The European bank CEO: yesterday a hunter, today a farmer. A techie tomorrow?

Investors and analysts tend to place great emphasis on the person running a bank and what that person does. And rightly so. Unlike other credit sectors, banks deal primarily with commoditised products and services so steering the ship in a highly competitive market is a key factor of any CEO assessment rather than coming up with a killer product that will blow up the competition. Besides, as banks deal with other people's money, the impact of the bank CEO's hand on the tiller cannot be over-emphasised.

There has been significant movement among CEOs at a number of large European banks during the last 12 to 18 months, including ABN AMRO, AIB, BBVA, Credit Suisse, Danske Bank, DNB, Erste Bank, Nordea, RBS, Svenska Handelsbanken, and Swedbank. UBS announced a new CEO on 20 February; ING, HSBC and Monte dei Paschi di Siena will announce new CEOs in the near future while Barclays and Société Générale will likely also see new CEOs. The moves at the top will certainly continue and intensify through the early to mid-2020s.

In light of the prevailing comings and goings at the pinnacle, what exactly do investors and analysts expect to see in the ideal bank CEO? A path opener and glass breaker or a reassuring leader and a consensus builder? Dazing the market or reassuring the market? Or, ideally all the above and then some?

A bird's eye view of the last three decades – in the aftermath of the deregulation and privatisation of European banks after the post-war decades of strict bank regulation – illustrates the morphing of the CEO job and hints at further changes in the future.

Yesterday the hunter CEO…

Bank strategy during the 15 years between two massive financial crises – the one of the early 1990s and the Great Financial Crisis – was diversification *à outrance*, going as far as regulations allowed it and then pushing the envelope for further deregulation (in general with success). Diversification at large European banks at that time encompassed both new business activities – trading, investment banking, asset management, bancassurance, etc. – and new and geographies. Many of Europe's national powerhouses became global powerhouses.

Some of this aggressive growth and diversification occurred within the banks' comfort zone, but much of it spilled into excessive and badly understood risk – from reckless commercial real estate loans to toxic derivatives and arcane structured products – to blindly plunging into riskier investment banking through acquisitions and into untested geographies some of the expanding banks knew little about. On the positive side, this was also the period when some banks had built franchises in Latin America (BBVA, Santander), Central and Eastern Europe (UniCredit, SocGen, Erste, KBC), or the US (BNP Paribas) which subsequently, during the crisis, helped their revenue base.

Aggressive in-market and especially cross-border M&A was were a staple of those years; many deals ending up as successes but too many destroying

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value, which became a millstone during the subsequent crisis. This was the time of the hunter CEO. Staying in your backyard without expansionary ambitions was punished by the market, steady-as-she-goes was a loser's strategy. It was not a bonus winner for the bank CEOs of the time. And as a complement, most if not all bank CEOs at the time were men.

…And now the farmer CEO

During the crisis and early post-crisis years the strategies of European bank CEOs was simple: keep both feet safely on the compliance line, follow the regulators' new norms, de-risk, deleverage. And wait for the pendulum to swing back.

But there was no swing back. With the new prudential regulatory architecture in place, bank CEOs ended up realising that their world had changed for good. Not only the scary novelty of operating with low-for-long and negative rates but also with sluggish economic growth, reduced credit demand, changing customer behaviour, and especially the impact of the advancing digital ecosystem. On balance, the European banking industry operates with significant excess capacity and is struggling to generate acceptable revenues.

In this changed world, the hunter CEO with his or her risk-taking appetite is no longer welcome. Indeed, most European bank CEOs are now the farmer type, tilling the land and pruning the trees. Those CEOs who can successfully reduce costs, discontinue excessively risky or unprofitable activities, strengthen the balance sheet, keep the bank on the right side of supervision, and take care of their organisation's misconduct pitfalls (notably related to money laundering) are at a premium. In other words, not the CEO who chases and celebrates new risks or who pitches transformational cross-border M&A.

Today's successful bank CEOs increasingly recognise the challenges of their industry being transformed. Rather than taking over legacy banks, they opt for open digital platforms, for co-operation with existing fintechs or creating their own, making sure they are not disrupted by competitors or new entrants. As the European banking market is increasingly defined by a level playing field, where skills and competence are transferable across borders, some successful CEOs are moving countries as well as organisations[1].

However, even among the new-style CEOs the majority are still men. But less than in the past. There are currently at least seven women at the top of sizeable European banks, namely at Bank of Ireland, RBS, TSB Bank, DNB, Svenska Handelsbanken, Santander, and Bankinter.

Tomorrow: the techie CEO?

Tomorrow's bank CEO will have to be technology-savvy to a far larger extent than now. Open banking, the growing reliance on open digital platforms and channels, on artificial intelligence (and soon on quantum computing), on blockchain, and on cloud technologies will be a sine qua non. New cyber and digital disruption risks are becoming centrefold in banks, and their understanding can no longer be left just to the bank's technology experts.

It is eminently plausible to envision that some of tomorrow's more successful bank CEOs will be techies, not bankers. More precisely, not incorporating technology in a traditional bank's strategy, but adjusting the bank's business and operating model to state-of-the-art digital technology. To an extent, replicating on a large-bank mega-scale the operating model of a nascent fintech. In fact, this may be the only way banks will be able not only to survive but also to prosper and maintain a secure competitive position.

Aside from the digital challenges, banks are also increasingly being asked to include ESG factors in their strategies and business practices and adjust their culture accordingly. Misconduct issues like money laundering and financing terrorism are also at the epicentre of regulatory and market concerns about banks.

[1] Danske Bank's CEO came from ABN AMRO; ING's CEO is moving to UBS; and UniCredit's CEO was considered for HSBC (but declined the opportunity).

Tomorrow's bank CEO will be increasingly asked to take a longer-term view, looking beyond the next quarterly or half-year reporting cycle, and more to a longer-term ESG target area. Being risk-averse or avoiding eco-polluters or socially unattractive business borrowers will no longer be sufficient. The CEO will need to positively identify environmentally and socially responsible strategies and business practices and steer the bank in that direction, not as a nice-to-have but as the new end game. In this respect, tomorrow's bank CEO may end up being a green techie.

One thing will likely not change: like in the past, the CEO will remain the leader, key motivator, and chief culture officer in the bank. It is also very likely that there will be more gender diversification among tomorrow's European bank CEOs. And not a moment too soon.

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