Board & CEO Succession Trends Across the Financial Services Mutual Sector

NORMAN BROADBENT

BOARD • SEARCH • INTERIM • CONSULTING • SOLUTIONS

www.normanbroadbent.com

CEO Turnover

Norman Broadbent is a leading name in UK board search. We advise blue-chip clients, across all sectors, with the full range of executive, non-executive and interim management roles. Consequently, we are well-positioned to observe trends within the markets we serve and, for the last eight years, have published an annual 'Board & CEO Succession Trends' report that focuses on the UK consumer financial services sector. Over the last couple of years, Norman Broadbent has conducted an increasing number of searches – both executive and non-executive – across the building society sector and for insurance mutual clients. As a result, this year, we have decided to publish a mutual-specific version of the report.

In 2016, four (of the 15) building societies with net assets of more than £1 billion – i.e. Nationwide, Yorkshire, Principality & Monmouthshire – replaced, or announced the replacement of, their CEOs. The 26.7% rate of turnover across the larger societies in 2016 is appreciably higher than the turnover rates in preceding years – i.e. 20%*, 13.3% and 0% in 2015, 2014 and 2013 respectively.

In October last year, Yorkshire Building Society announced it was promoting Mike Regnier, the society's Chief Customer Officer, to become its new CEO. He sees the increasing rate of CEO churn as simply part of the post-financial crisis cycle. "A high proportion of CEOs stepped-down in the two years after the crisis. The CEOs who replaced them set out clear strategies and, for many of them, the mission became complete in 2015 and 2016. The fact that the leadership profile of the most recent CEO generation is similar to that of the people they succeeded suggests that the reason for recent increase in CEO churn is no more profound than that".

Last year's rate of CEO turnover across the larger societies was also higher than the 20.7% rate across the other 29 societies over the same period – where Furness, Hanley Economic, Harpenden, Ipswich, Manchester and Teachers changed their CEOs. The turnover rates in preceding years for this community was 3.4%, 6.9% and 10.3% for 2015, 2014 and 2013 respectively.

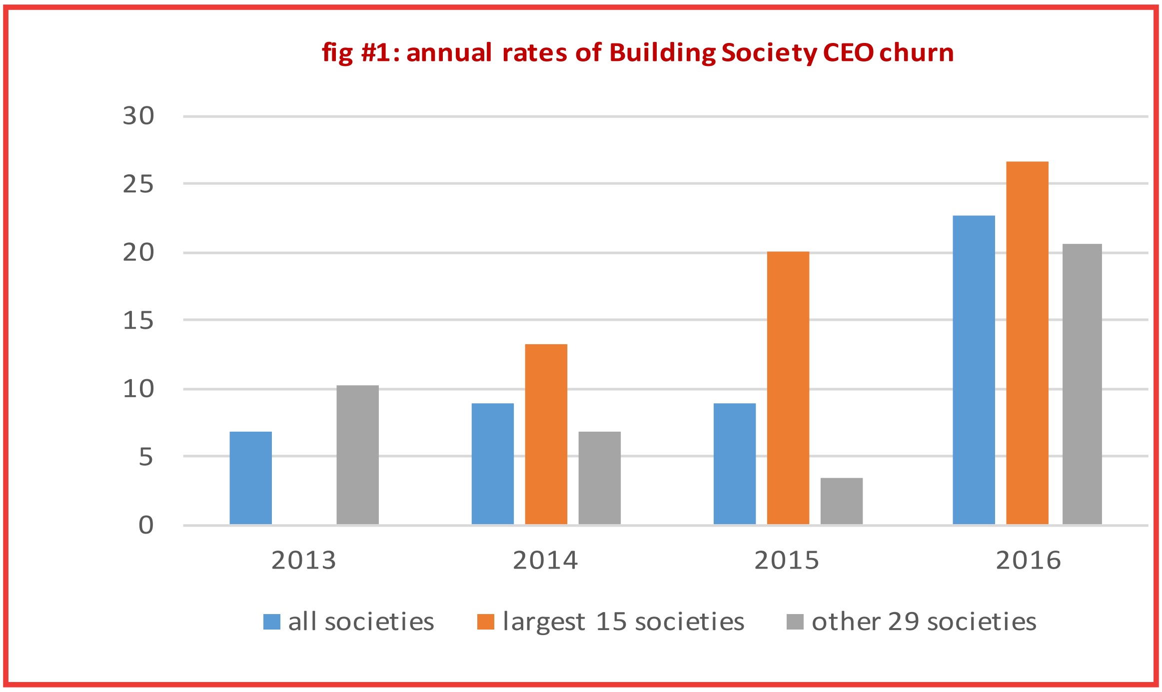
Peter Hill became CEO of Leeds Building Society, the fifth largest in the UK, in August 2011. As explanation for the increasing rate of CEO turnover, he remarks, "Up to the early/mid-noughties, building societies tended to appoint CEOs with plenty of career road ahead of them – as a result, tenure of more than 10 years was not unusual. In the post-crisis world, the drive for stronger governance has led to constant Board refurbishment and, due to heightened regulation, the modern Board is less tolerant of extended tenure. Members of the new generation, which has replaced these long-serving CEOs, do not expect to remain at the helm for as long as their predecessors".

It is interesting to note that half of the 24 insurance mutuals surveyed appointed their current executive leader before 2010. Across the larger insurance mutuals**, there was no CEO change activity in the 2013 to 2015 period but, in 2016, LV= promoted Richard Rowney (who had, previously, been running its Life business) to the top job.

* in 2015, in May and November respectively, Nationwide announced that Graham Beale was stepping-down and that Joe Garner had been identified as his replacement.

** with more than £5bn in assets under management – i.e. Royal London, NFU Mutual, LV=, OneFamily and Wesleyan.

CEO Turnover



He says, "I was delighted to take over the reins as Group Chief Executive of LV= in July, following Mike Rogers' successful 10-year tenure. During that time, Mike and his executive team turned LV= into one of the UK's leading financial services brands based upon great employee engagement and delivering industry leading customer service. However, the world continues to change at an ever increasing pace and these attributes alone will not be enough for us to continue to be successful over the next chapter in our long history. The next generation CEOs will need to create a culture within their organisations where they combine the best of digital and customer propositions that will most likely challenge their existing business models. Whilst being a mutual doesn't guarantee success in this area, it does help to have a longer term perspective. Most importantly, our members encourage us to be brave in challenging both ourselves and the industry we operate in."

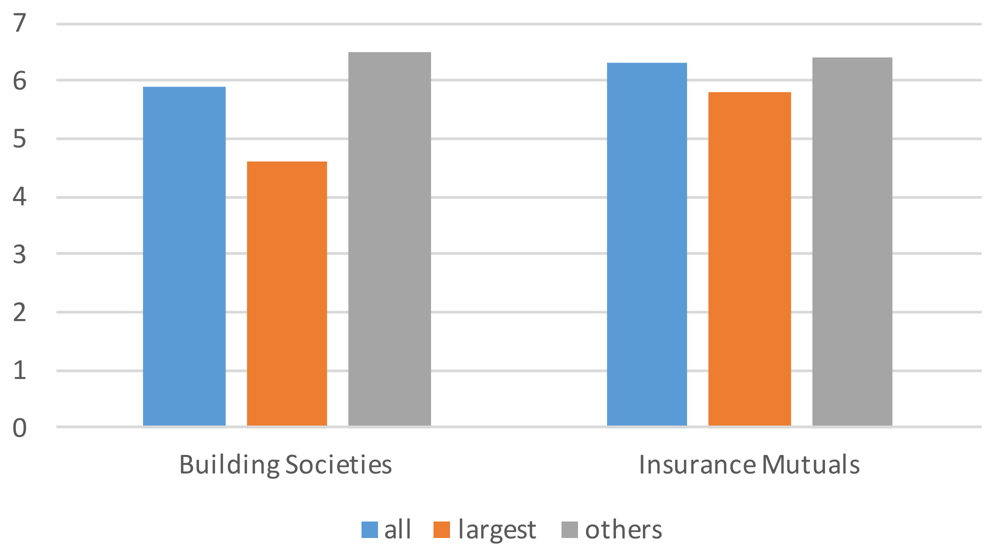
Due to a change of approach, the Association of Financial Mutuals (AFM) no longer counts the largest mutual insurers as members, and Martin Shaw, the AFM's CEO, highlights that there has been a recent acceleration of CEO turnover across AFM members. He says "Of our 38 members (at the end of 2016), 11 had changed CEO in the last 14 months or had announced that a new CEO was joining during Q1 2017. Of the CEOs who stood down, some retired after lengthy tenure, and new regulatory challenges might have accelerated the trend. While five of the 11 firms had developed a sound succession plan, the AFM is providing additional support in this area by launching a new programme for CEOs-of-the-future".

CEO Tenure

At the beginning of 2016, in our annual CEO succession trends report (which analyses the whole of UK financial services), we highlighted that average CEO tenure at mutuals was 5.4 years – an increase of 17.4% over the previous year. It is interesting to note that CEO tenure at member-owned businesses was, on average, 29% longer than at non-mutual financial services firms – where across retail banking, personal lines general insurance and life & pensions segments*, average CEO tenure stood at 3.5 years, 3.6 years and 3.6 years respectively.

Today, there is no doubt that the pressures facing building society CEOs are similar to those that exist within PLCs, especially since the introduction of the Senior Managers' Regime (SMR). Nevertheless, the consensus is that average CEO tenure within the building society sector should be persistently higher than across the societies' quoted competitors. Peter Hill explains, "The essence of the mutual model is that customers and owners are one-and-the-same. The absence of a 'value creation gap' between customers and shareholders means building society CEOs are able to think and behave in a longer-term fashion, whereas CEO tenure within PLCs seems tied to a planning horizon of about three years".

fig 2: average CEO tenure (in years)



* in our survey, retail banking included traditional High Street players and listed 'challengers', and the insurance segments included PLCs, PE-owned businesses and the UK businesses of international groups

CEO Tenure

Mike Regnier agrees, “The mutual model affords the luxury of taking a longer-term strategic view. Unlike in the broader world, where multiple so-called challengers have launched, there has been little recent corporate activity in our sector. Along with not being in that relentless cycle of chasing quarterly earnings targets, the absence of new entrants has allowed CEO tenure within building societies to increase”.

Today, despite the fact that CEO tenure at large mutuals fell from 6.7 years, we can report a further 11% increase in average CEO tenure to 6.0 years. There are a few Chief Executives – notably WPA’s Julian Stainton, who commenced in 1988, Cirencester Friendly’s Paul Hudson (1997) and Ecology’s Paul Ellis (1995) – with exceptional tenure and this, of course, skews the statistics somewhat.

Christina McComb, Chairman of OneFamily, formed in 2015 by the merger of Family Investments and Engage Mutual, says “One of the challenges for the Boards of all long-term insurance businesses, whether mutual or not, is how to set meaningful short- and medium-term performance targets. You might know quickly if a CEO is failing but, if they are doing just enough or if they are doing well, there is little incentive to make a change. On top of that, due to mutuals’ ownership model, there is less myopia regarding quarterly performance, with CEOs and Boards being more focused on the development of longer-term strategies”.

Previous Role

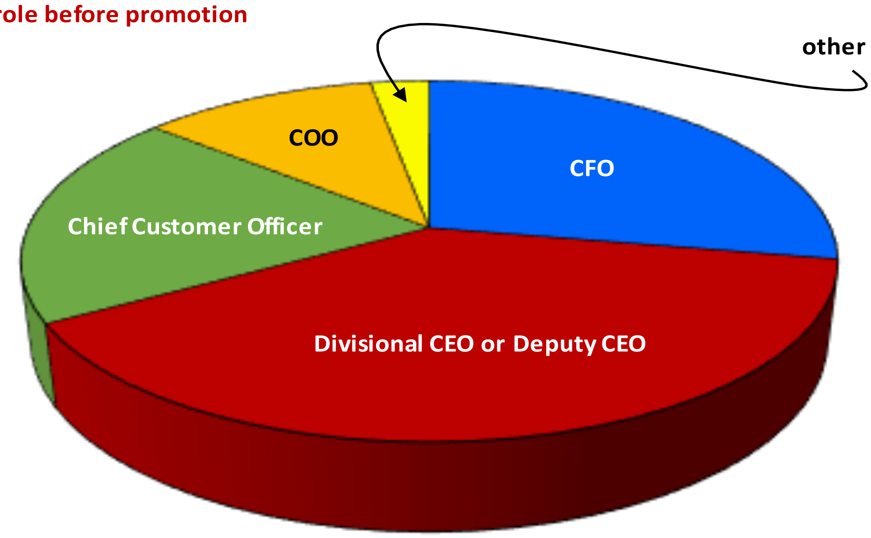
Overall, a slim majority of CEOs gained internal promotion to their current role – 55% at building societies and 54% at insurance mutuals. Having said this, we note that three of the largest five insurance mutuals appointed their CEOs from the external market – namely, Phil Loney (Royal London), Lindsay Sinclair (NFU Mutual) and Simon Markey (OneFamily).

For larger mutuals, proven P&L/business leadership experience at scale seems pre-requisite when making a CEO appointment and, clearly, the external market has the ability to offer a wide choice of suitably experienced and talented executives. Amongst smaller mutuals, while P&L leadership has been strongly preferred, there are exceptions – for example, in 2009, Loughborough hired Gary Brebner from KPMG, where he had been a senior manager in the firm's financial services advisory practice.

All current CEOs recruited externally by the 'top 15' building societies* had gained previous, relevant business leadership experience. It is interesting to note that, with the exception of James Bawa's appointment by Monmouthshire (from Teachers), all permanent Chief Executives hired by building societies over the last four years gained their prior experience outside the building society sector.

We also examined the roles in which CEOs who earned internal promotion performed immediately before that promotion. Nearly two-thirds had worked in roles with either P&L management accountability (such as Divisional CEO or Deputy CEO) where they held full leadership responsibility for a part of the business or, alternatively, had been a Chief Customer Officer (or in another commercial management-focused role).

fig 3: role before promotion



In the highly regulated world of financial services, there is increasing pressure on Boards to conduct comprehensive market searches when replacing CEOs. While a CFO might be included in the shortlist, they will be competing against multiple candidates with impressive business leadership credentials. Under these circumstances, the risks associated with promoting someone without previous P&L management experience may appear too great. Nevertheless, 27.7% of the CEOs promoted to their current role were working immediately prior as CFO.

* namely Joe Garner (Nationwide), Mark Parsons (Coventry), Mark Bogard (National Counties) and James Bawa (Monmouthshire)

Chairman Tenure

Norman Broadbent's research shows that building societies tend to promote existing Non-Executive Directors (NEDs) to the Chairman role. Only nine current building society Chairmen (18%) were appointed directly to their current role, and six of these lead the Boards of 'top 15' societies*. However, it is interesting to note that the Chairmen of the UK's two largest building societies – David Roberts (Nationwide) and John Heaps (Yorkshire) – became Chairman Elect upon their initial appointment. In addition, there are at least four other individuals whose promotion to Chairman occurred so swiftly after joining their Boards as to indicate tacit intent in the first instance – these include Joanne Hindle, who was announced as joining Holmesdale's Board in May this year, and stepped-up to become Chairman in July.

More than two-fifths (40.9%) of building societies appointed a new Chairman within last two years, and an identical percentage of new building society Chairmen were appointed during 2013 and 2014. This means that only eight building society Chairmen started their current role more than four years ago. We believe that a major reason for the high levels of recent Chairman change is that building societies are smaller and less complex than the big banks and, therefore, the increasing regulatory burden has fallen upon them disproportionally.

After ending a successful executive career with Yorkshire Building Society in 2013, Rachel Court became an NED at Leek United, the 16th-largest building society, and became Chair of the society's Board in April last year. She explains the high levels of recent Chairman change as follows "Since the financial crisis, there has been more regulatory scrutiny on governance across all of financial services. We have seen an ongoing 'professionalisation' of building society Boards over the last few years – in particular, the need to upskill on risk management, capital and liquidity management etc. – which has driven the requirement for NEDs to have previous financial services experience".

Joanne Hindle, who is also Chairman of Cheadle-based Shepherds Friendly, agrees, "Regulators have been agitating for change and, with increased accountabilities under SMR, building society Boards must consider whether they have appropriate composition. For a regional building society, NEDs with financial services expertise might be preferred to business people who live and work within the society's heartlands. This applies equally for Chairmen".

A similarly low proportion of insurance mutuals (16.7%) appointed their current Chairmen directly from the external market. These include Scottish Friendly (Michael Walker in 2009) and Reliance Mutual (Seamus Creedon in 2008) though there have been no such appointments over the past four years. However, as in the building society sector, we have also observed a couple of Chairman Elect appointments – for example, Rupert Pennant-Rea at Royal London and Edward Creasey at Ecclesiastical.

Krystyna Nowak leads Norman Broadbent's pan-sector Board practice, which advises a wide range of businesses on Chairman and NED appointments – including in financial services, and for mutuals. She says, "Of all the markets in which we work, life insurance is the most complex regarding candidate conflict. Being a highly technical sector means Boards (and, indeed regulators) prefer most NEDs to have in-depth life insurance expertise. If someone has spent their career in life insurance, their first NED role is likely to be in their 'sweet spot' – i.e. life insurance. As a result, this person becomes conflicted from taking on another NED role with a life insurer. From a search perspective, we look mainly to catch those who are either just stepping down from an executive role or from their current life insurance NED role."

* namely Mike Ellis (Skipton), Mark Nicholls (West Bromwich), Phil Moorhouse (Newcastle), John Trethowan (Progressive), Geoffrey Dunn (Saffron) and Haydn Warman (Monmouthshire).

Chairman Tenure

Therefore, it is not surprising that life insurers – including mutuals both large and small – have become accustomed to promoting to Chairman from the ranks of existing NEDs. Just over one-fifth (20.8%) of insurance mutuals appointed a new Chairman in 2015 and 2016, and one-third did so in the two preceding years. As a result, current average Chairman tenure at insurance mutuals (3.9 years) is significantly greater than that at building societies (2.6 years).

In both segments, the larger firms evidence longer than average Chairman tenure – 4.1 years and 3.3 years across the five largest insurance mutuals and top 15 building societies respectively.

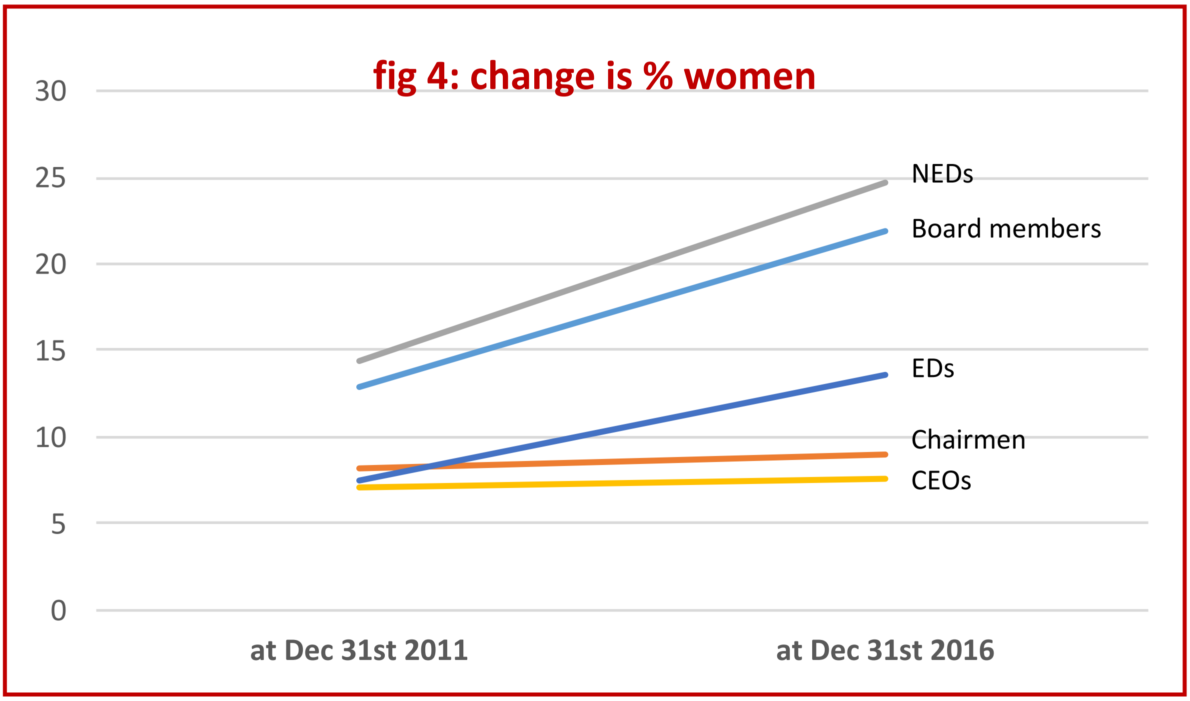
Diversity

Five years ago, one quarter of all financial mutuals in the UK had no women on their Boards at all. Now, all building societies have at least one female Board member* and the proportion of mutual Boards with no female representation has fallen to just 6%. Nevertheless, the debate continues around Board composition and boardroom diversity, especially concerning gender and, increasing, ethnicity.

The Chief Executive of the Building Societies Association, Robin Fieth, says, "Changing expectations of building society and mutual boards since the financial crisis has seen some distinct shifts, both in tenures more akin to public companies, and with a much greater focus on relevant financial services expertise. As these have become embedded, we are now seeing a welcome focus on greater diversity in the widest sense, taking gender, ethnicity and wider business expertise properly into account."

As a leading provider of both executive and non-executive search services to the mutual sector, Norman Broadbent has been, and remains, at the centre of the successful effort to increase diversity on Boards and has derived a 36% female NED placement rate over the last three years.

At the end of 2011, fewer than 13% of mutual Board members were women – this has increased significantly to 21.9%. This is still not at the target for gender balance set by the Davies Review, which has updated the target for FTSE350 Boards to 33% female representation by 2020, but is progress nevertheless. Across the entire mutual sector, the proportion of female NEDs has also increased profoundly – to 24.7%, from just 14.4% five years ago. In this regard, the larger building societies are leading the diversity charge, with 27% of their NEDs being female.



* though 36% of all societies, including four of the 'top 15', have only the one.

Diversity

Over the last five years, the proportion of mutuals with female Chairmen has increased marginally to 9%* – from 8.2%. Interestingly, the Boards that are led by women are marginally less gender diverse than average, with 19.6% female representation.

Joanne Hindle, one of just four female building society Chairs, says “I think women are different from men when reviewing a recruitment proposition… a woman with 90% of the skills required is unlikely to put up her hand, but a man with 60% may think he is a shoo-in. It is the same in the non-executive world… some women, even with impressive executive achievements, might not see themselves as prospective candidates, as they lack previous NED experience. While still an executive, I chaired my industry body [ILAG] and a charity, so I never doubted my ability to be an independent NED or build a plural portfolio. If you want an NED career, plan for it!”

Rachel Court says, “We have made good progress regarding gender diversity on Boards, but that progress has been relatively recent. As a result, diverse pools of talented NEDs with the ability to step-up to Chairman are forming as we speak. As long as we provide strong role models to the current crop of female NEDs, and they remain ambitious about their plural careers, there is cause for optimism about the future”.

Today, if all current AFM members are included, 7.6% of mutual CEOs are women – a slight rise from 7.1% at the end of 2011. There are only two female building society CEOs, just 4.5% of the total – i.e. Darina Armstrong and Susan Whiting, at Progressive and Stafford Railway respectively.

At the end of 2011, only 7.5% of all Executive Directors were women – this has improved markedly to 13.6%. Nevertheless, as previous experience of serving on a board is often pre-requisite for non-executive appointments, there is a long way to go before many mutuals can claim that their board composition reflects accurately their customer base with respect to gender diversity.

Having said that, Christina McComb, the only female Chairman of a large insurance mutual, and has a very positive view. “Progress made with diverse NED appointments shows that, if you shine a light on an issue, things can change for the better. Now, the focus has moved from Board diversity toward executive diversity. OneFamily is in a good place… four out of eight members of our executive leadership team are diverse, with three of these appointments in the twelve months”.

In 2017 so far, the AFM has attracted 10 new members – mainly not-for-profit, health plan-focused businesses – two of which have female CEOs. This means that 10.4% of its members have female CEOs – more than twice the percentage of insurance mutual who are not AFM members. However, the story is less progressive for smaller insurance mutuals when reviewing the whole Board composition. 12.3% of Executive Directors and 16.9% of NEDs at AFM member firms are women – compared with 13.6% and 24.7% across all mutuals.

*specifically, Rachel Court (Leek United), Sara Evans (Ipswich), Anna East (Dudley), Joanne Hindle (Holmesdale), Christina McComb (OneFamily) and Julie Spence (Police Mutual)

Diversity

AFM's Shaw says, "Some of our members seem more concerned with equal opportunities across the piece than Board diversity in particular. Whether or not they are dedicated to looking after the financial interests of male-dominated affinities (and, therefore, member NEDs have traditionally been male), they should consider improving Board diversity when hiring new independent NEDs. For some, that might lead to making the tough decision to partner with a professional search firm whose fees might exceed the NED tariff".

A further review, led by Sir John Parker, launched its independent report on ethnic diversity, Beyond One by '21, last November. The report highlighted that, while 14% of the country's population identify themselves as black or minority ethnic, only 1.5% of directors serving on FTSE100 Board are UK citizens from a minority background. Managing Director of Norman Broadbent's Board practice, Krystyna Nowak, says, "To reflect their customer and/or employee bases, many businesses need to increase the ethnic diversity of their Boards. There are ethnically diverse prospective NEDs who are very high calibre and could add real value. However, even the most progressive Board cannot be too prescriptive regarding any ancillary requirements and, maybe, should even be prepared to pull up a new seat to the boardroom table."

We do not support quotas for diversity on boards, but are in favour of progressive targets. Norman Broadbent is one of a small number of search firms accredited to the Enhanced Code of Conduct, which requires a more exacting standard of best practice on gender equal selection. To address inequality effectively, we believe that positive discrimination during the candidate identification phase of a search process is helpful. Most Chairmen and Boards feel that there should be no positive discrimination in the final decision, and Norman Broadbent agrees.

Chris Radford, Chairman with the income protection specialist, British Friendly, recruited two female Non-Executive Directors last year. He says "In my view, a diverse Board comprises people who think about similar issues in different ways – it is not simply about gender, ethnicity etc. My personal motto is 'whatever you do, make sure you do the right thing', and it would be wrong to use gender to offset deficiencies in experience or behaviour".

It is fair to say that one of the unintended consequences of SMR/SIMR, which came into effect last March, has been to make serving on the Board of any financial services firm less attractive to people with experience gained outside financial services. Due to SMR/SIMR, 'searching more broadly' may yield sparser results. In Norman Broadbent's view, this does not represent an excuse for adopting a narrower focus during the research phase of a project – however, it is one of our brand promises to be realistic when setting clients' expectations.

Conclusions

In today's highly regulated world, it is pre-requisite for mutual CEOs to demonstrate extraordinary levels of energy and resilience. As a result, the higher rate of CEO churn, and more moderate tenure, we have seen over the past few years is here to stay. Having said this, with nine of the largest 15 building societies appointing a new top executive over the last three years, 2017 is likely to see a reduced rate of CEO change in this segment of market.

CEOs at small and medium-sized mutuals – whether building societies or insurance-focused – might not have the opportunity to create the life-changing wealth that would be possible, for example, with a PE-backed start-up. With financial rewards not being the primary motivator, has serving as a CEO at a smaller mutual become vocational?

Going forward, Boards should assess diligently the personal characteristics required of talented leaders and, therefore, optimise the prospects of appointing the right CEOs or CEOs-of-the-future. Right now, candidates for far-sighted CEO succession projects are likely to be Millennials – a generation motivated more by social consciousness, work/life balance and immediate feedback than were its predecessors. What impact might this generational change have on both identifying and attracting CEOs and prospective CEOs?

Ian Pickering, Chairman of the UK's third-largest building society, Coventry, which appointed Mark Parsons as CEO in 2014 says, "It takes as long as it takes to find the right person. We needed someone with more than just a deep understanding of the mortgage and savings markets, knowledge of the regulatory landscape and the ability to lead a society with £37bn in assets. We wanted breadth too, as well as someone with the visionary leadership to continue the Coventry's growth. During our extensive assessment process, we focused on testing all candidates' commitment to the mutual model, our mission of putting Members First and the values that help Coventry stand out. Afterwards, I made it my business to meet Mark regularly during his notice period, and feel that we had established a strong Chairman/CEO rapport by the time he started".

Norman Broadbent has observed a trend which sees CEOs (and other Executive Directors) seeking to take-on one (clearly non-conflicting) NED role while they remain within the executive phase of their career – on the assumption that serving as an NED increases breadth of perspective and, therefore, improves performance in the 'day job'.

Wallace Dobbin, one of the founders of Intrinsic (now the UK's largest distributor of financial advice), joined the Board of The Exeter in 2008 and, subsequently, stepped-up to become Chairman in 2013. Like Hindle earlier in this report, Dobbin advises CEOs to take-on a non-executive role during their executive career. "Being an NED stretches and expands you out of your comfort zone and has definitely made me a more well-rounded and effective executive. Finding ways to juggle the time commitment is not always easy, but I have now gained eight years' NED experience and I know how invaluable that will prove as I seek to build a portfolio career. Of course it's not been a one-way street, I wouldn't have been able to the contribution I have to The Exeter without my knowledge and experience of thirty years at the day job".

Of course, good governance is of perpetual high importance, but so is constant innovation and not resting on one's laurels with respect to customer experience. Christina McComb cautions, "Despite the long-term characteristics of insurance, the competitive and regulatory environment is changing. Mutuals that do not modernise can expect to receive greater pressure from customers and regulators to change".

Norman Broadbent agrees, and sees particular challenges for smaller organisations – insurance mutuals and building societies alike – that fail to adopt the outlook and behaviours of the 'modern mutual'. Smaller organisations might become weighed-down by the disproportionate cost of regulation, together with the cost of maintaining up-to-date technology in an age where customers increasingly prefer digital solutions. If this is the case, we can expect more consolidation across the entire mutual sector, and demutualisation in the insurance segment.

About The Authors

Conrad Hills

Conrad Hills is a Managing Director in Norman Broadbent's Financial Services practice and focuses on retail banking and insurance. During his career with Norman Broadbent Conrad has successfully managed mandates at CEO and Divisional Managing Director level.

Read more

Direct: +44 (0) 20 7355 6921
Mobile: +44 (0) 7974 943689
Switch: +44 (0) 20 7484 0000

conrad.hills@normanbroadbent.com

Having started his career in search in 1991 Conrad has considerable expertise within Financial Services at both a consulting and leadership level.

Krystyna Nowak

Krystyna Nowak leads Norman Broadbent's Board Practice, and has a wealth of Board search experience in listed and private companies across all sectors ranging from small and medium sized to FTSE 250 and FTSE 100 companies.

Read more

Direct: +44 (0) 20 7484 0115
Switch: +44 (0) 20 7484 0000

krystyna.nowak@normanbroadbent.com

Krystyna focuses on Board appointments across all sectors having spent 10 years as an executive search professional operating at board level (Chairman, NED and CEO).

Krystyna has considerable experience covering listed and private companies across all sectors ranging from small and medium sized businesses to FTSE 250 and FTSE 100 corporates.

@NormanBroadbent

www.normanbroadbent.com

info@normanbroadbent.com

www.linkedin.com/company/norman-broadbent

Norman Broadbent

12 St James's Square | London | SW1Y 4LB | Tel: +44 (0) 20 7484 0000