icsa | The Governance Institute

Governance + Compliance

Empower the public

31 October 2016 by Henry Ker

Gemma Godfrey, CEO of digital investment service Moo.la, discusses the changing culture within finance, leaving egos at the door and ingraining governance in all organisations

Gemma is a leading business expert and one of City A.M.'s Power 100 Women.

You started your career at companies such as Goldman Sachs, UBS and GAM, prior to the financial crash. What was your experience of the culture within the financial sector?
The culture before the financial crash was focused on product pushing. It was an era where the power was held by financial services. The attitude was: 'let's think of a smart, clever product and then try to sell it to people. If we keep things complicated and confusing, we can make more money, because people will not understand the fees. If we keep people ignorant, they will not feel like they are smart enough to do it themselves'. It was all about jargon and acronyms, keeping it confusing and opaque.

After the financial crisis, people realised that some of these companies had lost them money and that they might not be as smart as they said they were. People were scared because they did not know where their money was. Then we started to see the rise of the do-it-yourself investor as more people wanted to understand finance and see where their money was. So the sector is now becoming more customer-centric.

The way to succeed post-financial crisis is to make the end customer smarter, instead of the financial services industry creating products to make itself look smarter. If you empower customers with the knowledge to understand your products, you put them in the driving seat. Then, not only are they more likely to invest, you can probably get a bigger share of the wallet as well. So it is a win-win situation.

Traditionally, it was all about reducing your risk of mis-selling, but the more that you enable the customer to understand your products, the more you reduce the risk of mis-buying. You are offering double protection from a corporate governance perspective. Organisations must think about their customer; what they want to know and how they want it delivered – we need to make finance relatable. Finance was all about sounding smart and building barriers around it, which isolated it from the rest of the population. It is why people in finance are often grouped together and under attack from the public, because people do not understand the sector.

Does human nature mean there will always be excessive risk taking by financial institutions?

The answer depends on the alignment of interests. Companies that compensate people over the shorter term are going to encourage short-term behaviour. Things like employee share schemes, which tie a person's financial future into the long-term health of the company, are a much more balanced and effective way to ensure that people are motivated for the long-term good of the company. The important thing is to incentivise people in the right way and align their interests to those of the company.

Your new company Moo.la has been marked as one of the top 10 FinTech companies to watch. How is technology changing the financial services industry?

Technology is enabling financial services to be accessible to more people and making options available that were previously out of reach. 5.5 million people in the UK have money to invest but have no access to any form of guidance. There is one financial adviser to almost 3,000 people in the UK – meaning a limited supply is overwhelmed with demand. Life wealth events are happening earlier than people realise; with, for example, the average age of selling your first business being 38 years old. So traditional products and services are not matching people's needs. PwC equates this to £2 trillion of untapped capital.

Technology is solving these issues by making financial services more transparent; feeding back information to the customer and putting the power back into their hands. Three quarters of UK banking is going to be carried out via a smartphone in the next four years. The government is calling for a banking revolution and for banks to embrace new technology. At the same time, 2,000 branches have closed over the past five years. Jamie Dimon of JP Morgan said that Silicon Valley is 'very good at reducing the pain points' that customers of traditional banks suffer from.

That is exactly what we are doing. Moo.la is a digital investment service. We are focused on enhancing people's financial well-being. It solves this need for a low-cost, simple and easy-to-access investment service, offering people the comfort to get started, investment options previously out of reach, financial competency and peace of mind. We work with companies to enhance their employee benefits packages and this can drive company financial performance, through greater staff engagement, education, ownership, loyalty and productivity.

Companies currently help people with their healthcare and saving for a pension, but there is nothing really in-between. We are taking the regulatory burden, from a compliance perspective, and making a company's staff more financially informed so they can make smarter decisions. The bottom line is that technology is helping by cutting costs for the consumer but also automating part of the process for companies.

You see it with the likes of Uber, Facebook and Airbnb; and back to the Jamie Dimon quote, what technology is really good at is solving people's problems and creating a service that is right for them, as opposed to just trying to sell a product.

You commented that the regulator needs to be supportive of emerging FinTech. Does the regulator have a responsibility to nurture and grow the sector as well as police it?

We have had a fantastic experience with the regulator and found it supportive. I do not think it is their responsibility to nurture, but it should make sure that there are less obstacles and red tape. It is also important to police but, at the same time, make sure that the rules are kept practical.

We are hoping to solve the pension problem by putting more power into the individual's hands and giving them more responsibility for their own financial well-being. This means they are forced to take it more seriously. In the same way, a move towards increased self-regulation for companies does make sense, but ultimately, they do still need supervision from an independent body.

How is governance evolving within the financial services sector?

With the evolution of technology, the industry is changing incredibly rapidly, so it is a challenge for governance to keep up. However, one thing we are starting to see is greater diversity. By diversity, I mean diversity of views, diversity of skill sets, diversity of age, diversity of background. In terms of governance this is important because it is essential that a company knows their customers and therefore the board is reflective of people within the company, its stakeholders and customers. The importance of diversity on boards is being recognised with more and more change in the sector.

Astbury Marsden research showed just 9% of board positions in the top 50 FinTech companies are held by women. Jayne-Anne Gadhia's Women in Finance research found only 14% representation on executive committees. As a female CEO in a male-dominated industry, what are your thoughts on this?

This is actually a massive opportunity because women are not a minority. Women are half the population and half the consumer base. They are responsible for approximately half the wealth. So it is a good opportunity for us to better represent a very under-represented customer base. It is an opportunity as well as a challenge.

It is interesting because we are seeing equality at entry level. The problem is not necessarily at the top, it is actually in the middle layer. That is when things like access to childcare comes into play. There is also a lack of role models, mentors and advocates. The more role models we have, the more people are inspired and can be shown the way.
The greater flexibility you have in the workplace, the better. That is what is good about technology too; we are moving away from the need to have face-time at certain hours in an office. It is actually more about deliverables, which can be achieved remotely, wherever you are. With technology, and greater equality between maternity and paternity leave, a greater share of childcare, we are going to get there.

It is going to take a cultural shift, which will involve at least the threat of quotas. I understand there is a risk in having quotas implemented, because only through women attaining senior positions based upon merit and the benefit to the company being exemplified, will others follow suit and a greater balance be achieved. However, the threat of a quota makes sure that organisations interview a sufficient number of female candidates. It is all about creating the opportunity.

You were named as a key millennial in City A.M.'s Power 100 Women. Millennials are leading the FinTech revolution – is there also a case for increased age diversity at the top of companies?

Know your customer, reach your customer, engage with your customer. Those are the three really important things for a business to be successful. Millennials are going to be three quarters of the global workforce within the next 10 years. In fact, this demographic has reached the age range when peak wealth accumulation is achieved. Time has moved on. Millennials are no longer this younger generation in school; millennials are high-earners, they have significant spending power, they have already started families, they own their own homes, they have significant disposable income. They are a powerful consumer base.

It is going to be important, at board level, to have representation that understands the dynamics of what this generation wants, how to reach it and how to engage with it. Each generation does have different behaviours, different likes and different priorities.

What do you think is particularly key to ensuring a successful board?

Three things: diversity of view, having the same long-term goal for the company and leaving egos at the door. You need diversity of view because the most important thing on a board is that there is challenge. You cannot have everyone agree with the CEO. You need to have diversity of background and viewpoint so that different areas and ideas are discussed. But you do have to have alignment of interest, so that everybody is there for the long-term good of the company. However, people must leave their egos at the door – it is not a talking shop.

Getting diversity of view can be difficult as there is a closed group when it comes to board appointments: a gentleman's club. The same people tend to pop up on boards. It is a vicious circle – this means that only those same people will have the sought after level of experience. What boards need to do more of is to take a view on their overall make-up. Boards must recognise that adding a different or new perspective can bring balance and add value. In contrast, hiring within one's own social network, means you do not always get that diversity of viewpoint. This contributed to the financial crisis, where there was little challenge to the CEO and the strategy of the financial institution.

Greater transparency around appointments and opening the door to more candidates will create a stronger governance environment. Once you are transparent about how you are hiring, you know you have to do it in the right way. At the very least you see more talent which increases the chance that somebody new will be hired.

What does governance mean to you?

Governance means ensuring a company is being as effective as possible, is held accountable and is following the right direction with a layer of supervision. There is an understanding between various stakeholders, the company and customers, and cross-department cooperation.

Governance is at the heart of a strong economic future, because it ensures that companies do things for the public good and that they make the right impact.

For example, Moo.la is passionate about opening up investment options to the wider population because this will narrow the wealth gap. When people are able to let their money grow, the more purchasing power they have, the more consumption there is, the more jobs there are and, again, the better economic growth. This ensures the firm is focused on having an impact and serving a purpose.

What do you think the future of governance will look like?

It will be more agile. The Government is already making a similar suggestion – it acknowledges that with technology and industries changing as rapidly as they are, there will be a flatter hierarchy and therefore a flatter governance structure, more diversity on the board and a more agile method of monitoring. It is going to be less sitting in an oak-panelled room on a specific day; more doing governance as part of your day-to-day job, with it really ingrained in the culture. We need governance that is able to react when products change, when services change and when people's needs change. We need governance that is fast moving.

Interview by Henry Ker, Deputy Editor, Governance and Compliance magazine

125 YEARS