Why I LEFT MY JOB AT A CUSTODIAN BANK

Custodian banks are losing talent to FinTechs, digital asset firms and more flexible start-up cultures at an alarming rate. **Jonathan Watkins** explores whether this should be a worry for the world's largest financial organisations and what they are doing to reverse the trend?

Somebody once told me "nobody wants to tell their grandma they work in a bank anymore" in what was quite a damning evaluation of the post-financial crisis financial services sector.

It's safe to say that granny's sweeping assessment of your career choice probably didn't take into account the modern-day motivational factors of creative autonomy, mental wellbeing and an institution's openness to flexibility though. No, she would more likely have been more conscious of you working for the 'big bad banks' she's heard about on the news.

For those familiar with custodians, their somewhat tamer reputation in comparison to their investment banking counterparts, allows them to escape from association with the majority of the mess of 2008.

Regardless, the reputation of global banks nose-dived following the financial crisis. But this isn't why talent is heading

for the exit doors in 2020. For different reasons, we are amid a mass exodus. In a reshuffle of Maslow's 1943 hierarchy of needs, new 21st century factors have become critical to an individual's happiness and contentment at work – such as the ability to really make a difference either internally or externally, the possibility of completely switching functions within an organisation and the ability to work remotely when needed. Four years ago, Global Custodian wrote about how these traits - often associated with millennials or Gen Z - were hindering the search for new tech and data talent out of universities, but now this has extended to the Gen X at the helm of business divisions. At the same time as these trends are evolving within custodians, opportunities are arising elsewhere.

This feature provides a collection of stories and views from those who have left custodian banks to join FinTechs, digital asset start-ups, or to go-it alone and why they believe others might have one foot out of the door. The aim is certainly not to deliver a damning indictment on the custody industry, but more to speak to some of those who have left these major organisations and highlight the cultural differences and opportunities which drew them away.

"There is a monstrously large number of people who are ready to leave the industry," says Barnaby Nelson, founder of the ValueExchange and Standard Chartered's former securities services lead for North Asia and Greater China. "I was transparent when I left Standard Chartered, I said it was the last banking job I was ever going to do.

"you're personally liable for the mistakes, with limited upside to doing your job well. So, people inevitably get to the moment where they are contemplating whether they want long-term security and the salary, or a better quality of life. And I don't think it's just the millennials that are looking at this."

"Someone can turn up and say 'we're not regulated why don't you come and change the world?'."

BARNABY NELSON, FOUNDER, THE VALUE EXCHANGE

Rise of the FinTechs

If we take a step back in time, the portrayed nose-to-the-grindstone banking sector has historically rewarded its employees with salary levels seldom found in other sectors. This would compensate for any hard or monotonous work, and fend off competition in the talent war with promises of an early retirement and a place in Florida. Alas, it's 2020, not 1920, and people are placing much more value on self-actualisation, mental health and whatever they deem to personally represent a work-life balance.

To stem the flow, banking professionals trading in their name passes at the world's largest banking organisations for WeWorks and start-up hubs across the world, custodians are having to explore what they can – and are able – to do outside of financial compensation to appease their staff.

"It used to be that you were making a deal with the devil, but it paid the bills, as banks paid better than anyone else," adds Nelson. "But that isn't the case anymore. Now, someone can turn up and say 'we're not regulated why don't you come and change the world? You can wear jeans and a t-shirt, and you can do it from home or a beach'."

The FinTech and digital asset boom has come at a tough time for the world's custody banking sector, for the post-financial crisis effects were amplified by a tidal wave of regulation and squeezed margins. While the talent drain was once confined to losing staff or prospective employees to the likes of Google, Apple or any other of Silicon Valley's finest, this has now extended to start-ups and nimble financial technology providers, blissfully free of restrictive legacies, burdensome regulation and hierarchical constraints.

"Many banks have analysed the potential of tech start-ups and tech incumbents moving into the financial services space and reality is here," explains Hu Liang, co-founder and CEO of Omniex, a front-to-back office solution for cryptocurrencies, and the former founder of State Street's Emerging Technologies Centre. "I think many people simply feel the large, more traditional firms are not as innovative and moving at a slower pace. This is true both by practice and by design. FinTech firms can innovate more and crypto firms have the opportunity to transform financial infrastructure and create a new asset class at the same time. That is exciting."

A digital asset future

Liang is an example of a techie who joined the world of banking before "returning to his roots" as he puts it. The cryptocurrency and digital asset world is a relatively new outage to the entrepreneurs and innovations from the traditional capital markets where an opportunity to create something to rival fiat currency occurred, but really required financial markets expertise to thrive.

"I always wanted to take what I learned in finance and apply it more directly in tech. I hope to make a bigger difference on the industry by having the independence to create and innovate. We need to also understand that it's not a us (FinTech start-ups) versus them (traditional finance) situation. More than anyone, I've spent most of my life between the two and have recognised the pros and cons of each side. Leaving the safety of established firms for new FinTech and crypto firms isn't for everyone."

Subsequently, custodian banks have not ignored digital assets and are dabbling in the conversation with an air of caution.

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The likes of BNY Mellon and State Street have given a number of the senior staff freedom to discuss and explore the concept, with both highlighting the potential of tokenisation in particular. When it comes to actually servicing or holding the assets though, their activity is tempered while regulations are still forming around the phenomenon. Therefore, many of those wanting to play a part in the story of cryptocurrency from the outset have sought employment elsewhere.

Alexandre Kech had worked in securities services for over 20 years before he created Onchain Custodian, a custody service for institutional clients and accredited investors to manage digital assets. He had worked at BNY Mellon for four years before joining SWIFT and spearheading the organisation's securities standards and markets operations for 17 years in Asia-Pacific.

"Once you have 'seen the light' - and securities service experts get it faster than many other experts - it is difficult to resist the envy to participate in the building of the future," he explains. "If, on top of that, your bank is not able to quickly and adequately assess the potential that you are yourself seeing, it is easy to understand why securities experts are tempted to contribute their very relevant experience to a start-up offering digital assets custody, derivative or OTC trading."

Custodian banks are up there with some of the world's most reputable employers and have spent decades being able to attract the best candidates due to the nature of the work, compensation and working in such a high-profile sector. None of this has really changed. But the ability to innovate and make a difference to an industry or organisation is now paramount to the professional desires of the upper echelon of world talent. If this is important to an individual, then working in an organisation among hundreds of thousands of others may be less appealing that tens of staff at a start-up. As Liang says, you're much more likely to make an impact in a new firm than in an age-old institution with constraints, hierarchy and long-standing legacy systems and procedures.

When you think of innovation within securities services, few projects standout, and those that do have taken years to come to fruition. Yes, there are more proof of concepts and projects in low-risk areas of the business but relative to the number of employees within these organisations, this is comparatively slow to the world of FinTechs.

> **"The main attraction is often the opportunity to disrupt the market with an impactful new business model."**
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> HUGH HUGHES, CHAIRMAN AND CEO, KOINE

A sense of frustration

Digitisation and blockchain overhauls are long and arduous projects within banks, which will appease some innovators at the top levels of custodian banks, but opportunities rarely filter down through the ranks. Meanwhile artificial intelligence, machine learning, robotic process automation and distributed ledger technology all hold major potential to transform the industry, though little of this innovation is coming from within incumbent organisations. Instead, the work is occurring at external FinTech companies who are then rolling the technologies out to custodian banks.

While securities services providers are not shy to admit they are partnering with these firms to implement their solutions, it does mean that any of their entrepreneurial or innovative employees may see their skills having a larger impact outside of their current place of work. Ironically, they may even end up selling these solutions back to their previous employers at some point. And without a doubt, FinTech and digital asset founders are keen to get their hands on these experienced executives who can combine their knowledge of the inner workings of the industry with the technological capabilities of those looking to disrupt the industry.

"Having discussed with peers who had made the same move, most of the time, the decision was taken out of frustration about the speed at which their incumbent employers were moving towards what they believe the future is," adds Kech.

"Sometimes, it is also linked to an opportunity popping up, a message from a head-hunter in your LinkedIn mailbox matching perfectly with a moment in your career and life, or a personal interest you have."

Securities services experts in demand

David Nable is a fund services expert with ample experience from some of the world's largest organisations – namely, Goldman Sachs, Credit Suisse and BNP Paribas. After over a decade of senior roles within the fund administration and prime brokerage teams of these major banks, he decided to trade in the big names for big potential, joining FinTech provider Arcesium in February 2016. Arcesium was only set up in 2014 but in their relatively short lifespan, they have cemented themselves on the FinTech radar, earning a large chunk of business from JP Morgan and then, consequently, an investment.

"Capital from banks and VCs are funding hundreds of firms in the FinTech space," says Nable. "These FinTechs, flush with capital from their Series N, round are hiring and banks, custodians and asset managers are great sources of talent with specific domain expertise."

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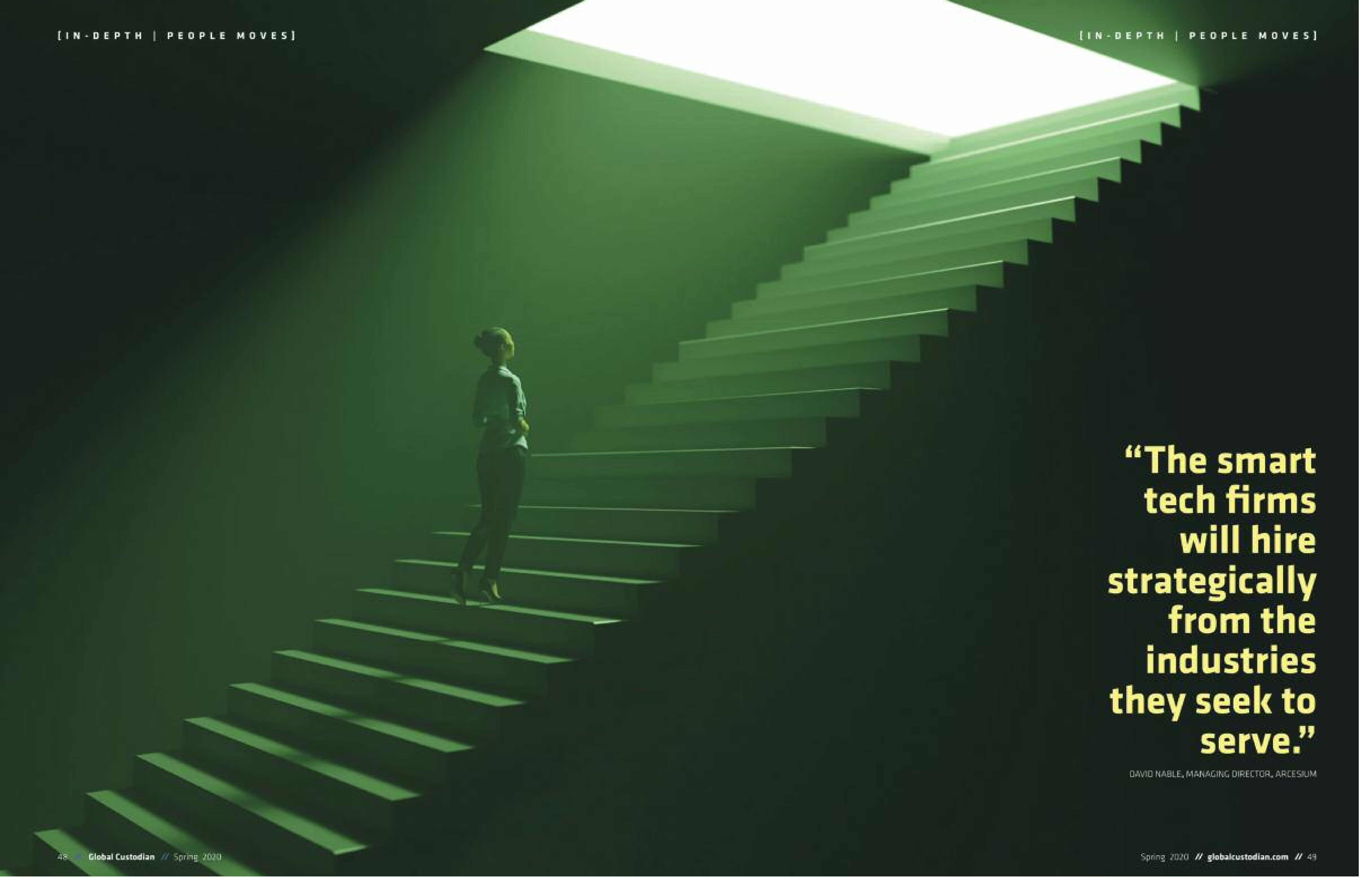

"The smart tech firms will hire strategically from the industries they seek to serve."

DAVID NABLE, MANAGING DIRECTOR, ARCESIUM

"You can't build a product in a vacuum; you need to be deeply familiar with the problems you are looking to solve. The smart tech firms will hire strategically from the industries they seek to serve. The conversation seems to be less about the disruption of traditional businesses by FinTechs and more about partnership and collaboration."

There are countless stories, from FinTech to cryptocurrencies, where the talent in the banking world is being sought after to bring expertise and experience to sectors looking to transform or disrupt the incumbents. With the funding Nable mentions above, suddenly the salaries are there along with opportunities to solve important and complex problems and bring new products to market.

"In terms of how the new crypto-asset class relates to the traditional world, I do feel those coming from traditional custody banks have an information and process advantage," adds Liang. "Custody banks themselves are not directly involved in the full lifecycle of asset management from front-to-back office. Custodians are generally considered deep in the back-office. However, custodian banks, and by extension their people, need to have a good understanding of the entire front-to-back office workflow in order to support the lifecycle of the trade. As such, they have a wealth of knowledge on how the financial world works. Coupled with the fact that custody banks are not traditionally known for being innovative, many capable people are leaving to pioneer in the next wave of financial transformation."

Much like Kech and Liang, Societe Generale's former securities services chief executive, Hugh Hughes, switched custody banking for digital assets when he joined Koine in 2018. As CEO and chairman of Koine he has assembled a team of experienced securities services professionals from the top tiers of custody banking to create a segregated, institutional custody and settlement platform for digital assets.

"Start-ups tend to attract and cultivate creativity, particularly in terms of technology," he explains. "However, at Koine, we also ensure that this is backed up by industry professionals who have worked at the bigger firms, to ensure we're aligned with their way of thinking. For those professionals, the main attraction is often the opportunity to disrupt the market with an impactful new business model.

"It is difficult to resist the envy to participate in the building of the future."

ALEXANDRE KECH, CEO AND CO-FOUNDER, ONCHAIN CUSTODIAN

"Many of the big industry players, such as BNY Mellon and State Street, are always going to attract talent - but this will often be motivated by pay rather than the opportunity for innovation."

Banks make their move

What we have learnt so far is that the opportunities and salaries are there for the taking at FinTechs and other kinds of start-ups that have a need for the kind of expertise that securities services professionals possess. In addition, they can offer work flexibility, the chance to make a transformative impact and the ability to wear jeans and t-shirts to the office. But while these are all potentially factors for people making the switch, you can't ignore what custodian banks have to offer in response. Namely: job security, progression and the chance to work in an established business dealing with the largest and most impactful players in the capital markets.

The risk of joining a start-up is not for everyone, a point Liang made earlier, and not everyone is an innovator – and that's okay. Custodian banks are working on their flexibility, and approach to diversity, inclusion and innovation. They are signing up to equality initiatives, introducing shared parental leave and not discounting those who work flexibly from promotions. They are growing more open to people switching roles within the bank, installing reverse mentoring schemes and even adopting a much more open approach to sustainability. They may not be able to flick a switch and allow everybody to introduce a new product each week, but instead they are partnering with FinTechs to plug-in or build platforms for them, which does allow products to evolve.

In a grass-is-always greener scenario, someone who has worked in Canary Wharf might walk into a WeWork and think the beer-on-tap in the lobby is cool, but consider the opposite, moving from basement with bike racks on the wall to staring out the window of the 40th floor at a view of the city signing a deal with a major asset manager or hedge fund.

There remains prestige and a true sense of work satisfaction in custody banking, even if it's not necessarily from a technology point of view. There might be a gym in the office now, a new cafeteria with a skyline view and much less of a risk that all the hopes and dreams will collapse right in front of your eyes. There's a network of likeminded peers both within and outside of these organisations, and a real sense of community within the industry. It's not all about ping-pong tables and subsidised lattes, it's about recognising that people value a workplace where they are appreciated, accommodated and feel they can make a difference.

"The nature of work is changing and all organisations need to adapt. A common misconception is that talent cares about jeans and hoodies," adds Nable. "It's a fun meme, but it's not based in reality. Talent cares about meaningful work – solving important, complex problems. FinTechs do not have a monopoly on that."

"Attracting top talent is a challenge for any organisation when there is a supply and demand mismatch for key skill sets. This is not about banks versus FinTechs but a broader war for global talent across industries. Firms who are organised to compete for talent globally and have a strong employer value proposition will be well positioned. For example, if you are looking for a Python developer or a UI/UX engineer, being flexible enough to hire for that role in Houston, Hyderabad or Hong Kong will put you at a greater advantage than if you are limiting yourself to just Dublin or Jersey City. Talent is global and organisations need to be able to meet that talent where they are. Maybe that means a greater number of smaller offices. Maybe it means more flexible/remote opportunities."

If I don't do it now, I never will

If the myths of jeans, t-shirts and ping-pong tables are being dispelled, so should the assumption that everyone leaves because they are unhappy or are being lured away by the promise of free artisanal coffee. I've spoken to countless industry experts recently who left a bank to set up their own firm due to an attitude of 'if I don't do it now, I never will'. These individuals often have an amicable parting from their previous employer.

Bill Pryor was the former global head of data and analytics for Citi's custody and fund services division, and recently left the US bank to set up a new firm called Investics Data Services. He played a pivotal role in launching the Citi Velocity Clarity platform for its custody and fund services business.

"I had always had the idea in my head, and if I didn't do it now, I might never," he explains.

"My experience at Citi was my first foray in using big data and cloud-based tech, so I thought you've got all these companies out there working with institutional investors building data warehouses using legacy platforms, based on structural data models and things that are expensive and complex to implement. But also, once you're done it costs a lot to maintain.

"Then I had a lightbulb moment – I needed to build something to replace existing systems. Historically Amazon, Microsoft or Google was not an option because the client didn't want their data on the cloud. The thought came to me, that I could take a new approach and implement it on a public cloud. My research has shown that there can be up to a 90% reduction in cost to implement and maintain using the cloud. Having something you can have up and running quickly as well."

We left, but didn't go far

Pryor's ambitions couldn't be realised in his previous employer and sometimes no amount of salary increase, flexible working or promotion can make up for this, making an exit inevitable.

One thing that struck me during my interviews for this feature was that when I asked each individual if they could share their own story of why they left securities services, they all told me 'I haven't left'. Whether it's a FinTech, a digital asset custodian, a research firm or an incumbent bank, these experts have stayed in securities services, it's just the nature of the roles and the employers are changing.

We say it's been a mass exodus, but there are a lot of individuals staying put and happy within their custodian bank, while others make their way to the exit in search of something different, yet still in the same sector. People will always come and go from the industry, at least in this latest trend they aren't going far.

For those who stay the course in securities services, it seems the banks are coming around the modern way of working – slowly embracing flexibility and innovation where possible, while trying to create a working environment that pleases everybody.

The mix of the post-financial crisis era and the boom of FinTech companies suggests this could be the toughest time for custodians to retain talent, but that doesn't mean it will last forever. Start-ups will face their own challenges as time goes on: funding runs out, growth means more scrutiny and regulation and suddenly you become the incumbent. While it's frustrating to lose key team members, banks can take solace that entrepreneurs and innovators will likely always find a way to spread their wings eventually, and sometimes its nothing personal.

"Though it is way more complicated than what I used to do, I do not have any regrets," concludes Kech. "I would advise everybody, once in their life, to challenge status-quo and try something completely new in a small company with no legacy to deal with. It is rejuvenating."