurance
Practice Leader



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