

# Argyle Conversations

by Argyle Executive Forum<sup>SM</sup>

John Greene, CFO for HSBC Financial Corporation, and Michael Archer, partner in Global Financial Services for Kurt Salmon, discussed how risk, regulation, and innovation have influenced the role of the CFO and how the CFO function may change in the future.

## BIOS

### John Greene

John joined HSBC in 2005 as Chief Financial Officer for Consumer Lending at HSBC Finance Corporation in Prospect Heights, Illinois. In 2006, John was promoted to Executive Vice President, CFO of Consumer and Mortgage Lending. During his tenure with the U.S. businesses he built a strong finance team, launched a finance management training programme, strengthened controllership and improved business analytics. In 2009, John was appointed CFO of HSBC's Global Insurance business headquartered in London. In 2011 John was promoted to CFO of the Retail Banking and Wealth Management (RBWM) business which includes HSBC's Global Retail Bank, Asset Management and Insurance businesses. RBWM is headquartered in Hong Kong and London.

Before joining HSBC, John was with General Electric for almost 14 years in various roles, including Chief Financial Officer for Global Business Finance, an operating unit of GE Commercial Finance. From 1988 to 1992 John worked for Ernst & Young in the Albany, New York office servicing an array of auditing clients.

John received his bachelor's degree in accounting from the State University of New York and a Masters in Business Administration from the Kellogg School of Management at Northwestern University. He holds Certified Public Accountant and Certified Management Accountant certificates.

### Michael Archer

Michael is a Partner leading Kurt Salmon's Consumer Financial Services practice. Prior to joining Kurt Salmon Michael was Principal and founding partner of the Manhattan Innovation Lab, LLC, an early stage business accelerator and consulting-services company. Michael applies three decades of multi-national and cross-industry experience to refine, reshape, and re-engineer his clients' business operations. His business and marketing management acumen were developed in leadership positions at Citibank, Colgate-Palmolive and MasterCard Worldwide. Michael has successfully built and launched new products and businesses, consulted to the leading financial services organizations in the U.S. and Latin America, established and rebuilt sales territories and forged critical formal and informal partnerships, often extending successful strategies and functions across borders and industries to grow businesses.

Michael was responsible for creating MasterCard's consulting-services business in Latin America. Blending industry knowledge with consulting skills, he built MasterCard Advisors into a multi-million-dollar profit center in the region. Michael consulted to some of the largest banks and card issuers in Latin America, as he and his team concentrated on marketing, credit risk, customer-lifecycle management and information management – always with a basis in long-term strategy. Michael later turned his attention to North America, where he led the successful re-launch and re-engineering of the consulting business in the U.S. and Canada, overseeing unparalleled growth in billings, profitability, and Client roster.

Michael brings particular experience creating "businesses within businesses" as an intreprenuer in established companies, testing the limits of scale and speed-to-market. At Citi, Michael led teams in the U.S. and Latin America to bring new payment products to market, including the bank's then-largest co-brand credit card program, driving incremental earnings and creating a large leverageable customer base. He established the regional marketing office for Citi's Latin America payments business where he introduced new marketing techniques, segmentation strategies, and portfolio-management processes to help double the size of that business in less than 24 months. At Colgate he established and re-energized sales territories while later managing existing and designing new consumer product lines.

Michael sits on the board of directors and executive committee for The Resource Foundation, is a member of the Association of University Research Parks, and holds undergraduate and graduate degrees in business.

## INTERVIEW

### **Michael Archer: Can you start by giving us a little background on yourself, the U.S. consumer finance and mortgage business and about HSBC retail and wealth management?**

John Greene: I spent nearly five years in Ernst & Young doing auditing work before I was asked to join GE Energy,

where I concentrated on manufacturing operations over the next 20 months. This involved looking at potential outsourcing opportunities as well as trying to improve the overall analytics of the operation and our unit productivity. After that I went on to various roles at GE Supply and GE Capital.

I was with GE just shy of 14 years -- and 7 with GE Capital -- before joining HSBC in its U.S. consumer lending business at the end of 2005. The real estate market was still very hot. I was brought in to take a look at the financial-management processes within the company, as well as try to build a more robust operating environment within the finance function to ensure that we were taking good risk. I then moved to London to become the CFO of HSBC's Global Insurance business, and in 2011 was promoted to CFO of the Retail Banking and Wealth Management business, which includes the Retail Bank operation, Asset Management and Insurance businesses.

**Were you also expected to build more predictability into that business?**

Absolutely. From the perspective of a CEO or shareholder, there is a great desire for predictability. This is important from a first order of priority to basic management information through to such things as evaluating risk and pricing decisions. Within the consumer finance industry prior to the financial crisis, a relatively dull set of tools were used to evaluate origination activity for credit card and mortgages, which was a contributing factor to the crisis.

**In a way you were the canary in the coal mine that signaled what was to come. Looking back with the benefit of hindsight, were there controls that could have prevented at least some of those challenges the industry started to go through?**

There was a widely held view across financial services that once an asset was off the balance sheet, that the risk was too. This has proven false. Risk lies with knowledgeable sellers and buyers, but it also lies within the institutions that are party to transactions. So from a risk and governance standpoint, I think it's really important to make sure the financial institution's balance sheets are suitably strong, but also that the financial institutions party to transactions are making good decisions for the customers. If we're not doing that, then ultimately the risk is going to come back and reside within the sellers' P&L.

**Are there things you see being done in the area of self-regulation and recognizing that risk is present even if it's been packaged and sold off?**

The U.S. is moving in this direction, but probably not at the same speed as in the UK. The concept of buyer beware doesn't really exist anymore. The regulators are looking at the interactions between the buyer and the selling agent and finding fault with the seller based on the perceived suitability of products. The culture within HSBC has always focused on the customer, but frankly the playing field has changed based on the evolving regulatory environment. The efforts to protect the consumer will also create a bit of commoditization of products across the industry, where you essentially de-risk some of your products. Providing plain vanilla-type solutions for the public at large could work, but for some specific customers those products might not be as effective.

**That poses a particularly onerous challenge for innovation. How do you see HSBC approaching innovation in the finance as well as the product function in this environment?**

I'll start with the customer and product areas first. Changes in the regulatory environment have resulted in lower returns for the industry based on the level of capital required to support the business and the prices that you can pass onto the consumer. Because of this, we need to be more efficient with the use of not only our human capital, but also our financial capital. That means more self-service, straight-through processes leveraging technology to provide solutions to the customers that make sense for them. One of the most significant changes the industry is dealing with right now is mobile technology, including how to provide compelling smartphone applications that work for the customers and are secure. The multitude of devices and the speed at which they are changing are a challenge, but whoever does that well will have a significant competitive advantage.

When it comes to the finance function, it translated into the need to be more efficient, which means making the operations aspect of finance more efficient without sacrificing the controllership environment. That's done through a business-process reorganization, technology and day-to-day process improvement.

Equally important will be that the finance organization creates analytics that help businesses make smart decisions

regarding capital deployment and targeting marketing segments (i.e. where are we going to go, what is the size of the opportunity, what's our ability to capture that prize?). There also needs to be a focus by the finance organization on helping the business drive what we call operational efficiency, which essentially means becoming more productive with all our resources: human capital, technology, financial capital.

### **How can an organization do that and how has HSBC become more efficient?**

There are probably three aspects to that. One is traditional outsourcing, or sending your activities to low-cost operational centers. The focus there has to be on processes rather than activities; taking entire processes and moving them to centers of excellence where you can get benefits of scale.

The second piece is using technology to take the manual activities such as spreadsheets or account reconciliations and capturing the key data, synthesizing it and putting it into a spot that requires little manual intervention.

The third and final piece involves how you're organized and having the right resources pointed at the areas of the business that are at control points regarding allocations of human capital, financial capital or technology resources. Then you provide the right level of analytical support to make sure that decisions are made the best way. Within HSBC we've gone through a relatively significant reorganization both as a business and then for the finance function.

From a business standpoint, HSBC was previously managed by geography. Each of the geographies would essentially be under the responsibility of a country CEO. When you take that across 70-plus countries it becomes massively inefficient. So we've reorganized to give ourselves a view across business lines. We have one strategy for our Retail Banking and Wealth Management business, the Commercial Bank and Investment Bank aligned to the overall HSBC Group strategy. This has helped to make HSBC more efficient, with fewer pet projects going on.

Within the finance function we've basically taken the business-support activities and aligned them with the business. Our accounting operations, focused on closing the books and external reporting, have been aligned more directly under the Chief Accounting Officer function. This provides a higher degree of accountability, better business support and decision-making, while improving efficiency.

### **With the time needed to make decisions and go to market decreasing, and the amount of regulatory requirements increasing, how is the CFO organization managing in this new reality?**

Within the retail space I haven't seen a lot of pressure on that, largely because we operate in two really big centers. In the UK and Hong Kong our finance teams are well-equipped to do the analytics and the support work needed to launch a product in a timely manner. The local markets continue to want to develop their own product solutions, which may or may not be aligned with the strategy. We now have a global finance organization and global risk organization taking a look at what they used to do on a day-to-day basis, challenging it and either saying they need to accelerate something or stop it.

### **Practically every major financial institution we're dealing with is having to rethink the way they operate, whether it's how they organize themselves, how they manage and control risk, as well as how they manage and control the opportunities and the income generated from those risks. Are you seeing similar actions among your peers as well?**

Yes, and that's a function of a couple things. The financial crisis and the subsequent reaction by the regulatory bodies have forced financial institutions to take a look at how they are doing things. And ultimately we're seeing that capital levels need to increase and leverage decrease. That has forced firms to really challenge their organization structure, streamline and allocate capital more effectively. This has forced centralization to drive better control and efficiencies. The question that will have to be answered is whether there will be anything lost from a customer-interaction or value-creation standpoint. The capital and the cost benefits are absolutely clear.

### **There may be a localization capability that could be compromised because of centralization. How do you deal with that?**

The way we look at it, HSBC is a guest in the countries that it's operating in. We set standards for our business to operate to the higher level of U.S. regulation or local regulation. We are driving an enterprise-wide compliance

culture. We have not always been perfect in this regard, but we are working hard to ensure we get to the right spot. To do this, we need to ensure that we have the right level of support in all aspects of the business. Based on the market and customer research we have, it is progressing well.

**You talked a bit about how the CFO role at HSBC has evolved in recent years. Looking forward, how do you see the CFO role changing in the industry over the next five years?**

First, the CFO role needs to be a business partner that is thinking about how to profitably grow the company and taking appropriate risks for its returns. It also should be instrumental in dealing with the regulatory challenges that are a part of our new world. Those need to be core to the skill set of any CFO in the future. They also need to ensure that there's a strong controllership environment and a level of analytics that support decision-making and allocation of scarce resources.

Finally, the CFO needs to be a communicator in terms of where the business is headed and what the challenges are. It's more of a general management role than it has ever been in the past. The CFO gets to see almost every single aspect of what is happening within the organization, from the front-end marketing standpoint all the way to the back end of the organization. That's why an effective CFO can make a tremendous difference to the profitability of a company.

**How important is it to remove or reduce friction between the CFO and the organization's other leadership, considering how much that divide could restrain growth?**

That level of friction typically comes down to one of two things: a single functional focus rather than a broader business perspective, or a personality issue concerning how a CFO is connecting with their peers. It's critical for a CFO to have strong working relationships with their peers, and that their focus goes well beyond the finance function. It's about value drivers, because that friction will go away when the operating units, the CEO or business managers understand that the finance function is about creation, not just cost management and accounting matters.

**More and more companies are establishing centers of innovation excellence; some have even created innovation labs. How do you manage that and make sure that it's productive and yet also controllable?**

My view is that it has to be aligned to strategy. So there needs to be some sort of strategy outline in terms of the direction and making sure that that the allocation of capital is pointed at the strategic imperatives that are laid out by management. You also need to have an agreed-upon budget and some meaningful benchmarks to measure progress. You're going to have some losers but also some winners, and if you have the right people in there that are not overly encumbered by the controls of the bureaucracy of the organization, it could be a success. But it's a tough challenge.

**So to conclude, where is the investment going to be for banks and perhaps for HSBC? Now that stabilization has been achieved, do you start to grow or do you continue to manage in a more conservative mode if necessary?**

For us and many of the large players, the investment will be in the developing world rather than the developed world. There will still be a lot of investment in the U.S. due to the wealth and creativity within the American business world. But in the developing world, China, the rest of Asia and Latin America will continue to be important based on their anticipated GDP growth. We're at the point where financial institutions will be able to achieve satisfactory returns while helping people develop better lives for themselves in terms of savings and protection products. So I think it's a good space to be in for financial institutions. 