

# McLagan Investment Services

## Our offering to network managers and sub-custodians

Dominic Hobson, Co-lead, McLagan Investment Services

NeMa Asia  
Hong Kong, 11 November 2016

**Prepared by McLagan**

McLagan is a part of Aon Hewitt, a business unit of Aon plc.

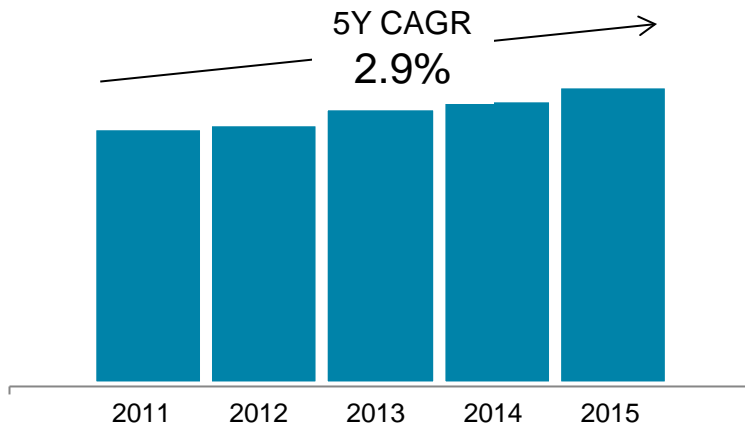


# Strategic Challenge #1: Costs are Rising Faster Than Revenues

Revenues  
have risen

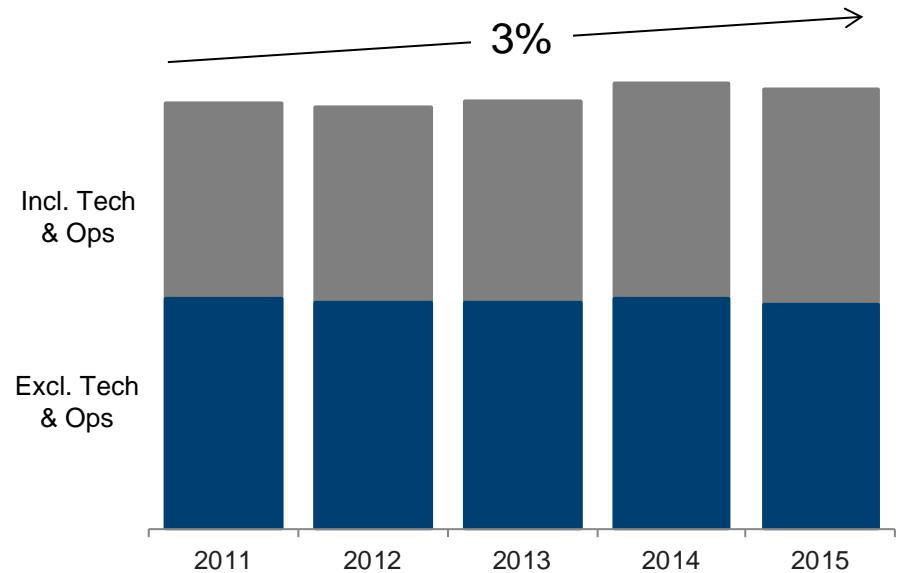
But costs  
have risen  
faster

Revenue



Source: McLagan proprietary benchmark data

Expenses



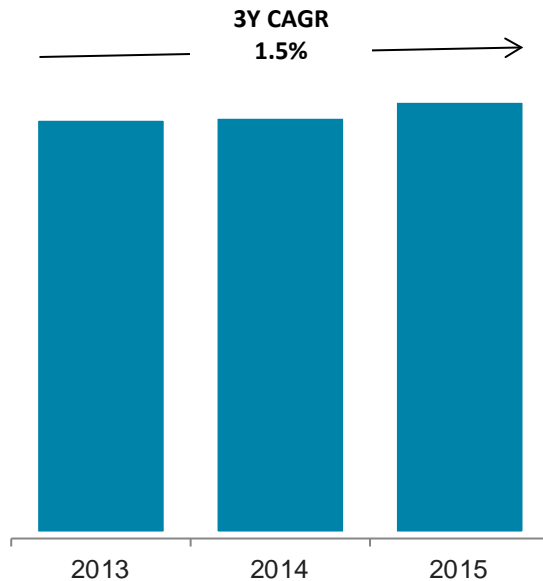
Source: McLagan proprietary benchmark data

# Strategic Challenge #2: The Cost of Risk is Rising Faster Than Profitability

Margins are struggling to improve

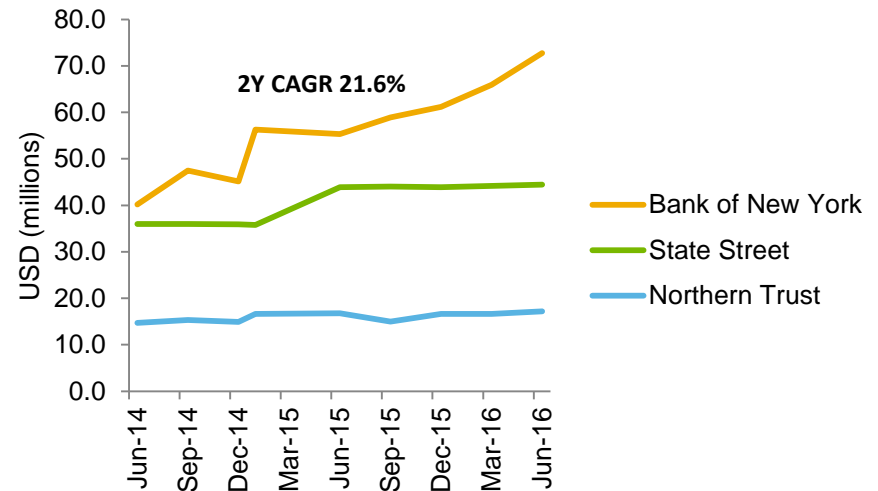
The cost of operational risk is rising faster

## Margin



Source: McLagan proprietary benchmark data

## Value of capital allocations to operational risk



Source: Pillar III disclosures

# Strategic Challenge #3: Both Liquidity and Capital Cost More

Liquidity is more expensive

The price of capital is rising

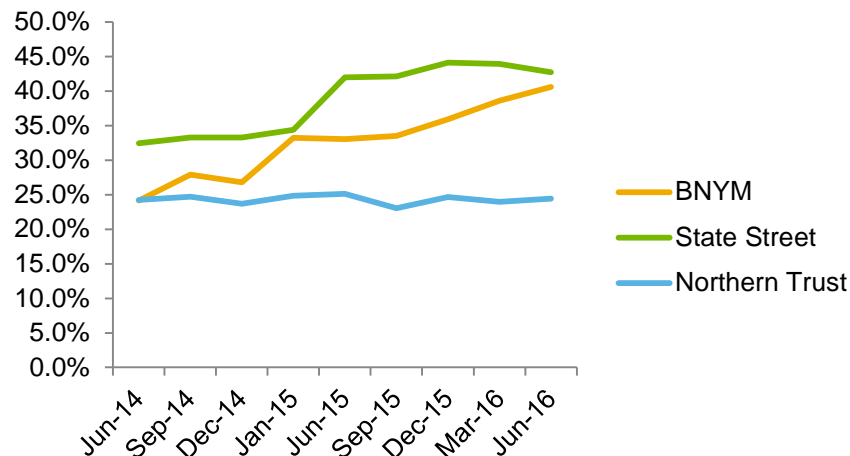
$\frac{\text{High Quality Liquid Assets}}{\text{Net Cash Flows}}$

>100%

$\frac{\text{Available Stable Funding}}{\text{Required Stable Funding}}$

>100%

Operational risk-weighted assets as a percentage of total risk-weighted assets



Source: Pillar III disclosures

# Global Custodian Bank CEOs Say What Needs to be Done

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## Cut *costs*

“We are **sharply focused on managing expenses**”

*Jay Hooley, Chairman and CEO, State Street*

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## Grow *revenue* intelligently

“We are not focused on driving gross revenue **and expanding our market share** at any cost ... Strengthening service quality and client and **employee productivity**, while reducing risk and structural costs.”

*Gerald L. Hassell, Chairman and CEO, BNY Mellon*

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## *Listen* to clients

“Good businesses ... deeply **care about improving customer satisfaction**.”

*Jamie Dimon, Chairman and CEO, J.P. Morgan Chase & Co.*

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## Lift the *performance* of the business

“We created a specialized group to **manage on-boarding** and change for large complex client relationships and already have seen measurably **increased client satisfaction**.”

*Frederick H. Waddell, Chairman and CEO, Northern Trust*

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## Increase *automation*

“We **removed** ... nearly **3,000 roles by automating** and eliminating processes in 2015.”

*Stuart Gulliver, Group CEO, HSBC*

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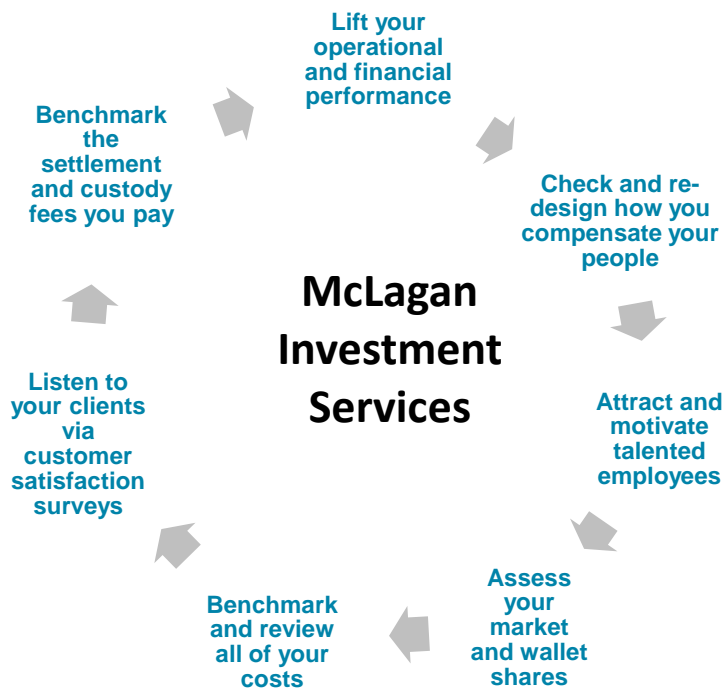
## Attract and motivate *talent*

“Create **a company** and a culture that all of its **people ... are proud to go to work for** each day.”

*Michael L. Corbat, CEO, Citigroup*

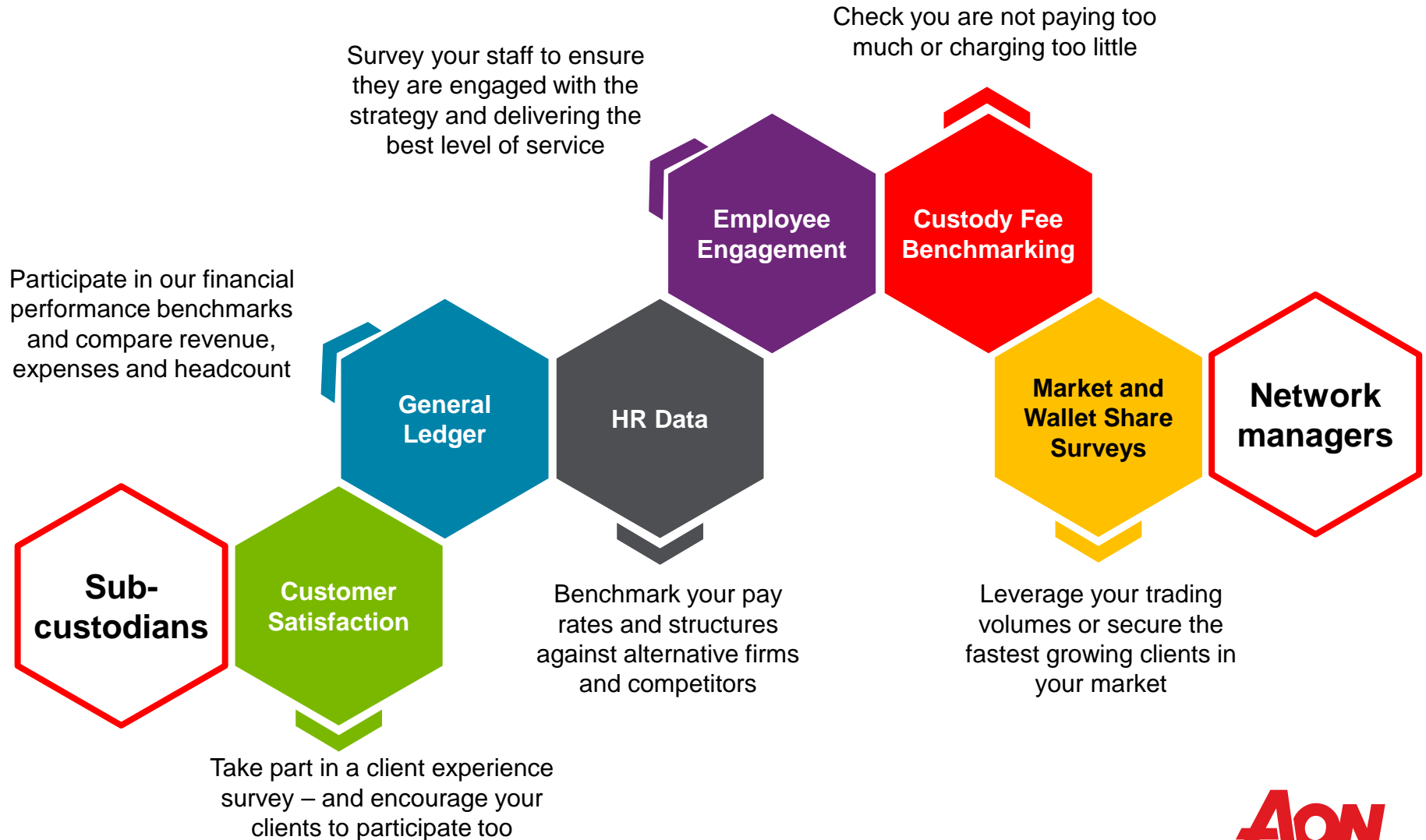
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# How We Can Help You Meet These Strategic Challenges



- **Listen to your clients** ... Our customer satisfaction surveys tell you how happy your internal and external customers are with the service you provide and help you detect issues before they become problems and opportunities before others seize them.
- **Benchmark the fees you charge (or pay)** ... Compare what you are paying or charging for direct custody and clearing, trade volume for price, reassure management and clients on fees paid, and re-negotiate fee schedules with hard data.
- **Lift operational and financial performance** ... Compare your costs with your peers to work out if you have too many layers of management, operations in expensive locations, excess non-comp costs, or relatively low levels of productivity.
- **Check and re-design compensation** ... Compare your headcount, salary, bonus and benefits at every level in every business division in every location, and work out if your best people are also your best paid.
- **Attract and motivate talented employees** ... Test compensation levels and staff morale against alternative employers as well as competitors, and decide whether your people are over-paid and under-worked or under-paid and over-worked.
- **Assess your market and wallet shares** ... Ask yourself whether growing your market share by winning the biggest clients and the largest volumes of transactions is delivering the higher revenues and consistent profits you need.
- **Benchmark and review all of your costs** ... Review every cost centre, management span and layer, location, premises, specialist hub and local operation, and compare it with your peers to decide which of you is doing a better job on cost control.

# Answers to Strategic Challenges are Found by Integrating Hard and Soft Data



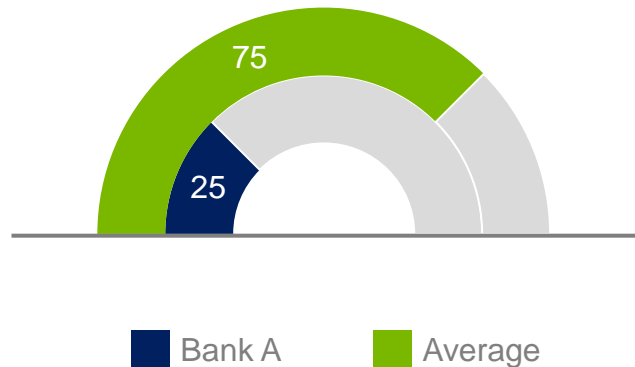
# Find the Answers to Your Challenges by Sharing your Data With Us





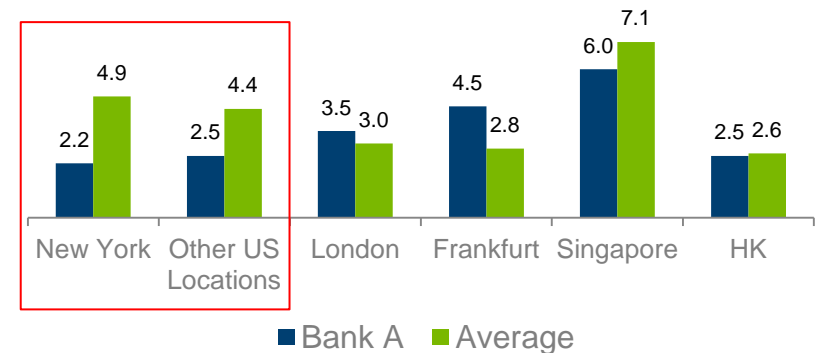
# Listen to Your Clients Via Customer Satisfaction Surveys

## Net Promoter Score



Source: Client satisfaction survey

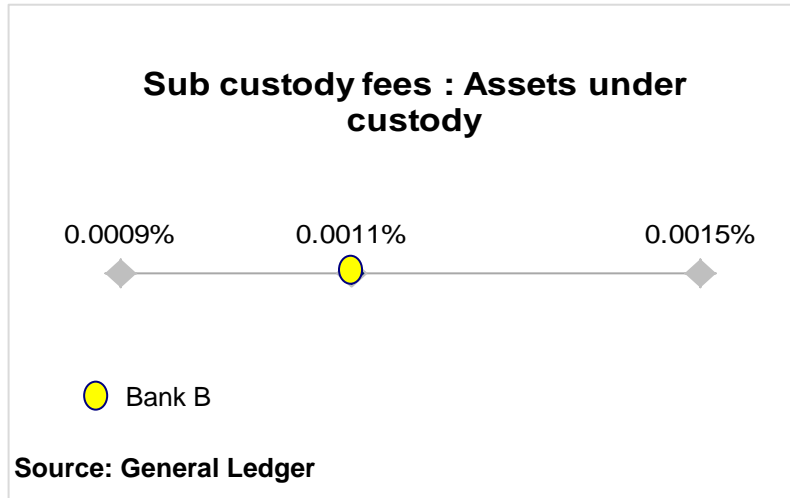
## Scores by Region



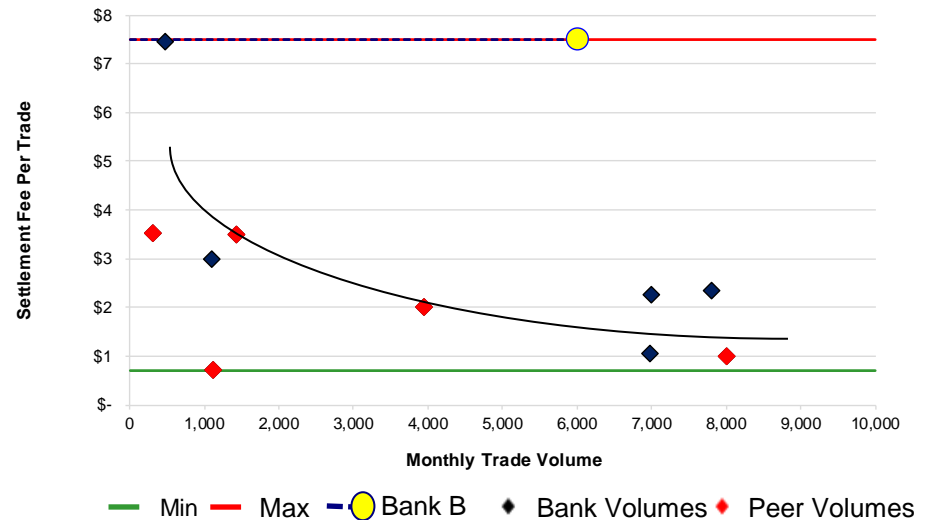
Source: Client satisfaction survey

- Bank A's client satisfaction scores are lower than average
- The source of the poor performance lies largely in the United States

# Benchmark The Fees you Charge (or Pay)



## Country A – Equities OTC

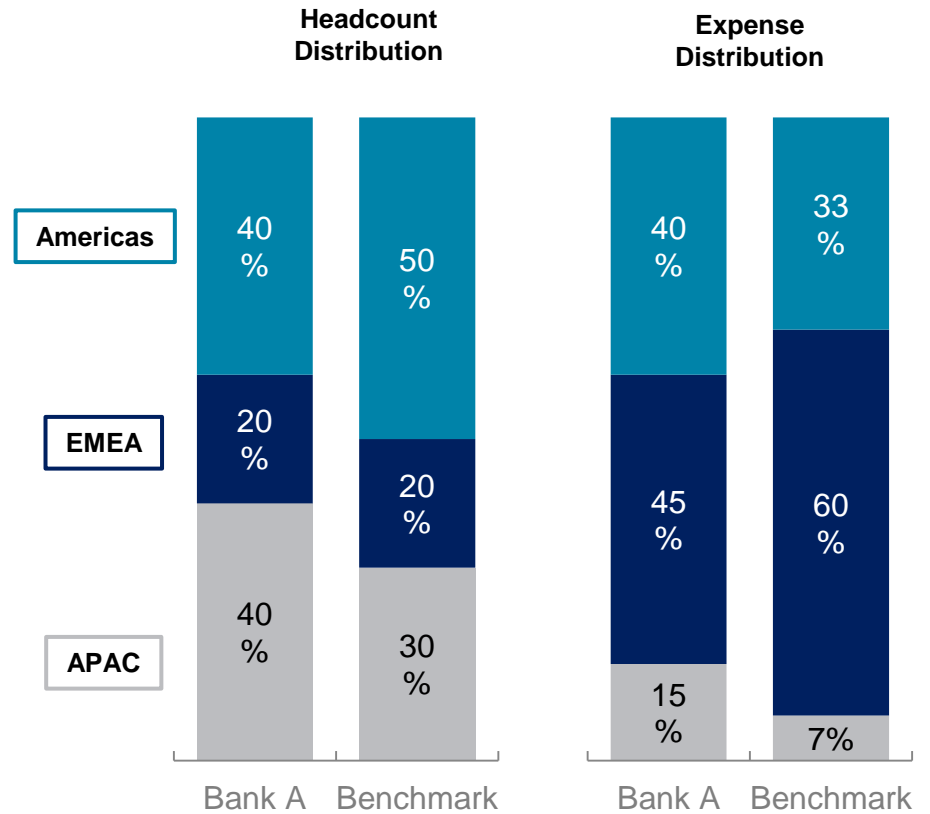
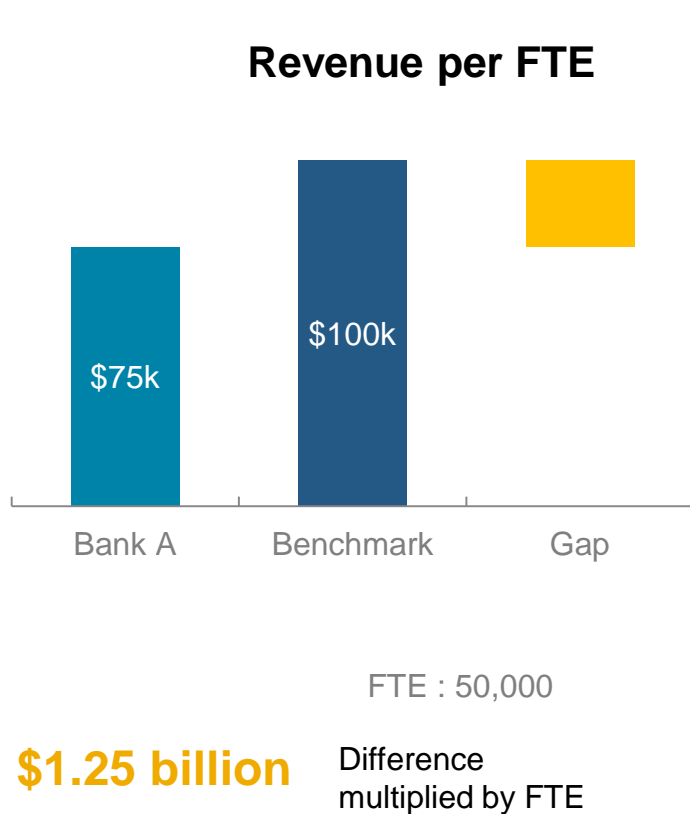


Source: Custody and settlement fee benchmarking

- Bank B is paying higher sub-custody fees than some of its peers
- Bank B has the highest volume of business, and the highest fees
- Bank B fees are five times higher than they should be

# Lift Operational and Financial Performance

Bank A has a \$1.25 billion productivity issue but gains an advantage from its cheaper APAC locations

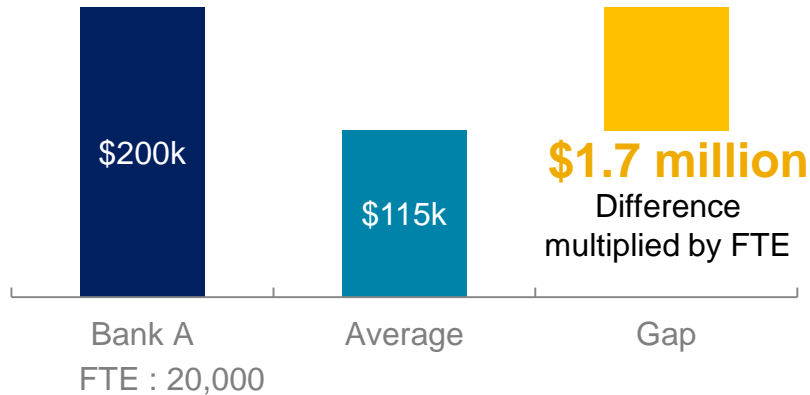


Source: General Ledger

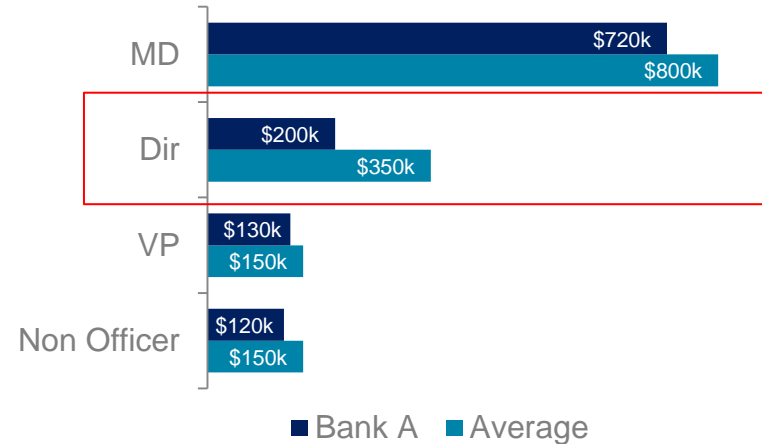
Source: General Ledger

# Check and Re-Design Compensation

## Compensation per head - US



## Compensation per head by grade



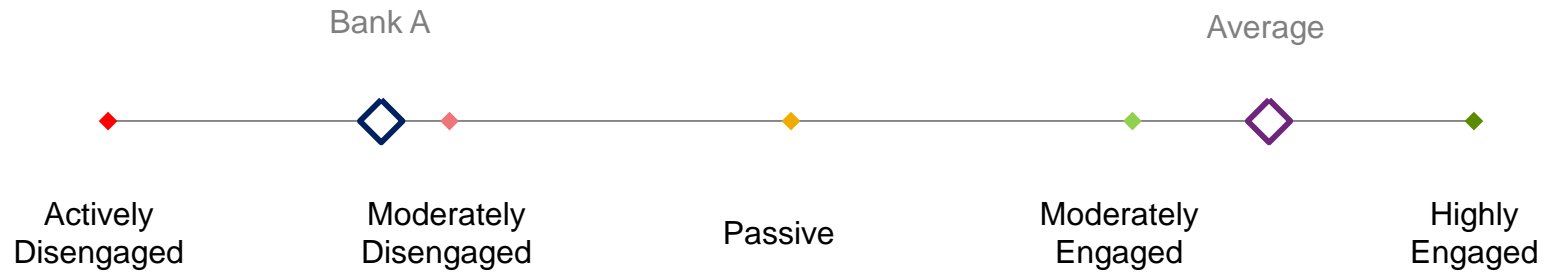
Source: Compensation data

Source: Compensation data

- Bank A's employees in the United States are paid less than the benchmark
- The largest differential is in the Director band, in which a third of Bank A staff fall

# Attract and Motivate Talented Employees

## US employee engagement

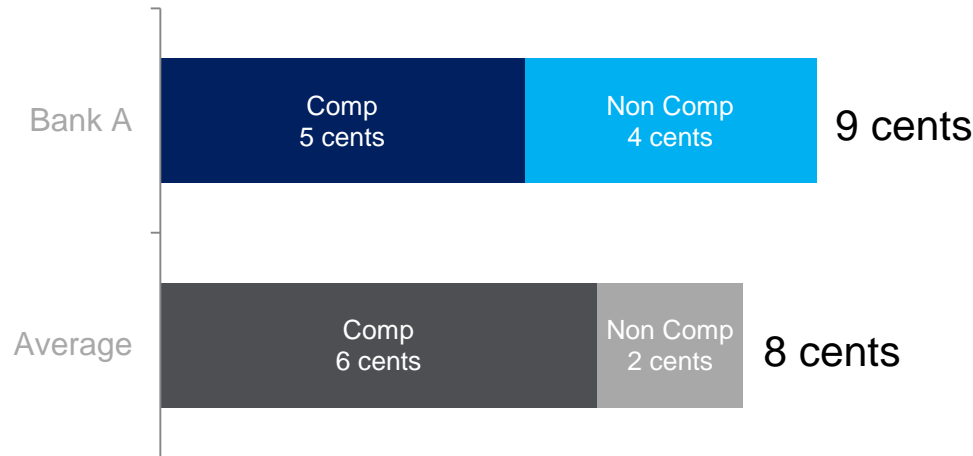


Source: Employee engagement survey

- Bank A's staff engagement scores in the United States are significantly lower than peers
- Is lower pay the reason? And what impact is lower staff morale having on productivity?

# Benchmark and Review all of Your Costs

## Cost per revenue \$

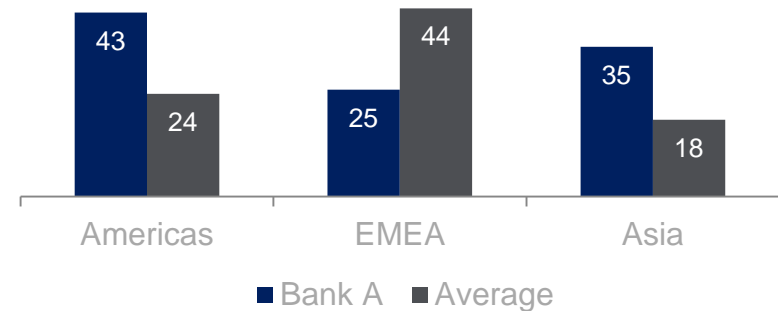


## Non-comp – cost per revenue \$

	Bank A	Average	Variance
Market Data	0.30 cents	0.35 cents	-14%
T&E	0.38 cents	0.16 cents	138%
Prof Fees	0.60 cents	0.30 cents	100%
Marketing	0.10 cents	0.09 cents	11%
Premises	2.00 cents	0.60 cents	233%
Tech & Comms	0.60 cents	0.50 cents	20%
Other	0.02 cents	0.01 cents	100%
<b>Total</b>	<b>4.00 cents</b>	<b>2.00 cents</b>	<b>100%</b>

Source: General Ledger

## Non-comp per head (\$k)



Source: General Ledger

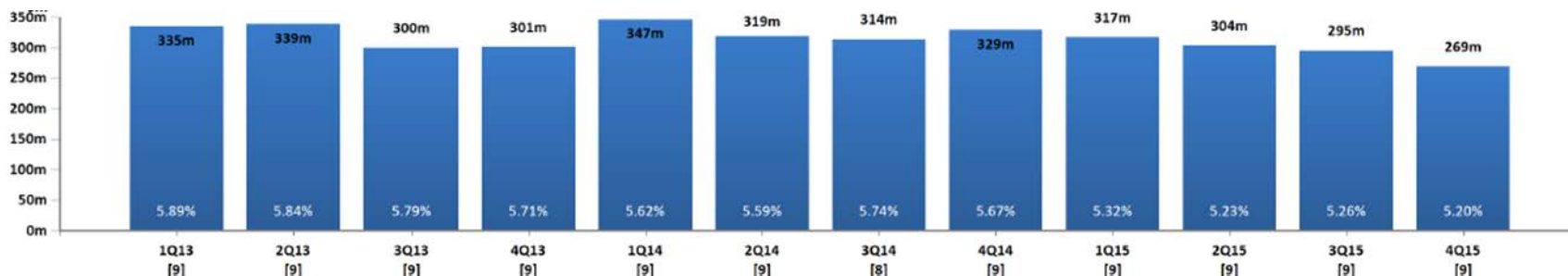
- Bank A spends less on compensation
- But at Bank A non-compensation costs are higher across a number of account lines
- And they are significantly higher in the United States and Asia

# Assess Your (or Your Clients') Market and Wallet Shares

2015

Market Wallet	Benchmark	Bank A	Bank A Market Share	Bank A Rank	Bank A Opportunity
<b>\$22,558m</b>	<b>\$1,618m</b>	<b>\$1,186m</b>	<b>5.26%</b>	<b>9 of 65</b>	<b>\$432m</b>

## Bank A Revenue (USD)



Source: RGPS Equities Commission Product

- Bank A's share of market wallet is declining
- But Bank A has \$432 million revenue opportunity if its attracts more profitable clients

# Integrated Data is a Guide to Management Action

## Management actions

- Stop spending in the wrong areas and start spending in the right areas
- Use the savings to obtain happier staff and more profitable customers

## Using the customer satisfaction scores

- Establish the drivers of client satisfaction and dissatisfaction
- Detect service issues and new business opportunities

## Using the general ledger data

- Spend to perform, not under-perform
- Identify sources and causes of revenue, profit and cost

## Using the HR data

- Check your compensation is competitive, not excessive
- Deploy the right number of the right people in the right roles

## Using the employee engagement data

- Identify sources and causes of employee engagement and disengagement
- Take informed decisions on pay, training, location and management of staff

## Using the custody fee survey data

- Use the benchmarks to negotiate or renegotiate fee levels
- Reconcile your invoices, and benchmark them

## Using the market and wallet share studies

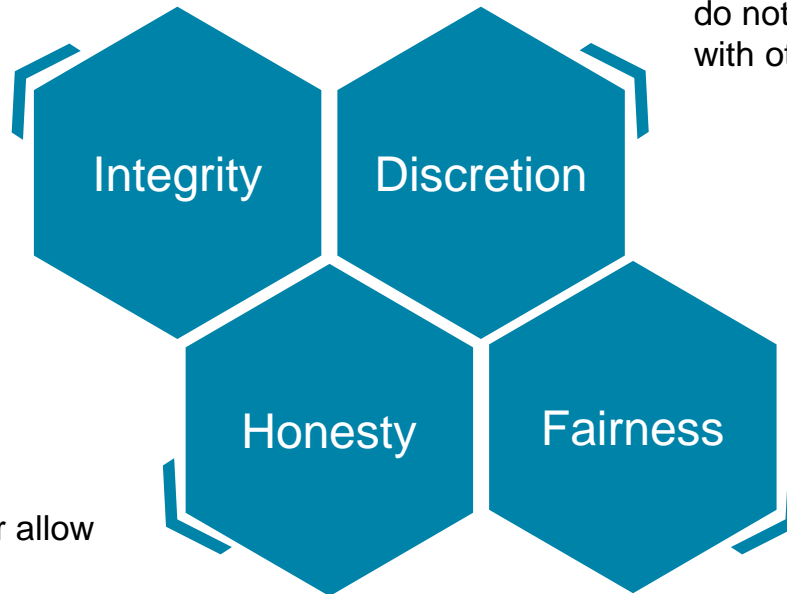
- Recruit more profitable clients
- Use your volumes to cut your direct custody and clearing costs



# Why Your Data is Safe With Us

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Our clients trust us with highly confidential information because they know that we operate within the highest ethical and professional standards and adhere to a strict code of confidentiality.



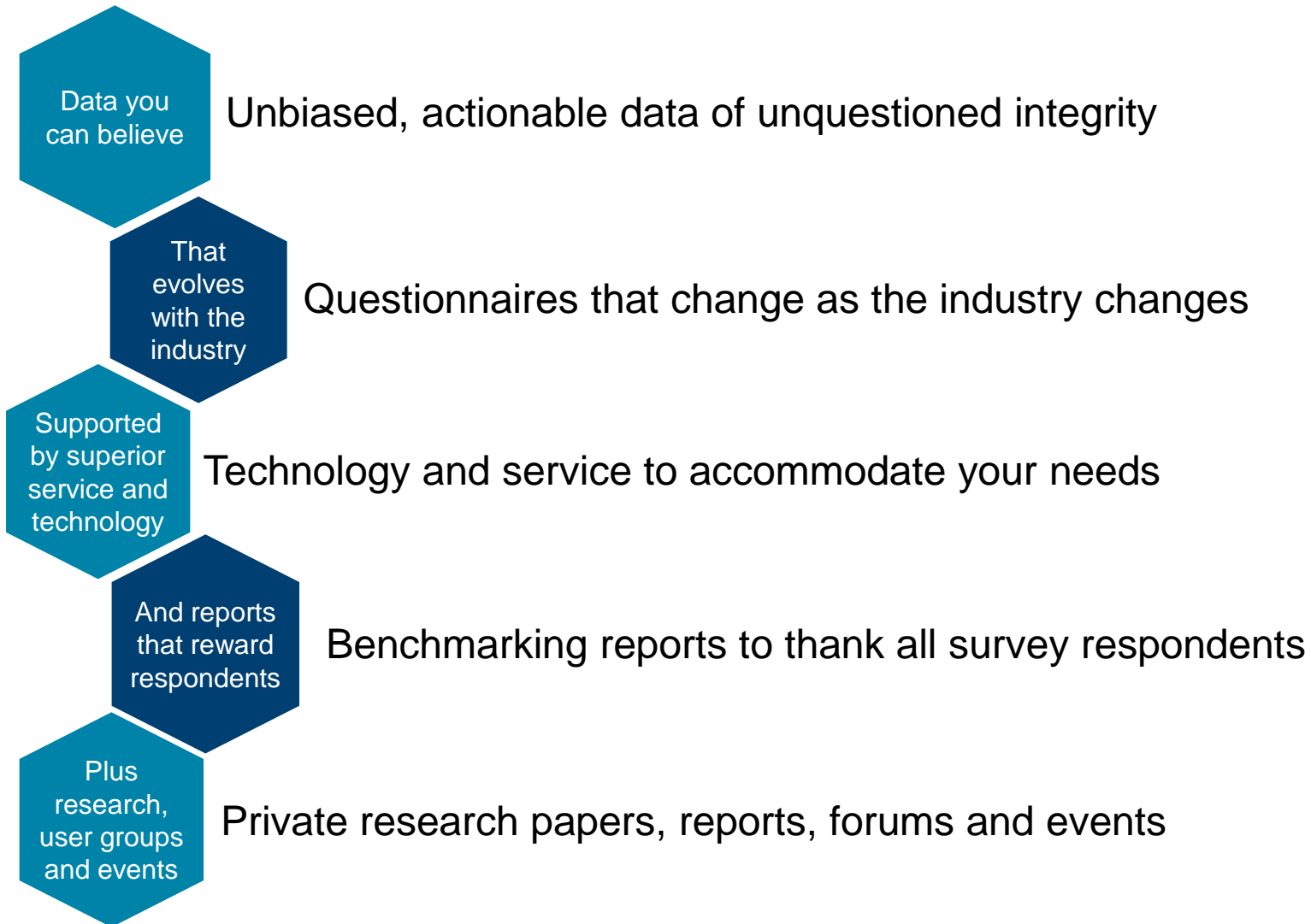
We maintain client confidentiality and do not discuss client engagements with other organizations.

We do not misrepresent facts, or allow our independent judgment to be compromised. We will never adjust our findings in exchange for material or other rewards.

We compete fairly for business in the marketplace.

# The Case for Participating in our Customer Satisfaction Surveys

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## Why Work With Us?

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**But these are opinions,  
not facts.**

**McLagan Investment  
Services** provides the  
objective **facts** and  
relative **measurements**  
that give clear **insights**.

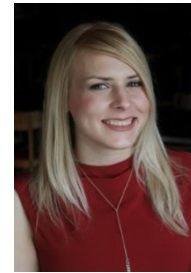
# Our Team



**Dominic Hobson** is Co-Lead of Aon McLagan Investment Services. He was one of the founders of Asset International, a publishing and events business whose titles include *Global Custodian*, where he was for many years editor-in-chief. After Asset International was sold in 2009, Mr Hobson founded COO Connect, a peer group network for fund managers, now also sold. As an independent consultant, he has delivered a variety of projects on behalf of custodian banks and financial market infrastructures, and consulted to Instant Actions, a corporate actions verification service. Dominic has written for *Financial News*, contributed occasionally to the BBC on financial markets issues, and has three works of non-fiction to his name. He was amanuensis to Nigel Lawson, former Chancellor of the Exchequer, in the preparation of his memoirs. Mr Hobson was born in Southern Rhodesia in 1958, and educated there and at Magdalene College, Cambridge. He spent four years in investment banking before electing in 1988 to work for himself. Mr Hobson is also co-founder of the Future of Finance conference held at the Saïd Business School in Oxford, a member of the Innovate Finance Policy Advisory Board, and served on the Government Office of Science group of experts on distributed ledger technology.



**Keith Amos** is an Associate Partner in McLagan's London office and Co-Lead of McLagan Investment Services. Mr Amos has worked at McLagan since 2004 and heads up the financial benchmarking capabilities for Investment Services. In his time at McLagan he has worked within the Performance business (and part of TRP), having previously worked on the financial benchmarking product for Investment Banks covering the capital markets business. He relocated to New York where he spent four years in a number of different client-facing and relationship management roles. Prior to joining McLagan Mr Amos worked for a number of investment banks in mainly operational roles including time with Standard Chartered Bank, Deutsche Bank, Lehman Brothers and Salomon Brothers (at Lehman and Salomon he worked on the trading desk with a specific focus on Emerging Markets). After leaving Salomon in 1999 he joined MIB Partners, a financial benchmarking Start-Up which was subsequently purchased by McLagan Partners, an Aon Company, in 2004.



**Allison Cayse** is a Manager within Aon McLagan Investment Services, which she joined this year. Ms Cayse has more than 12 years' experience of the investment services industry, having joined *Global Custodian*, a trade magazine dedicated to the industry, as its surveys editor in 2004. In that role, she was responsible for the day-to-day management of more than a dozen surveys of various aspects of the investment services industry, including global custody, direct custody and clearing in major and emerging markets, central securities depositories (CSDs), hedge, mutual and private equity fund administration, securities lending and financing, and prime brokerage. In addition, Ms Cayse headed up relationship management and client services for the surveys group, and managed the technical team which scripted surveys, analysed the results and prepared research reports for clients. Ms Cayse also contributed regularly to the editorial content of the magazine, and helped to conceive, develop and manage its annual survey awards events in Hong Kong, London and New York. She is a graduate of the Scripps School of Journalism at Ohio University, where she majored in journalism, and minored in Economics and German. She also earned a master's degree in European Cultures at Birkbeck College, University of London.



**Sophie Chapman Daws** is a Manager in McLagan's London office and works with Mr Amos as part of the Performance business and the McLagan Investment Services team. In her role within the McLagan Investment Services Ms Chapman-Daws supports all our benchmarking efforts and capabilities from an execution perspective with additional responsibility for managing and developing the reporting and analyses we deliver to our clients. Additionally she is currently working with our partners within the Compensation team on a new initiative to develop an analyses that is able to join together the financial performance benchmarks with the detailed pay data to create a performance and reward solution to our clients. She joined McLagan in December 2013 having previously worked for Benchmarkers where she was responsible for the running of the Insurance benchmarks. Sophie graduated from LSE with a background in Mathematics and Economics.

# Contact Us

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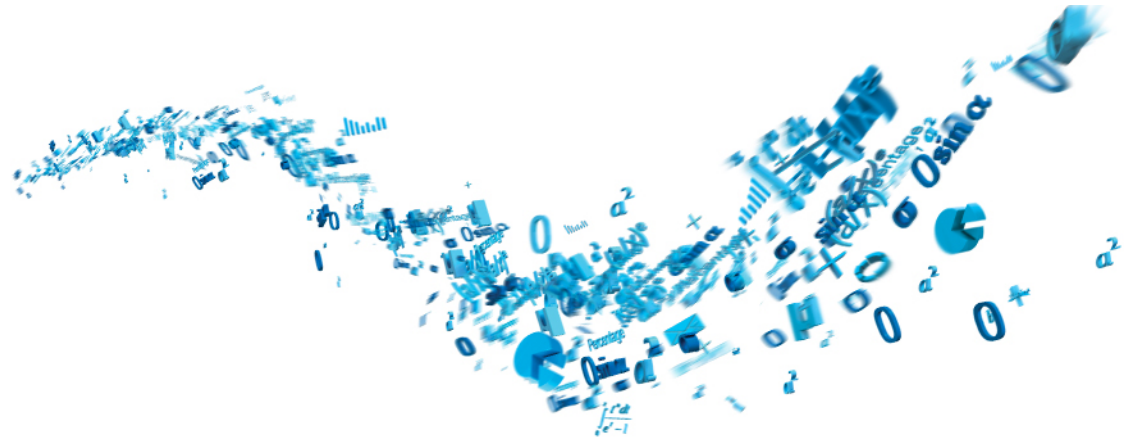
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**We're here to empower results**

## About McLagan

McLagan provides tailored talent, rewards, and performance expertise to financial services firms across the globe. Since 1966, we have partnered with the largest and smallest financial services firms to help them make data-driven decisions to hire, retain, and engage the top talent for keeping the global economy running. Our compensation surveys are the most comprehensive, in-depth source of rewards data covering over 150 countries from more than 2,500 clients. Our consultants work with hundreds of firms annually to design total rewards programs and benchmark financial performance for boards of directors, executives, employees, and sales professionals.

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