

**Value Proposition:**

**An exploration of a new model of service delivery for CIS clients.**

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## **Abstract**

This exploratory case study seeks to add original insight to organisations through the investigation of key elements of value proposition in the Financial Industry. A detailed proposal of a new model of service delivery for Collective Investment Clients is carried out, analyzing key elements such as the role of the custodian bank to CIS clients, the CIS product and the role of trust.

The research is of importance because the financial industry is under pressure to reduce costs, improve efficiency and retain customers (Harness and Mackay, 1997). Delivering superior value to customers is a source of competitive advantage as studies indicate that poor service is the main reason for customers to leave (Liniere, 2013). Also the CIS product is one of the most dynamic products in the Financial Industry (Freeman, 2004), and the expectations are that will keep growing, hence the relevance for this study.

A case study is used to investigate the value proposition for CIS clients. The case study is the most appropriate instrument as investigates different phenomenon of real life contexts (Robson, 2002).

Following literature review, the research moves forward to review the data collection, the predominant research instrument which in this case is a qualitative approach through eight face to face in depth interviews held with key people in one large organisation. The research identifies gaps in the literature review and suggests further research is warranted.

The research draws a conclusion that there are clear benefits to the proposed new model of service with a slight amendment of keeping a designated person to be the gatekeeper as the role of trust plays a bigger role than expected. Therefore a hybrid of the current model and the new proposed model is the result of this research.

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## **Chapter 1: Introduction**

Globalization has changed our world with the creation of a unique marketplace where everybody can easily access. It shaped the nature of industries, transformed the competitiveness of the marketplace, increased the demand for reduce costs and improved productivity and quality levels. The Financial Services is no different. The challenge for an organisation's success, together with technological competitiveness and agility, is to embrace a new management, production and administrative tools and techniques. Organisations need to be agile to adapt to sudden changes in the marketplace and efficient enough to respond to a set standards of the new economy and society.

The most important asset for any organization is the client (or it should be). They are the reason for the business to exist in the first place. Increased competition in the market leaves the client in a comfortable position; by considering this current world scenario of high competition, clients perceive they are in control as they can easily change from one service provider to another.

According to Liniere (2013) " customer satisfaction in banking is on the decline, with some reports showing that 70% of customers leave because of poor service." Taking this view into consideration, the aim of this study is to explore the value proposition that can be offered to clients in a Custodian Bank for a specific product. A revisited model of service is proposed as well as an analysis of the positives and negatives to the organisation.

Value proposition should be one of the most important areas that any business should be focused on. It is about understanding what value the organisation's products and services can bring to their customer. Companies should leverage superior understanding of the market by identifying new opportunities so they can focus on how to deliver superior value to different customers and more importantly, do it better than the competition.

The company that will be used is a Global Custodian Bank; the service in question is the client services team. Also a specific team and product is used as the base for this research.

The Collective Investment Services (CIS) is a product that is rapidly growing in the Financial Markets and is becoming more and more popular. In lights of this, a large Financial Institution, acting as a Custodian Bank, has created a specific team, the CIS team to provide customer service (first point of contact) to high profitable clients.

The CIS team was created in August 2011 to meet client's demand for a more specialized and knowledgeable team, as the Collective Investment product works differently than the normal Global Custody trades. As competition increases and the banking industry becomes global, offering tailored and differentiated services can be critical to a bank's success by understanding what customers value (Titko & Lace, 2012).

Ben-Gal and Tzafrir (2011) advocates that "Organizational change processes occur more frequently than not within modern organizations". The goal of the new model is to achieve customer satisfaction by bringing value proposition to the clients.

Custodian's main pricing points are based on the number of settled transactions, the valuation of assets under custody (AUC) and interest rates. Lately there has been some pressure as the traditional income is reducing. It is necessary to supplement the drop in revenue by acquiring more clients. In this climate it is extremely important to highlight that gathering and retaining customers is a key requirement for companies, not only to ensure competitive advantage but to survive. Therefore providing a service that brings value proposition to clients can definitely be a source of competitive advantage.

As stated by Crosby (2002) 'While there appears to be no specific date, book or article marking the introduction of the "customer relationship" concept into business and academic thinking, relationship marketing/management was already a hot topic in services by the mid 1980s. In financial services, the idea of relationship banking was receiving considerable attention as a means of acquiring, retaining, and improving the profitability of customers. While the relationship concept has maintained an avid following over the last 20 years, only recently has the concept achieved widespread traction in business practice. Some of the factors behind this renewed interest in customer relationships include advances in information technology and data warehouses, the increasing sophistication of customers, a high level of market dynamism, intense competition, and disintermediation'.

Elsharnouby and Parsons (2010) emphasizes that banks are in the service industry to build relationships with customers. Lundahl et al (2009) suggests that there is recurring confirmation of the relationship between customer satisfaction and monetary performance.

This research also considers the role of trust, due to recession and the scandals in the banking industry over the past few years, a big portion of customers have concerns about their banks. Customer confidence has been violated. Banks needed to make a commitment to improve a customers' impression of the bank (Weber et al., 2011).

There is no research conducted for Custodian Banks so this study will use the retail banks as basis of information. A satisfaction study was conducted in 2010 by J. D. Power and Associates in the United States about products and services in retail banking using 48,000 retail banking customers. The result is that the majority of customers change banks because of poor customer service (J. D. Power, 2011) hence the relevance for this case of study.

Custodian banks are extensively used in the Financial Industry so is the CIS product; it is therefore valuable to undertake research to establish the core value for its clients and what can be learned from that, as a source of competitive advantage.

Regarding the research approach, the first step was to conduct a comprehensive literature review, starting with the context setting of the custodian bank. A research gap was identified in this area and therefore this study also aims to provide some contribution for future researches. The literature review focuses on key elements such as; the **CIS product**, to establish the importance of a study in a dynamic growing product in the financial industry, the **value proposition**, which provided valuable insight for this research as the concept has grown through the years and the role of **trust**, which is key to the financial industry and functions as the glue that keeps it all together. The research moves forward to the methodological approach, and the predominant instrument is a qualitative approach through the implementation of in-depth interviews. Ethical considerations are considered as well, especially due to the confidential nature of the custodian bank and all people involved in this research. The limitations of research are also considered and reviewed. The research then moves to findings and conclusions.

## **Chapter 2: Context Setting**

### **2.1) Introduction**

This research aims to investigate if a new model of service can bring value proposition to customers. However it is necessary to consider that the environment is a Custodian bank.

The Custodian bank does not have academic literature to be reviewed nevertheless is still an important topic for this study as a way of background, despite this gap in literature. Even though the Custodian Bank sets the scene for this study it will not be part of the “Literature review” chapter.

### **2.2) The role of a Custodian bank**

According to Stahl (2013) ‘Global custodians perform three primary functions: they hold assets, they facilitate the settlement of transactions and they service client assets, e.g. by collecting income. A global custodian has a responsibility to perform its duties properly and typically bears liability for its own negligence. In addition, it must exercise due care in selecting and monitoring third-party agents.’

A custodian bank is a specialized financial institution that acts as a safeguarding of clients assets, differently from a retail bank as it does not hold personal accounts, pensions, mortgage, ATM machines, etc.

The custodian acts on the client’s behalf in the securities market. Among others, the main role of a custodian would be:

- Hold in safekeeping accounts with assets/securities in different types of funds, hedge funds, mutual funds, bonds, etc.
- Be responsible for clients trades (settlement of purchases and sales of securities)
- Collect information in the market regarding Income (dividends in the case of stocks/equities and coupons (interest payments) in the case of bonds), administer related tax withholding documents and foreign tax reclamation

- Be responsible to collect market information regarding any Corporate Action event and advise the client in a timely manner
- Provide information on the securities and their issuers such as annual general meetings and related proxies
- Perform currency exchange transactions if required
- Often perform additional services for particular clients such as mutual funds; examples include fund accounting, administration, legal, compliance and tax support services

In other words, the Custodian banks do all the paperwork and bureaucratic parts of the business on behalf of the investor client, whilst making sure it's complying with all laws and regulatory requirements.

According to Stahli (2013) 'Global custodians occupy a unique market position. Through contractual arrangements with domestic local-market custodians, they enable investors to hold a wide range of assets in almost every market. Global custodians' investments in operations allow them to provide a central point of contact, consistent recordkeeping and information reporting, oversight of settlements and typically a range of banking services that make it easier and more efficient for global investors to participate in global markets.'

The Investment Bank, in question, is a global financial services organisation with over 200 million customer accounts and does business in more than 100 countries, providing consumers, corporations, governments and institutions with a broad range of financial products and services, comprising consumer banking and credit, corporate and investment banking, securities brokerage, and wealth management. Furthermore, it offers cash management, trade, securities and fund services to financial institutions and corporate clients all around the world.

The global network spans more than 90 countries and presents a qualified service to clients with local and cross-border interests. The global platform of the organisation offers a unique reach, interoperability and flexibility in the industry to its clients, enabling them with accurate information and web-based tools to effectively manage their securities portfolios and financial positions.

The Client Delivery department, based in Ireland, deals in Implementation, Electronic Banking, Client Service and Consulting. The primary function of Client Services unit is to act as the main interface between Securities clients and the various Custody Operational units of the Bank. Securities Client Services provides to all clients, a premium level of service through the efficient and pro-active resolution of their enquiries, while also assisting in client education of markets or industry changes, as well as the Bank's practice and policies. The Client Services unit is made up of five teams; Support & Control, Investors, Global & Service Teams, Collective Investment Service team and a Third Party Fund Manager team. The focus of this study is the Collective Investment Service (CIS) team.

## **Chapter 3: Literature review**

### **3.1) Introduction**

The following literature review is developed in three themes arising from a broader review of the literature. The first theme (3.1) discusses the relevance of the CIS product, providing perspectives and developing a framework for use in this case of study. The second theme (3.2) focuses on key elements of value proposition and highlights clear objectives for the case study research. The third theme (3.3) explores the role of trust and the relevance for the financial industry as a key point for this study.

### **3.2) The Product**

As addressed by Harness and Mackay (1997) “The financial services sector continues to experience pressure to reduce costs, improve efficiency and retain customers in order to maintain profitability. From a product management perspective one way to achieve these objectives is to make product portfolios more customer focused”. To attend customer demands and maintain market share, custodians are investing in product flexibility and diversification. The CIS product is one of the newest flexible options in the investment market and is attracting more and more attention, hence its relevance for this study. CIS can be loosely defined as pools of assets in which investors share in the results of a specific portfolio (Thompson and Sang-Mok, 2001), or in other words, a group of investors decide to invest as a pooled group rather than individuals who can provide leverage as the collective investment funds combine the assets of various individuals and organisations to create a larger, well-diversified portfolio. The idea behind the collective fund is to lower costs by using economies of scale and by diversifying investments as a group rather than individually theoretically, reduces risk.

In a broader view, Erlichman (2000) argues that since the early 1980s, financial intermediation has been shifting away from activities from banks to securities markets while bond and equity markets in most countries have yielded very

attractive returns, CIS have been the main avenue for investors to take advantage of the resulting opportunities. The product has only had a presence for seven years in the Custodian Bank, and indeed, this bank was the pioneer in Ireland hence the assumption that the product is quite new.

According to Freeman (2004) "Common trust funds and collective investment funds have remained a popular form of funds for banks because of their flexibility. They can be used to hold a wide range of assets" and reinforcing this view Drew (1999) advocates, "Over the past decade, the collective investment sector has proven to be one of the most dynamic components of the financial systems."

According to D'Aveni (1994), the changes in regulation, increasing competition and rapid technological changes have all placed pressure on how established financial services providers are going further. Kelly and Storey (2000) argue that a consequence of these challenges, as perceived by the financial institution itself, is that they must continually develop new products. Therefore is highly likely that CIS will face rising competition from other products in future.

In this context of rapid market changes, the Financial Institutions must have an ability to meet and exceed the sophisticated competition. A way of doing that is being customer-focused and by having the ability to manage diverse products with an excellence of service.

Technology should remain a driving force in the industry. The nature of the CIS product is very manual. Clients are constantly asking for enhancements in the trading platform. By continually increasing the STP (Straight Through Process), the product can attract more clients. As investors become more sophisticated and obtain better access to information, market conditions, in all probability becoming more competitive (Freeman, 2004).

Rapid changes in the external environment have been a major influence on how financial services providers appraise their new product development strategies (Johne and Harbone, 2003). In view of the rapid growth of the collective investment sector over the past decade and the rising importance of Collective Investment Schemes (CIS) in the market the author expects to provide insight of the value proposition for CIS clients for future researchers as there is a gap in literature.



### 3.3) Value Proposition

Following the review on the CIS product, the second theme to be studied is the value proposition which is key to this research as will help to understand and answer the main research questions: what is the core value proposition for CIS clients and if the new proposed model identify an improved value proposition to CIS clients.

Customer in simple words could be defined as the recipient of a good, product or service from a seller in exchange for a sum of a monetary consideration. A customer value proposition is a clear, concise and compelling articulation of how the factors that are important to the customer are satisfied by the company.

The concept of value proposition has been studied by many authors, chronologic mentioning; Piercy (1997), Walters (1999), Buttle (2000) and Alloza et al (2004), among others.

Walters (1999) defines value as "determined by the utility combination of price and non-price benefits offered. It is a relative measure" which suggests that there is no absolute formula for excellence, and that the developing of values can be a form of differentiation. Walter (1999) also believe that "an increasing application of value as a customer requirement has resulted in a corporate value proposition: a statement of how superior value is to be created and delivered". This statement can be translated as the idea of customer value and value proposition as a source of competitive advantage. The element of "superior" focus on what a firm does better than the others. In the Financial Services industry this definition is relevant because customers are obviously looking for the best price but also for quality on the service received.

Kotler (1997) further states that, "buyers will buy from the firm that they perceive to offer the highest customer delivered value". The customer determines the value even though the organisation is the one that creates and delivers it, which is the case of this study, as the analysis is based on the service delivered by the custodian bank. In a market competitiveness context, Treacy and Weirsema's (1993) argue "to win, a company had to be quite good at two value proposition and better than any of their competitors at a third dominant one". According to Culling (2006) this view fails to take into account the customers perception of what value is, instead using the value

proposition as a form of competitive advantage, both internally and externally. It is a company view of value proposition, which can be relevant but lacks the customer view on what value is.

On the other hand, Webster's (1994) defines value proposition as "...a statement of how the firm proposes to deliver superior value to customers. The value proposition is important both internally and externally. Internally it focuses on everyone's attention on customer requirements. Externally, it is the means by which the firm can position itself in the minds of customers. The value proposition should be the firm's single most important organizing principle". In other words, value proposition should be defined in terms of customers and the employees' mindsets should be aligned to the value proposition as much as the firm. Both spheres have to be analyzed for a full understanding; the perception of the service provider and the perception from the customer. Due to time and access limitations, this research will only focus on what is perceived by the service provider and future research may also focus on the customer side.

Alloza et al's (2004) defines value proposition as strategic, "The BBVA Experience is based on strategic vision of the Group which is the value proposition that the organization offers to all its audience, both internal and external. The vision is aspirational and serves as an internal point of reference for guiding behavior", this definition came after a study of the BBVA (Banco Bilbao Vizcaya Argentaria). The context of this definition is not only the financial industry but also the organization's perception of value proposition, therefore providing an insight to this case of study.

Another concept supporting the value proposition in services and the relationship between provider and customer is Webster's (1994) view who defines value proposition as "those multi-faceted bundles of product, service, price, communication and interaction which customers experience in their relationship with a supplier".

Aaker and McLoughlin (2010) believe that the value proposition must be meaningful and relevant to the customer and this must include existing and new customers. There is more than one way to provide value to a customer as each customer has different needs. The customer value proposition according to Aaker and McLoughlin (2010) can involve elements such as; good value, excellence of product or service,

the best overall quality, high technology (innovation), global connection, etc. Different customers have different needs and considering that this research only focuses on the CIS clients, it is important to mention that the model that will be proposed in this research may not apply to other clients of the same custodian.

Piercy (2000) states, “this is the most important issue for managers to confront. The customer value it is much more complex than having the best pricing in the market, customer value reflects what the business stands for, what are the corporate values as well as the prices but more importantly what can the organization really offer to a customer”, specially nowadays that the consumers are much more sophisticated and demanding. In the Financial Services Industry clients have a lot of power. They’re usually high profile investment clients and can change service providers easily and quickly. Custodians definitely shall focus on delivering a service that aggregates value to their customers as a form of competitive advantage.

To sum up the various different definitions that were published throughout the past 20 years see below the value proposition review table. While it does not mean to be and exhaustive list of all work allows an overview of the developments in this field.

**Table I - Value proposition review table**

<b>Author</b>	<b>Year</b>	<b>Central Tenant</b>
Treacy and Weirsema	1993	“to win, a company had to be quite good at two value proposition and better than any of their competitors at a third dominant one”.
Webster	1994	“a statement of how the firm proposes to deliver superior value to customers. The value proposition is important both internally and externally. Internally it focuses on everyone’s attention on customer requirements. Externally, it is the means by which the firm can position itself in the minds of customers. The value proposition should be the firms single most important organizing principle”
Kotler	1997	Buyers will buy from the firm that they perceive to offer the highest customer delivered value”.
Walters	1999	“an increasing application of value as a customer requirement has resulted in a corporate value proposition: a statement of how superior value is to be created and delivered”

Piercy	2000	The customer value it is much more complex than having the best pricing in the market, customer value reflects what the business stands for, what are the corporate values as well as the prices but more importantly what can the organization really offer to a customer, specially nowadays that the consumers are much more sophisticated and demanding.
Alloza	2004	“The BBVA Experience is based on strategic vision of the Group which is the value proposition that the organization offers to all its audience, both internal and external. The vision is aspirational and serves as an internal point of reference for guiding behavior”
Aaker and McLoughlin	2010	Value proposition must be meaningful and relevant to the customer and this must include existing and new customers. There is more than one way to provide value to a customer as each customer has different needs

The main outcome of this table is that there is a wide range of diverse definitions for value proposition. All these studies and definitions provide an insight for this research, there is no definitive or correct definition for value proposition. These different angles of study were important as they provided an overall picture to the author and this research. The definitions highlights three central points: that value proposition is key internally and externally and all organisations should be focused on this mindset, that goes beyond of the idea of best price and that must be meaningful to customers.

Culling (2006) states “In practice, the experience of the customer’s relationship with a company is usually never with the marketing team. Therefore the value created here needs to be transferred to the contact point of customers. It is all very well planning great customer value in the marketing department, but if this is not transferred to customers, it is worthless.” This quote provides evidence and purpose for this research, this study is related to the customer service team, which is the client’s first point of contact, and the value proposition that can be delivered by a new model of service. The delivery process is key; value should be created and not only delivered but also perceived by the customer.

This research stands for the concept that superior customer value is key and a source of competitive advantage and that value proposition is created when the customer's total experience is very favorable compared to the expectations and specially, compared to their perception of the competitors. The delivery of service must be tailored to satisfy customer's needs and customers should be treated as the most important asset of the organisation.

### **3.4) The role of trust**

Having reviewed the CIS product and the value proposition the third theme to be considered is trust. The role and importance of trust for the development and maintenance of relationships in the financial services sector cannot be disputed (Ennew et al 2011). Berry (1995) states that trust is the glue that holds the relationship between the buyer and seller together.

According to Lewicki, McAllister and Bies (1998) trust is defined as a "belief in the willingness to act on the basis of the words, actions and decisions of another" while Rousseau, Sitkin, Burt and Camerer (1998) define trust as "a psychological state comprising the intention to accept vulnerability based on positive expectations of the intentions or behaviors of another". Other authors, such as Wang and Emurian (2005) however, argue that trust is an abstract concept, which is difficult to define.

Ennew et al (2011) advocates, "There are several important reasons why trust is so critical. Perhaps chief among these is the fact that transaction costs (including agency costs) become extraordinarily high in the absence of trust. If each and every transaction must be accompanied by measures and mechanisms to ensure honesty and reliability, the cost of doing business escalates exponentially." This quote provides a good insight for this case study. The research discusses the particular role that trusts plays in all stages of the delivering service.

Similarly to Ennew et al (2011), Colombo (2011) states, "To be clear, the conventional wisdom that trust is essential to the financial services industry is not in question. The importance of trust to the economy is difficult to underestimate. In short, the economy and the world as we know it simply could not function without a

certain degree of trust.” This study is taking into consideration previous research regarding the role of trust in the financial industries, however as there is no study based in custodian banks the author is using the retail bank industry as a basis for this research.

### **3.4.1) The Nature of Trust in Financial Services**

Blau (1963) states that “Trust is important in supporting market exchange and, specifically its role is central to the development and maintenance of customer relationships.”

A key issue for this Industry is that due to the intangible aspect of financial services consumers typically lack any physical evidence of the quality of the service provided to them, and consequently rely on trust (Diacon 1996). In the day to day activities in the custodian bank clients have to rely on trust at every step of the way as they have no control under the actions that the custodian is taking, i.e., to settle their trades.

Also, according to Ennew et al (2011) the development of trust can vary because customers may experience variability in service interactions different reasons such as stock market driven performance variability, variability between staff and variability between consumers.

The research of Ennew et al (2011) highlights the reasons why an organisation or individual is worthy of being trusted (reputation, tradition and so on). The research established five key determinants of trust and below you can find a brief overview of each of them and the relevance for this research.

***Table II: Five determinants of trust in financial services***

<b><i>I) Integrity and consistency</i></b>
<b><i>II) Expertise and competence</i></b>
<b><i>III) Communications</i></b>
<b><i>IV) Concern and benevolence</i></b>
<b><i>V) Shared values</i></b>

### ***I) Integrity and consistency***

Ennew 's et al (2011) view is that consistent behavior contributes to trust due to the predictability of actions, meaning, the clients can predict future actions and reduce risk. According to Sheppard and Sherman (1998) “ consistency by itself is not enough and there is also a need for integrity which can be thought of in terms of honesty and keeping promises. “

Ennew et al (2011) argues that in the case of the financial services sector, the loss integrity associated with a series of mis-selling cases has been a major cause of loss of trust in financial institutions per se.

In the Custodian Bank it is visible that consistency is key to gain the customer's trust. If something has been done properly in the past, clients trust that will be done properly in the future which strengthens the relationship.

### ***II) Expertise and competence***

Mayer et al (1995) refer to expertise and competence as an ability.

In the financial services sector, consumers are in great need to trust the expertise of the service providers, probably due to the gap of their own product knowledge.

According to Ennew at al (2011) “a customer to accept vulnerability, they must be confident that the product provider has the expertise to deliver what is promised. Consequently, staff training and development (whether frontline staff or agents) becomes an important element of a strategy to develop and maintain trust.”

Radford (2002) suggest that training to develop product knowledge can be effective to build trust but also important is to have a detailed understanding of customers and the ability to personalize service delivery.

In the CIS team knowledge is key due to the complexity of the product. Customers often rely on their advisors due to lack of knowledge at their end.

### ***III) Communications***

Wetzel and Buckley (1988) state “a key aspect of human behavior is passing information from one party to another”. Given that there is a requirement for the flow of information for building a relationship the communication role is also key.

In the financial industry, providing advice is one of the primary functions, this function enhance trust overtime hence the importance of communication through this process.

If not the most, communication is one of the most important elements to deliver the service. The customer delivery team needs to maintain an open dialogue with customers at all times, for example, to keep the customers posted during an important transaction or as part of handling a complaint.

It is extremely important that the communication is clear and correct. The Client Delivery team is liable for any miscommunication or interpretation. Even though the CSR has to deal with several different teams and departments it has the obligation to “translate” back to the client in a clear and friendly manner, which can be a challenge sometimes.

### ***IV) Concern and benevolence***

Sheppard and Sherman (1998) believe that the demonstrations of concern and benevolent behavior are likely to be of particular significance and are related to the notion of deep dependence and deeper relationships. In the financial services an advisor that is able to demonstrate benevolent behavior is more likely to build trust with its customer as the benevolent behavior signalize to the customer that the advisor will not act in an opportunistic manner and will not exploit a customer's vulnerability.

According to Ennew et al (2011) “Arguably, it is this aspect of trust building that has been one of the most difficult for FSIs (Financial Services Industry's) to address, not least because of the need to balance business opportunities against customer relationships.” In the case of retail banking for instance; advisors at times, have targets to reach and may be willing to ask a client to invest in a particular product



primarily focusing on their own target rather than acting on customer's best interest. On the other hand, if an advisor acts on customer's best interest, being concerned and benevolent, it can be a very powerful way of demonstrating commitment to the customer and engendering trust.

In the custodian bank this is slightly different, as the bank does not participate on client's investments choice, only the execution. Having customer's best interest at all times is key to develop trust in the relationship.

### ***V) Shared values***

Shared values and a demonstration of those values are likely to be significant in the development of a relationship as stated by Morgan and Hunt (1994).

Sitkin and Roth (1993) referred to the importance of value congruence in building trust.

In the financial services industry shared values would normally indicate that the advisor and the customer share the same values. This could impact for instance, on the product for an investment or by making an ethical investment.

Similarly to the benevolent behavior, Ennew et al (2011) describes it as "it may mean that customers are not taken advantage of and that processes such as commissions are clear and transparent. In terms of shared values, one of the major obstacles faced by an FSI is to develop a scenario whereby the values of employees are analogous with those of the organization. If the values of the product provider are closely aligned with those of the consumer, a greater propensity to re-purchase is a likely outcome."

The precise meaning of trust can vary between different authors as the academic literature implies. A strong perception amongst all is, that it is extremely important, in the financial industry specially, as customers may become dependent on the advisor, for many different reasons, therefore it ends up having to rely on trust. The literature focuses on vulnerability and expectations of future behavior. The literature also argues that customer's trust is valuable and that is created over a long period of time. It requires, not only patience but also a considerable amount of time and

investment. Hart and Johnson (1999) states that it is one of the most important assets of a company “This asset will continue to appreciate in value provided the firm continues to offer products that are fairly priced and of a high quality in conjunction with excellent service” as excellence in service is very likely to keep the customer and bring others.

Ennew et al (2011) recognizes that developing customer trust is an important element in the marketing process however, the responsibility should be spread across the whole organisation. By going beyond one department the company should be able to ensure that the message is clear and that developing customer trust could be seen as executing the marketing concept in a superior manner.

### **3.5) Conclusion**

It is evidenced from the summary above that delivering superior value to customers is a source of competitive advantage. Also that the CIS product is very attractive to customers and so is the use of a custodian bank to trade in this product.

Due to competitiveness in the market the Financial Industry is under pressure and needs a source of competitive advantage therefore this research does the bridge and indicates that a review of core value proposition to customers can result in a revised model of service that could potentially attract new customers and retain the existing ones. It is also important to consider the role of trust that not only plays a huge part in the financial industry but it is the glue that holds the relationship between the buyer and seller together (Berry, 1995).

What remains is to further explore the proposed benefits of the new model on the organisation’s perspective and this research will examine that in detail.

## **Chapter 4: Research questions**

This research aims to explore the value proposition for CIS clients through a proposed new model of service delivery, from the organisation's perspective. It is important to note that there are a number of elements to be considered;

- The CIS product, the particularity of the product must be taken into account. As a different product may require a different model of service.
- The literature surrounding the concept of value proposition and an application to the Financial Services.
- The roles that trust plays at all stages of the relationship with customers and how this can impact the model of service.

### **a) What is the core value proposition that the CIS product brings to clients?**

By articulating the literature review with the insights from interviewees the research aims to find out what is the perception of value for the CIS product specifically.

### **b) Does the new proposed model identify an improved value proposition for CIS clients?**

The aim is to apply the literature review to the Financial Services Industry, specifically for custodians. The literature provides insight as to what brings value to clients, in general, and this research will explore what brings value to CIS clients specifically.

### **c) How much does trust impact on the delivery of service in the Financial Industry?**

The literature highlights the importance of trust in the financial industry, and this research aims to understand where exactly the role of trust can impact in the service delivered to the customer, tying in with the main research regarding value proposition.

## **Chapter 5: Methodology**

### **5.1) Introduction**

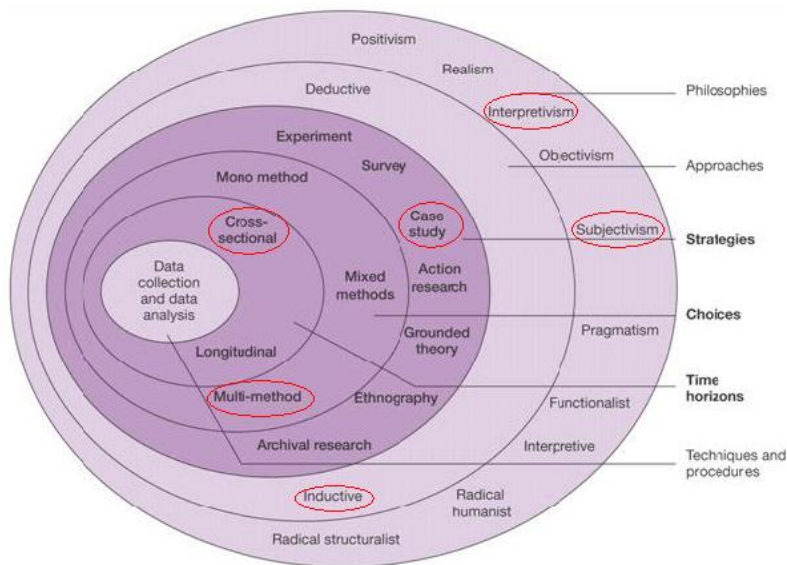
This chapter contains the methodological considerations of the study. The purpose of this research is to propose a new model of service delivery for Collective Investment clients, the author have presented the current model (Model A) and the new proposed model (Model B) to the interviewees. The research will explore the positive and negative aspects of the new service model and draw up a conclusion from this analysis.

This section will, therefore, approach the methods that will be used in the process; design, sample selection, data collection and analysis, etc.

Furthermore, the ethical concerns and limitations throughout the research process will be taken into consideration.

### **5.2) Proposed Methodology**

The present research intends to analyze a proposal of a new model of service. It will review the positive and negative impact that a change in the service model can have, considering the organisation's perspective. Hence, throughout the research, we will adopt an **interpretivism** and **subjectivism** philosophy within an inductive approach using qualitative data through a multi-method, combination of interviews and archival material documents. Please see below the explanation for the selection of the research "*onion*" model.



**Figure 1: The research onion, adapted from Saunders, Lewis and Thornhill (2009), with the research roadmaps**

### 5.3) Research philosophy

In line with the research onion model proposed by Saunders, Lewis and Thornhill (2009), it's vital to consider each layer of the research process. The research philosophy relates with the nature of the knowledge, assumptions and perspectives of the researchers that will shape the research from the initial design to final conclusions. Within the research philosophy it matters to enhance the ontology and epistemology. In this research, the intention is to adopt a **subjectivism** approach, as it will be the basis of interpretation in organizational experiences shared by a group of people in a specific timeframe. It's relevant for this study as it describes exactly what will be done in this research; an interpretation of organisational experiences shared by a group of people during a certain period. It is important to highlight that the author works in the organisation and already has a relationship with all interviewees, which may cause bias. In order to overcome this bias the interviewer has tried to strictly follow the questionnaire and not interrupt the interviewee during the answers to avoid leading responses/opinions.

The researcher's ontological assumptions may influence the epistemological choices or conclusions (Blaikie, 1993). From the three different paradigms of epistemology, in this research, it will use the **interpretivism**, once it will verify the human behavior

instead of trying to explain it. In interpretivism the focus of the researcher is to understand the meanings of the “social actors” and their world, from its point of view. Saunders, Lewis and Thornhill (2009) advocate that “to understand the differences between humans in our role as social actors. This emphasizes the difference between conducting research among people rather than objects”. Hence, it’s a highly contextual process and not widely generalizable (Saunders, Lewis and Thornhill, 2009).

The interpretivism approach is the most appropriate to this research as its grounded from the perspective and interpretation of qualitative data rather than quantitative.

#### **5.4) Research approach**

The subsequent layer of the onion relates with the research approach. In this research an inductive approach will be used, because of its flexible structure that enable change throughout the research, better understanding of the context, and less concerned with generalizations (Saunders, Lewis and Thornhill, 2009).

The inductive approach also promotes conclusions derived from the examination of a set of particular situations, and the investigation gains do not depend from existing theories (Rothchild, 2003). This research is related to a Custodian Bank and a particular financial product, which indeed, demonstrated to be a challenge due to the gap in the literature for these specific topics, therefore the inductive approach is appropriate. The purpose of the present research is to understand the benefits that client may have with a change in the model of service in a Custodian Bank highlighting the value proposition as a key component.

Furthermore, a qualitative research approach is the most appropriate for our intentions. Creswell (2009) describes qualitative approach as postpositive, constructivist, naturalistic, interpretative, and post-modern. The qualitative research approach will help to understand what people are thinking, feeling, how they are communicating, verbally and non-verbally. This type of approach is seen as difficult and demanding for the researcher due the personal involvement, interpretation that may increase personal bias (Riley *et al*, 2000) and as already mentioned, the author

also works in the organization. That's a challenge that it will have to be faced and overcome.

## **5.5) Research strategy**

The third layer of the research onion relates with the research strategy, essentially, showing the step by step and justifications of the chosen methodology.

### **5.5.1) Sample for research**

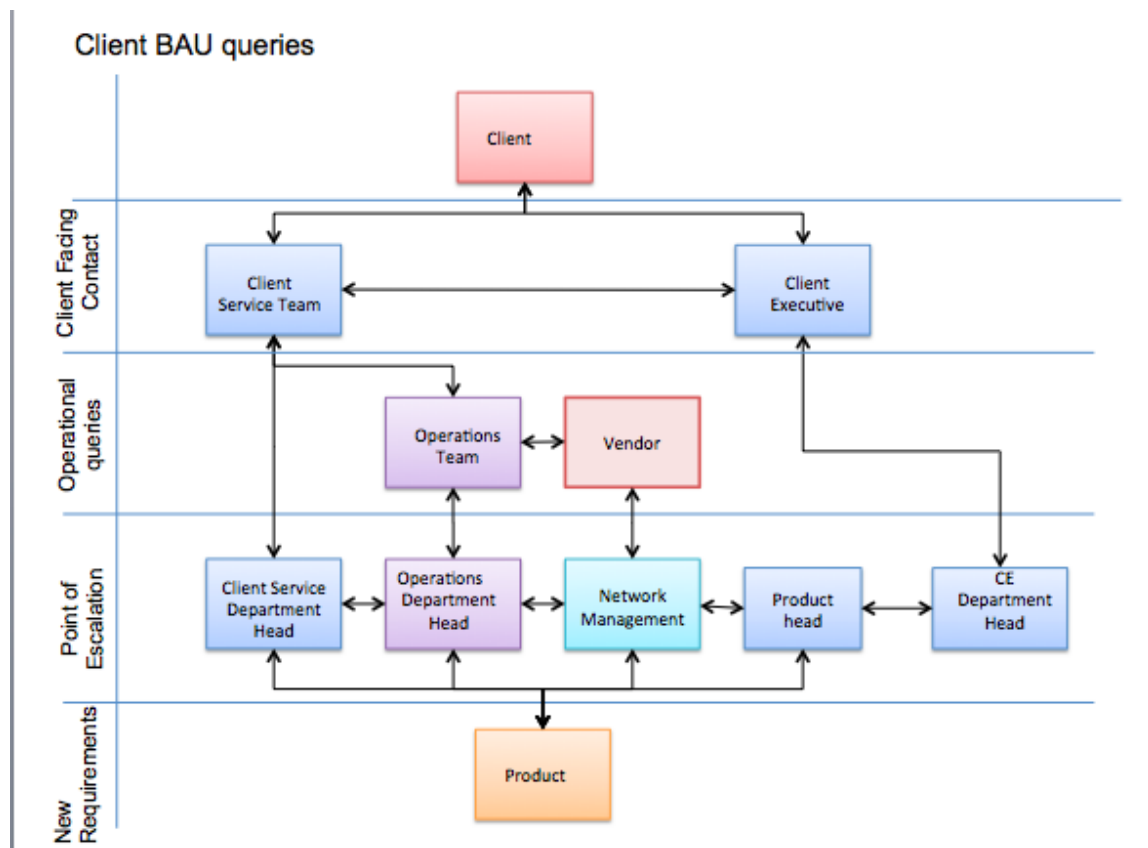
Sampling is a selection of a small group of individuals, from the population that provide data for the analysis, conclusions and ultimately generalizations (Gary, et al, 2007). The basic assumption of the sampling is enabling the researcher to gather information from a cluster of the population that will be used to draw conclusions about the entire population (Saunders, Lewis and Thornhill, 2009). Henry states (1990, as cited in Saunders, Lewis and Thornhill, 2009), enhancing the sampling promotes higher accuracy levels rather than use the entire population, because the researcher focus its attention in a smaller group and spends more time designing, piloting and collecting meaningful data. However it's important to highlight that despite these aspects, sampling sometimes can lead to errors, that results in variations between the data collected from samples and the true value from the population (Fowler, 2009). The author was unable to identify which side of the dispute between Henry and Fowler is correct. If further researches of the same theme arise in future it may be worthwhile cross checking.

In this research, the first sampling step is to define the population to be used. This research focus on an Investment Bank based in Ireland, narrowing down to the people involved within customer service for this particular bank. A non-probability sampling will be addressed, because generalization on statistical grounds won't be possible (Saunders, Lewis and Thornhill, 2009).

Also a convenience sampling - use of accessible resources - will be present on this research.

Below is a chart that explains the structure of the CIS client's points of contact in the custodian bank. These are the channels that customers have to communicate with the service provider; it is a root map of the channels that customers can rely and contact for all BAU (Business as usual i.e. 'standard') queries. The clients facing contacts are the Client Service team and the Client Executive, the operational queries (BAU) are passed to the Operations and Vendor team (third party). If the query is not resolved the next step are the escalations points to the different areas and finally there is the Product Department that looks after new requirements from clients.

**Figure II – Client Business as usual queries**



Considering the above chart, the criteria to chose the interviewees was to chover all aspects of the process, therefore namely the following:



- Two people from the Client Service team; a team leader and a Section Manager (Client facing)
- Client Services department head ( Point of Escalation)
- Operations department head (Point of Escalation)
- Product head (Point of Escalation)
- Client Executive (Client facing)
- Client Executive head (Point of Escalation)
- Product developer (New requirements)

The Network Manager was not included as this study will not touch the Vendors team as they are part of a third party organisation.

These eight people were carefully chosen to participate in this study, as they are the key players for Client Delivery and the CIS product in the organisation. By interviewing them the author expects to have an overview of all sides that can intervene in the customer's experience with the organisation.

### **5.5.2) Research Instrument**

The research instrument was comprised of a questionnaire (Appendix 1) and two sheets, one for Model of Service A (Appendix 2) which is the existing model and one for the new proposed model B (Appendix 3), which was derived from the literature review by considering the particularity of the CIS product, the role of trust in the financial services industry and the elements that can bring value proposition to customers.

The questionnaire was not provided in advance as the author aimed to avoid "pre-ready" answers and wanted to stimulate spontaneity of the same.

#### **Question 1**

The purpose of this question was to touch base with the interviewee and establish the familiarity with the Financial Industry. Actually when asked how long they were in the industry all of them provided a brief on their entire career which was interesting and good to 'break the ice'.

## Questions 2 to 11

All remaining questions are linked to the literature review and were covered in themes, illustrated on the below table.

**Table III – Research Themes**

Question	Topic	Details
Q1, Q2	Context	Background of interviewee in the Financial Industry
Q4, Q5	Product	Context of the importance of the product for the research
Q3	Value Proposition	Establish the raw value proposition for CIS clients
Q6	Trust	Identify the role that trust plays in the Financial Industry
Q7, Q8	Value Proposition	Model A x Model B
Q9,Q10,Q11	Value Proposition	Value proposition of the revised model

All interviews were recorded with the same equipment; a mobile phone using the application “QuickVoice”. The data was then saved to a computer for back up. In both devices, mobile and computer, the recordings are protected with password.

### 5.6) Data Collection: Interviews

Interviews are often defined as the most important source of information when using a case study. The interview can be implemented in a structured or semi-structured way. It’s essential that questions are asked “friendly” and “non-threatening”, in order to promote a relaxed, friendly and informal atmosphere.

In this research the “In-Depth interview” was a vital road map to create the case study. The interviews have followed a structured path, where main questions were predetermined in order to avoid bias as the interviewer knows and work with the

interviewees. The intention was to create a comfortable environment to promote a positive flow where sensitive topics can be discussed.

The fact that author and interviewees already have a relationship was a good component to promote a relaxed and friendly environment.

Firstly the author approached each interviewee via e-mail explaining the purpose of the interview; collecting data for a study for a dissertation as part of the MBA requirement in the National College of Ireland. Once the interviewee agreed with the participation, an invitation was sent via Outlook calendar. The author had asked eight people and fortunately all eight agreed to be interviewed. All eight interviewees are male; this fact was coincidental, even though it would have probably been interesting to analyze if male and females have different approaches when answering the same questions, but gender is not a focus on this research.

All interviews were conducted during business hours and the interviewees have chosen the location. Client Delivery head, Product head, Operational Manager head and Client Executive head have their own offices and the interviews were performed in each correspondent office. For the Client Delivery team leader, Client Delivery Section Manager and Client Executive for CIS clients, the interviews were performed in the coffee area of the building where there are isolate tables at the corner. The interview environment was chosen to secure no interruption by a third party. All interviews were held on a one-to-one basis. The mobile device, used as a recorder in this case was placed between the participant and the author for best recording conditions. All interviewees provided verbal agreement to the recording and affirmed that they have no issues over the fact that the interview was being recorded.

Even though these eight people were extremely gracious by accepting to contribute with their time for this study, no follow up interviews were made, as they are extremely senior people in the organization, with a very busy schedule. Due to time constrains, the interview were modeled to take 30 minutes only. It was also agreed, between the author and interviewees, that no debriefing was to take place at any stage.

Boyce, and Neale, (2006) consider that interviews are a qualitative technique that helps researchers to confirm a perspective of small number of people. The main

objective is to explore different issues in depth and can be used instead of focus group. This is the case of this research as the author is considering the perspective of eight people, which is small, to design the case study.

### **5.7) Data Analysis**

The data collected was used for the purpose of this research only and will be made available until the dissertation final marks. After this period the data will be destroyed.

The author intends to provide a robust analysis of data in this research. Thematic tables are presented by crossing interviewee's answers with the literature review. The tables contain the questions asked, the answers from the interviewees and the relevant literature that corresponds and supports the answers.

Due to the sensitive data provided in the interviews (names of clients, co-workers and another institutions) it was agreed with the interviewees that a full transcription of the recordings were not going to be done, instead after listening to the recording several times, the author has compiled relevant sentences, ideas and opinions for this case study. Any information that didn't fit neatly into the themes was discarded. The compilation of interviews can be found on Appendix IV.

### **5.8) Case Study**

Continuing with the layers of the Onion model proposed in this study, it is important to highlight why case study was chosen as part of the methodology. According to Robson (2002), a case study is a research strategy that investigates different phenomenon of real life contexts, by using several evidence sources, that allows the researcher to have a comprehensive insight of the processes and the holistic environment.

As argued by Perry (1998) "case-study research is concerned with describing real world phenomena rather than developing normative decision models."

Due to the gap in literature for the role of a Custodian bank and also the Collective Investment Services the case study is the best approach for this research that is

based on the dynamic environment of the Financial Industry and is focused on real life context rather than purely academic context.

### **5.9) Research Choice: Multi-method**

The next layer of the Onion Model is the multi-method selection with in-depth interviews, archival material, documents and observation. In-depth interviews and archival material will be used on this research. At this stage, it's important to define and distinguish primary from secondary data. *Primary data* refers to that information collected specifically for a research project at hand. Several methods can be used for collection of primary data, like interviews, questionnaires, observation or letters. *Secondary data* are sources of information that result from the interpretations of primary data: textbooks, handbooks, articles, and journals. There are limitations of secondary data that the researcher must be aware, such out-of-date documents (Zikmund, 2003).

The data collection process involves different types of characteristics. Yin (2003) proposes that existence of six vital sources of information in case studies: interviews, documentation, archival records, direct observations, participant observations and physical artifacts.

For this research the author used interviews, documentation, archival records (these records are classified material of the organization and will not be shared in this research) and participant-observation.

In participant-observation; the researcher has an active role in the event being studied. As an advantage of this method, the researcher/observer can experience realities while attending study more than an external observer (Yin 2003). This is applicable to this research as the author also works in the Client Delivery department in the CIS team

### **5.10) Time Horizon: Cross sectional**

The last layer of the Onion Model is the time horizon. Attending to the MBA time limitation, the cross-sectional time horizon arises as one of the few valid options to deliver the dissertation, on time, and complete the course. The cross-sectional research allows study of a particular phenomenon, in a specific timeframe and providing a snapshot of a wider project. An advantage presents itself as the cross-sectional research allows the author to collect a high amount of data in a short period of time, however a disadvantage sometimes is that it might be difficult to set a time order (Saunders, Lewis and Thornhill, 2009). This was exactly the case of this research as all eight interviews were done between the 28<sup>th</sup> and the 31<sup>st</sup> of July, which is a short period of time to absorb a considerable amount of information. To overcome that, the author has listened to each interview several times in different days until the information was fully settled.

### **5.11) Ethics**

There are inherent ethical risks to any kind of research. The data collection and analysis often promotes tension between the researcher's interests; in generalizing their conclusions, and the participants, that want to keep their privacy (Angelica, Laurel, & Dianne, 2001).

For this particular research, it has been requested that the author does not disclose the name of the Banking Institution. For the interviewees, there will be a use of pseudonyms in order to keep anonymity of the participants. The data collected in the interviews will be strictly used for dissertation purposes, and at the same time, it will be ensured that the organisation compliance policies are followed.

Prior to the interviews taken place, the purpose of this research will be explained to each of the participants to allow them time to decide whether to participate or not. This assumption is reinforced by Bryman and Bell (2007), that suggest that participants should be provided with as much information as possible about the study purpose, given them the opportunity to take rational decision on whether participate or not.

The participation is voluntary and participants were entitled, at any stage of the research, to withdraw the information provided and the confidentiality will be ensured.

The documents, archival materials and interview recordings are to be kept confidential throughout the research process and once the research is concluded the documents will be properly disposed.

The Ethical Universalism was taken into consideration at all times and is the author's best knowledge that ethical precepts were never broken at any stage of this research.

### **5.12) Limitations**

The first limitation arose during the literature review, as the Collective Investment Product is quite recent in the Financial Market, there is no substantial literature to review, in fact there is no academic study at all, at least not in English or Portuguese languages. Unfortunately the same applies for the Custodian Banks; there is very little literature. The literature in Financial Services focuses on retail banking rather than Investment banking.

Constraints were found in terms of data disclosure from the organization, in archival material and documents due to sensitive information. The data was only collected from one financial Institution, based in Ireland, therefore this data can be considered as partial to this portion of the population. Bryman and Bell (2007) suggest that research findings from a niche of population sample, can only be generalized to the population from where the sample was taken. Thus, there is an inherent limitation to this kind of approach and not in particular to the methodology used.

The sample size is low and therefore it is important to consider that some findings and conclusions based on a small amount of people can be insufficient to represent a general sense of the particular subject. It's important to consider the personal bias during the interviews can interfere with interpretations and consequently, impact final conclusions. The fact that the researcher also works in the sampled organization can also interfere with the bias regarding interviewees and the service provided.

Although, with all the highlighted limitations, there will be an extra precaution when recording the interviews and when reviewing diverse types of data sources to ensure as much as accuracy as possible throughout the research. The shortage of time to complete the research can be seen as well a practical limitation. There are only few months to complete the project and time management between research, interviews, classes, assignments and full time employment, was not an easy task. There is a limitation of 20,000 words to cover all topics of the dissertation. While the limitation did not compromise the integrity of this research, the reach to which the research could be extended was constrained.

Also, Interviews and “transcriptions” alongside with a non-native English speaker can be considered a barrier/limitation as well.



## **Chapter 6: Case study – Findings and Analysis**

### **6.1) Introduction**

This chapter describes the main findings regarding the proposal of a new model of service for CIS clients and the related themes on the literature review.

The findings are presented in tables containing the related theme, the question asked, the relevant literature review linked to the answer and the answers from the interviewees. Most participants covered similar concepts and repeated views are obviated in this section.

Direct quotes from the interviewees are used to give evidence of the points raised. Quotes are placed within themes and are presented with the following information:

- Initials of the name
- Years of experience in the financial services
- Job title of interviewee (for context)
- Interview date

### **6.2) The role of custodian bank**

The below table shows the related answers and literature review to the prompt question.

**Table IV – Custodian Bank**

Theme	Prompt Question	Literature	Interviewee responses
Context/Trust	Which financial needs clients expect to fulfil when they contract a Custodian?	Stahli (2013)	<p><i>“It’s different for different instruments... for CIS they expect the custody and reconciliations of their assets...comparing to different Transfer Agents...with our model we take a step further and detect the interaction with the TA in house so we can then manage those relationships rather than have to depend on the client having their accounts opened with the TA, have that relationship directly. By having a custodian they can be sure their assets are reconciled... credibility for their assets and reconciliations”. (EK, 14 years – CIS Product Manager – 28/07/14)</i></p>
		Stahli (2013)	<p><i>“I think they look for three issues, first of all there is the safety of having a custodian managing their funds, is not a legal requirement yet but the world is gonna change and regulations will get more and more concerned and the role of the custodian will become more and more important just because regulators will seek a safe place for the money of the investors. Second thing is outsourcing the risk, as you see yourself, we do outsourcing for the security of having someone to take the risk to them. Also they want to remove the fixed cost of their business, they use to have to manage the staff and communicate all the trades and here if they don’t trade they don’t have to pay us and remove all this cost from their business.” (KM, 30 years – CIS Product Director – 29/07/14)</i></p>
		Ennew at al (2011) expertise as part of role of trust	<p><i>“ I think it depends on the client...for CIS clients it’s the biggest need is on the operations side, if they had to do themselves would be a huge cost, also they send the risk to us and they don’t have the infrastructure to do it, huge cost involved on that and the risk...expertise that comes with the provider from the regulatory perspective as well.” (JO, 10 years – CIS Client Executive - 31/07/14)</i></p>

The role of the Custodian bank according to Stahli’s (2013) definitions are reinforced by the interviewees, but they go further, for the CIS clients they highlight the importance of having a custodian for scalability access to markets;

*"I guess they are looking in terms of scalability we can offer access to all different market, its kind of one spot shop"*

*(KJ, 7 years - CIS Team Leader - 28/07/14)*

But specially transference of risk and reduction of fixed costs;

*"...outsourcing the risk, as you see yourself, we do outsourcing for the security of having someone to take the risk to them. Also they want to remove the fixed cost of their business, they use to have to manage the staff and communicate all the trades and here if they don't trade they don't have to pay us and remove all this cost from their business."*

*(KM, 30 years – CIS Product Director – 29/07/14)*

*"... for CIS clients it's the biggest need is on the operations side, if they had to do themselves would be a huge cost, also they send the risk to us and they don't have the infrastructure to do it, huge cost involved on that and the risk...expertise that comes with the provider from the regulatory perspective as well."*

*(JO, 10 years – CIS Client Executive - 31/07/14)*

The custodian not only acts as a safeguarding of assets, they take the risk from the client by guarantying that no loss will occur, as long as the client respects cut offs. Once met, all responsibility relies on the custodian and any loss due to delays on the custodian side is reimbursed back to the client.

Another key part is the reduction in fixed costs to the client, as they use to have this operation in house, by transferring to the custodian they could, not only reduce the costs of having a full team of staff doing this process, but also by gaining access to different markets and a whole modern technology and operations.

Also an interesting aspect is the fact that the organization is under the impression that market regulations in future will make the custodians mandatory to trade in the CIS product;

*"...first of all there is the safety of having a custodian managing their funds, is not a legal requirement yet but the world is going to change"*

*(KM, 30 years – CIS Product Director – 29/07/14)*

Therefore the custodians will not only be important to clients but an obligation. There is a gap in literature regarding custodians and their importance in the Financial Industry and therefore this is a topic that requires further research.

### **6.3) Product**

The below table shows the related answers and literature review to the prompt questions.

**Table V – Product**

<b>Theme</b>	<b>Prompt Question</b>	<b>Literature</b>	<b>Interviewee responses</b>
<b>Product/ Value proposition</b>	<b>What do you believe customers value in the CIS product?</b>	Freeman, 2004	<i>"CIS is slightly different as essentially you are taking away something that the clients use to do it before and they value the straight through process that we have to offer ...STP and cost are the big drivers" (GP, 15 years - Client Executive Director – 30/07/14)</i>
		Drew (1999)	<i>" Our clients are looking for us to be more flexible about what they are doing, they use our platforms and they know custodians wants their business rather than clients need us...so if we don't do it they can get somewhere else...clients have more power now." (EC, 8 years – CIS team Section Manager – 30/07)</i>
		Johne and Harbone (2003)	<i>"value is taking a step further then normal custody and that's the order routing piece, holding nominee accounts....one stop shop for the clients to place the orders and for us to manage those flows with different vendors and TA's" (EK, 14 years - CIS Product Manager - 28/07/14)</i>
		Drew (1999)	<i>"CIS is a growing product...you don't have too many companies going ..offering too many products..global custody is quite mature, there is no massive market that a custodian hasn't broken in yet so it seems to be the hype at the moments" (EC, 8years - Client Delivery Section Manager- 31/07/14)</i>

<b>Product</b>	<b>What's your perspective of growth of the CIS product in the next few years?</b>	D'Aveni (1994)	<i>"I think is astronomical. Only in Europe, ignoring USA, Middle East, Japan, we have less than 0,03% of the available market business and we have 100billion in assets in CIS at the moment...I think will be driven by regulation...I think the regulations will say that having a custodian will be an obligation and the product will growth even more"(KM, 30 years – CIS Product Director – 29/07/14)</i>
		Erlichman (2000)	<i>"Absolutely, its growth and the regulations are allowing more buying in the funds" (GP, 15 years - Client Executive Director – 30/07/14)</i>

The nature of the CIS product is more complex and manual than the other products in the bank, some words that repetitively came up on the interviews were “flexibility”, “STP” and “one stop shop”; therefore it this seems to be the value that a custodian can offer to clients regarding CIS as a product.

*“CIS is slightly different as essentially you are taking away something that the clients use to do it before and they value the straight through process that we have to offer...STP and cost are the big drivers”*

*(GP, 15 years - Client Executive Director – 30/07/14)*

*“ Our clients are looking for us to be more flexible about what they are doing, they use our platforms (STP) and they know custodians wants their business rather than clients need us...so if we don't do it they can get somewhere else...clients have more power now.”*

*(EC, 8 years – CIS team Section Manager – 30/07)*

Clients are looking to have flexibility on their investments, they want the banks to tailor their needs and more importantly, have a software platform that allow them to move as far away as possible from the manual paperwork which can considerably reduce costs, so the straight through process piece is quite important and is linked to Freeman’s (2004) idea that technology will drive the industry.

The flexibility is also supported by Drew (1999) who argues that CIS is one of the most dynamic products in the industry. There is broad consistency with the literature review.

Customers value the diversification of portfolio, in order to provide flexibility to their own underlying clients.

As CIS is a pooled investment, it can be the case that one trade has a dozen of underlying investors, making it even more difficult to manage client’s expectations. The CIS product is very particular and harder to manage therefore the importance of explaining the rationale behind the product chosen for this research.

There is a general consensus that the CIS product will continue to growth hence the importance for this study;

*"Absolutely, its growth and the regulations are allowing more buying in the funds"*

*(GP, 15 years - Client Executive Director – 30/07/14)*

#### 6.4) Trust

The below table shows the related answers and literature review to the prompt questions.

**Table VI - Trust**

Theme	Prompt Question	Literature	Interviewee responses
Trust	In your opinion what's the role that trust plays in the Financial Services?	Colombo (2011)	<i>"Is becoming more apparent after all the scandals in the past that clients needs more transparency, its not a case transparency of the function, as the custodian case, its important to give that credibility, trust it does play a big part definitely"(EK, 14 yeas – CIS Product Manager – 28/07/14)</i>
		Sheppard and Sherman (1998)	<i>"Plays a massive role...I think is having that kind of relationship where they trust that we will deliver what we are promising and the little extra that is not on the contract but they trust that we will do"(JO, 10 years – CIS Client Executive - 31/07/14)</i>

		Sitkin and Roth (1993)	<i>"For the ground up I think trust have a lot of impact on a day to day..everybody seems to outsource in these days...if you take our clients and do an end to end view of a trade looks like...our service model is that we do our things within an amount of time (SLA)...and if is not done properly client looses confidence and trust and they start to interrupt on every step of the way..its an absolute lack of trust...realistic if there was trust from the first person to the last person of the chain you would not see 15 emails regarding the same trade...client thinks they have to intervene to make things happen"</i>
		Ennew et al (2011)	<i>"Its huge...absolutely from the ground up....sales people selling to the client, do they trust whats the person is selling to them as an entity? do they believe what they are saying? Are they being truthful...clients...they need to absolute trust that we are answering them correctly and that goes up to the chain, to the Client Executive....and even further to the CEO..Everything turns up to the fact that the client trust the custodian" (DR, 10 years – Client Delivery Department Director 29/07/14)</i>

There is consistency between the findings and the literature review. The responses are similar with all participants agreeing that trust plays a massive role in the Financial Services industry. Views expressed center in consistency, expertise and shared values by having the client's interest as top priority which is linked to Ennew's et al (2011) views of the role that trust plays in the financial industry.

*"Its huge...absolutely from the ground up....sales people selling to the client, do they trust what the person is selling to them as an entity? Do they believe what they are saying? Are they being truthful...clients...they need to absolute trust that we are answering them correctly and that goes up to the chain, to the Client Executive....and even further to the CEO..Everything turns up to the fact that the client trust the custodian"*

*(DR, 10 years – Client Delivery Department Director 29/07/14)*

Trust plays a key point at all stages, specially from the client delivery team's perspective, if clients lacks trust they intervene on every stage and do not allow processes to flow causing a lot of duplication of work.

*“For the ground up I think trust have a lot of impact on a day to day..everybody seems to outsource in these days...if you take our clients and do an end to end view of a trade looks like...our service model is that we do our things within an amount of time (SLA)...and if is not done properly client loses confidence and trust and they start to interrupt on every step of the way..its an absolute lack of trust...realistic if there was trust from the first person to the last person of the chain you would not see 15 emails regarding the same trade...client thinks they have to intervene to make things happen”*

*(KJ, 7 years - CIS Team Leader - 28/07/14)*

## 6.5) Value Proposition

This research explores if a new model of service can bring value proposition to CIS clients, so the first key thing to be discovered is actually what brings value to CIS clients, firstly to find out if the phenomena was worth studying in the first place and secondly to propose a new model of service that could deliver these core value propositions to the clients.

**Table VII – Value Proposition**

Theme	Prompt Question	Literature	Interviewee responses
Value Proposition	In your opinion what creates value for CIS clients?	Walters (1999)	<i>“I think they value most people that can call and rely on...they want to have that direct contact with people that are responsible and take ownership and will solve their problems.” (JO, 10 years – CIS Client Executive - 31/07/14)</i>
		Ennew et al (2011) expertise as part of role of trust	<i>“Expertise, without a shadow of a doubt, it’s a difficult product to navigate. Clients want to have a correct answer.... knowing that we have to go to several different people and make sense of their answer and send this back to the client on a clear manner is very much appreciated for the client.” (DR, 10 years – Client Delivery Department Director 29/07/14)</i>
		Webster (1994), Piercy (2000)	<i>“Well I guess is changing over the years, in the past was all about fee structure, price was the driver and now I think is the service, how easy it is to transact...how many people will answer when they pick up the phone and ring us to know about their trade...yes....service is key”. (DT, 15 years – CIS Operations Manager – 29/07/14)</i>



<b>Value Proposition</b>	<b>Would the new model impact the service cost, by how much?</b>	Harness and Mackay (1997)	<i>"We don't need any more people...we need to relocate the people that we have..it should have a minimum impact on FTE (number of people)...For example, we had 1000 Income queries last month and we logged 700 queries to Income...they are answering the queries anyway to us...they could be answering to the client directly and they are experts and should be able to close the query much quicker than the CSR...we are the buffer for the entire bank...its not fair and not productive" (DR, 10 years – Client Delivery Department Director 29/07/14)</i>
		Harness and Mackay (1997)	<i>"if you are to scope it out there is no much impact in FTE...if you take settlements and acc opening process for start...everything that we do Operations is also doing so...the impact would not be big...is just a matter of reallocation of your people..." (KJ, 7 years - CIS Team Leader - 28/07/14)</i>

The responses were similar, with a general consensus on service (people that clients can trust) and expertise. The statements were consistent to the literature review that advocates that value has to be delivered and that service is one of the ways of doing as explored by Walters (1999) and Piercy (2000) among others.

*"I think they value most people that can call and rely on...they want to have that direct contact with people that are responsible and take ownership and will solve their problems."*

*(JO, 10 years – CIS Client Executive - 31/07/14)*

*"Expertise, without a shadow of a doubt, it's a difficult product to navigate. Clients wants to have a correct answer.... knowing that we have to go to several different people and make sense of their answer and send this back to the client on a clear manner is very much appreciated for the client."*

*(DR, 10 years – Client Delivery Department Director 29/07/14)*

*"Well I guess is changing over the years, in the past was all about fee structure, price was the driver and now I think is the service, how easy it is to transact...how many people will answered when they pick up the phone and ring us to know about their trade...yes.... service is key".*

*(DT, 15 years – CIS Operations Manager – 29/07/14)*

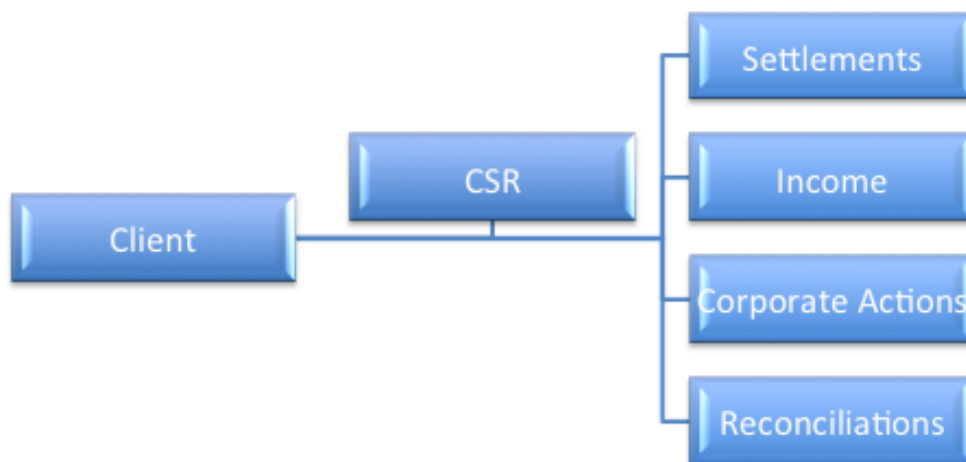
There is a consensus among interviewees that value proposition for CIS clients are **expertise** and **service** (someone that they can trust). After this conclusion two models were presented to the interviewees. First the current model (A) and then the

new proposed model (B). The author explained both models in the detail during the interview and also in this research, as per below.

### **Model A**

The CIS client delivery team is currently structure as per the below model. By being the first point of contact for all queries the CSR (Client Service Representative) is responsible to liaise with the different areas of the bank. The below four key areas are correspondent to 90% of the questions (according to internal statistics) being the other 10% ad hoc queries (i.e., regarding billing, tax, implementation, etc.)

**Figure III – Current model of service for CIS clients**



These four main areas can be subsequently broken down in several different small areas as mentioned on the below table, but for this case of study the author did not break down further to keep the design as simple and understandable as possible. See below, for reference, the main related queries from clients per area.

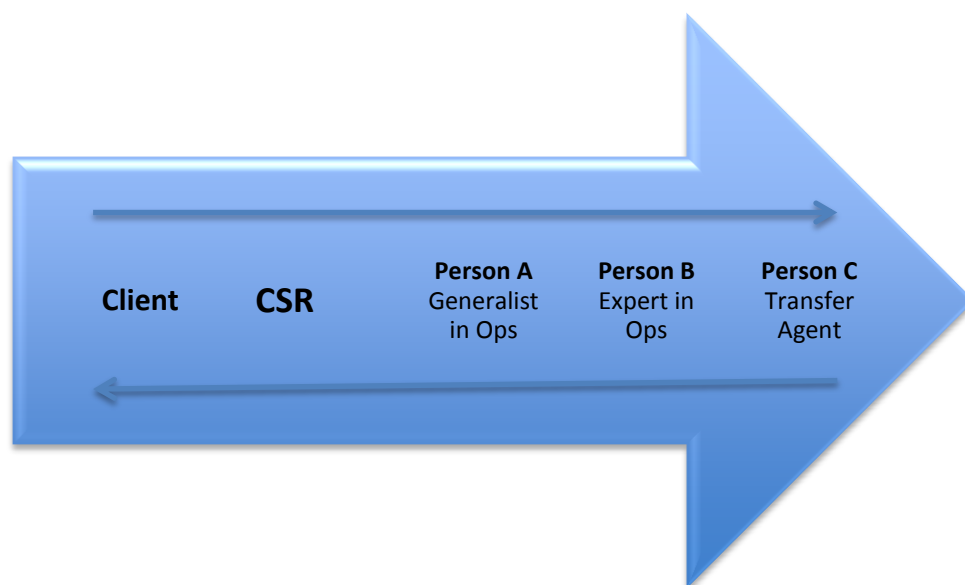
**Table VIII: Main areas subdivisions of query types**

<b>Settlements</b>
- New Account Set ups
- Documents request
- ISIN creation
- Agency codes and rates
- Trade amendments
- Trade Status
- Contract Notes chasers
- Technical Rejections
<b>Income</b>
- Events creation
- Events delay
- Payment delay
- Rate dispute
<b>Corporate Actions</b>
- Event creation
- Liquidation
- Mergers
- Payment delays
<b>Reconciliations</b>
- Statements/NAV's
- Breaks

**The flow of queries explained:** the customer sends a query to the CSR, this person is a generalist, due to this fact, in several occasions, the CSR is not able to fully resolve the query from the client and it has to log an internal query to the relevant department (Operations – Settlements, Income, Corporate Action and Reconciliations).

The structure of the Operational team that receives these queries from the CSR is the following; they have a **person (A)** to attend the CSR queries, however this person is not the specialist. This person (A) receives the query and assign this query to the relevant processing team (**person B**) who is the specialist. However the processing team only processes the information received from the Transfer Agent (**person C**), therefore the person B has to go externally and ask the relevant information to the Transfer Agent (person C).

*Figure IV - Query Cycle*



In the best case scenario the query has four touch points until it gets to the person that will actually answer the question, then another four touch points on the way back to the client. This obviously considering that there is no misunderstanding of the question from any of the parties involved, if there is any counter question/doubts the query can have 10, 12 touch points.

For urgent queries is even worse, by the time the query reaches the Transfer Agent (person C), the urgency can be lost.

### **Model B**

This research proposes the below model of service delivery, the client being the center of the relationship. Instead of only one person, client will liaise and communicate with four different teams and several different people. For instance, if the client picks up the phone to ask about a trade, the same person that answers the phone will be able to settle the trade, as they are the people with system access and knowledge to do that, it is an end-to-end process and an integrated custody.

The idea is to remove two layers of the process, the CSR and the Operations Generalist. In this model, client should be able to send the query directly to the expert of the relative area that the query is in relation to.

**Figure V – Proposed new model of services for CIS clients**



After these models were presented to the interviewees the following questions were made (Table VI) in order to establish the positives and negatives of both models and the core value proposition that the new model could bring to the clients.

**Table IX – Models**

Theme	Prompt Question	Literature	Interviewee responses
<p style="text-align: center;"><b>Value Proposition</b></p>	<p style="text-align: center;"><b>The current service model is A what do you think of this model. Any pain points? I have a proposed revised model B – what do you think of this model? Are the clients mature enough to use it?</b></p>	<p>Walters (1999)</p>	<p><i>Clients want one point of contact..regardless if they are the correct people...but they also want correct answers and quickly....even though the CSR's know a lot it is impossible to have both...the CSR have to engage to so many different departments and so many people its impossible...for example 48% of our queries are settlement related and client should be able to ask Operations...we don't need more people, Operations is already responding those questions to the CSR...so we need to up skill them and they can respond directly to the client" (DR, 10 years – Client Delivery Department Director 29/07/14)</i></p>
		<p>Alloza (2004)</p>	<p><i>"Model B is the future, we have to up skill the client to use the model, I think they are mature enough, with education they will use it..Client have to respect the rules..have to sell the new operative model to the clients. Someone needs to have the overall picture...you have to have a single owner to make sure the questions are answered...This guy (CSR) becomes the monitor. The client likes to have someone to go to if the other areas are not responding" (GP, 15 years - Client Executive Director – 30/07/14)</i></p>
		<p>Treacy and Weirsema (1993)</p>	<p><i>"There is a lot of value on both and we need to improve processes...operations agreeing the ideal model is a mixture between the two...who is the kind of gate keeper...if the clients goes to the different areas and that will improve turnarounds but there is a knowledge and training gap that has to be fulfill .There is definitely benefit in that (model B) but definitely we need someone to watch it over" (JO, 10 years – CIS Client Executive - 31/07/14)</i></p>
		<p>Kotler (1997)</p>	<p><i>"definitely needs someone to overlook all the teams and a big gain in expertise would bring a lot of more value to the client" (KM, 30 years – CIS Product Director – 29/07/14)</i></p>
		<p>Webster (1994)</p>	<p><i>"Model A is absolutely full of flaws....Nobody is competent enough to answer all these questions for all the areas...whats the point of having a client coming to someone that a) doesn't undertand the question, b) doesn't know if the question make sense all its doing is passing the ball. Model B is much better but will require a big push to the clients" (KJ, 7 years - CIS Team Leader - 28/07/14)</i></p>

There was strong agreement that the new proposed model (B) should bring more value to customers as streamline processes, linking back to Walter (1999) ideas that superior value is to be created and delivered and Webster (1994) of how a firm proposes to deliver superior value to customers. However gains and pain points were identified on both models.

*"Clients want one point of contact...regardless if they are the correct people...but they also want correct answers and quickly....even though the CSR's know a lot it is impossible to have both...the CSR have to engage to so many different departments and so many people its impossible...for example 48% of our queries are settlement related and client should be able to ask Operations...we don't need more people, Operations is already responding those questions to the CSR...so we need to up skill them and they can respond directly to the client"*

*(DR, 10 years – Client Delivery Department Director 29/07/14)*

*"Model A is absolutely full of flaws.... Nobody is competent enough to answer all these questions for all the areas...what's the point of having a client coming to someone that a) doesn't understand the question, b) doesn't know if the question make sense... all its doing is passing the ball. Model B is much better but will require a big push to the clients"*

*(KJ, 7 years - CIS Team Leader - 28/07/14)*

In a first glance the author identified the below points:

**Gains of Model A:** Client has one and only contact for any BAU queries, improving relationship and trust.

**Pains of Model A:** Multiple Hand offs, inefficiency, and client frustration

**Gains of Model B:** Efficiency, expertise, reduce turnaround times

**Pain of Model B:** Overall picture may be compromise, harder to built trust

Another point that this research investigated was the cost of this new structure (refer to Table VII), this question was asked to establish the viability of implementing the new model. There was strong agreement among the participants that the costs

would not be a factor as it is a matter of rearranging resources rather than get more people.

*"We don't need any more people...we need to relocate the people that we have, it should have a minimum impact on FTE (number of people)...For example, we had 1000 Income queries last month and we logged 700 queries to Income...they are answering the queries anyway to us...they could be answering to the client directly and they are experts and should be able to close the query much quicker than the CSR...we are the buffer for the entire bank...its not fair and not productive"*

*(DR, 10 years – Client Delivery Department Director 29/07/14)*

The interviewees also mentioned that cross training between departments is extremely important and that everybody would benefit from it, the CSR would gain knowledge and become an expert in a particular area and Operations would gain expertise on client focus and how to deal with client's expectations. Considering that clients should be the main focus of the organisation, every single department should be able to deliver a high level of service.

Even though there is a strong agreement that model B can bring more value proposition to clients there was also a consensus that there is still a need of a person to overlook the whole process.

*"There is a lot of value on both and we need to improve processes...operations agreeing the ideal model is a mixture between the two...who is the kind of gate keeper...if the clients goes to the different areas and that will improve turnarounds but there is a knowledge and training gap that has to be fulfill. There is definitely benefit in that (model B) but definitely we need someone to watch it over"*

*(JO, 10 years – CIS Client Executive - 31/07/14)*

*"Model B is the future, we have to up skill the client to use the model, I think they are mature enough, with education they will use it. Client have to respect the rules...have to sell the new operative model to the clients. Someone needs to have the overall picture...you have to have a single owner to make sure the questions are answered...This guy (CSR) becomes the monitor. The client likes to have someone to go to if the other areas are not responding"*

*(GP, 15 years - Client Executive Director – 30/07/14)*

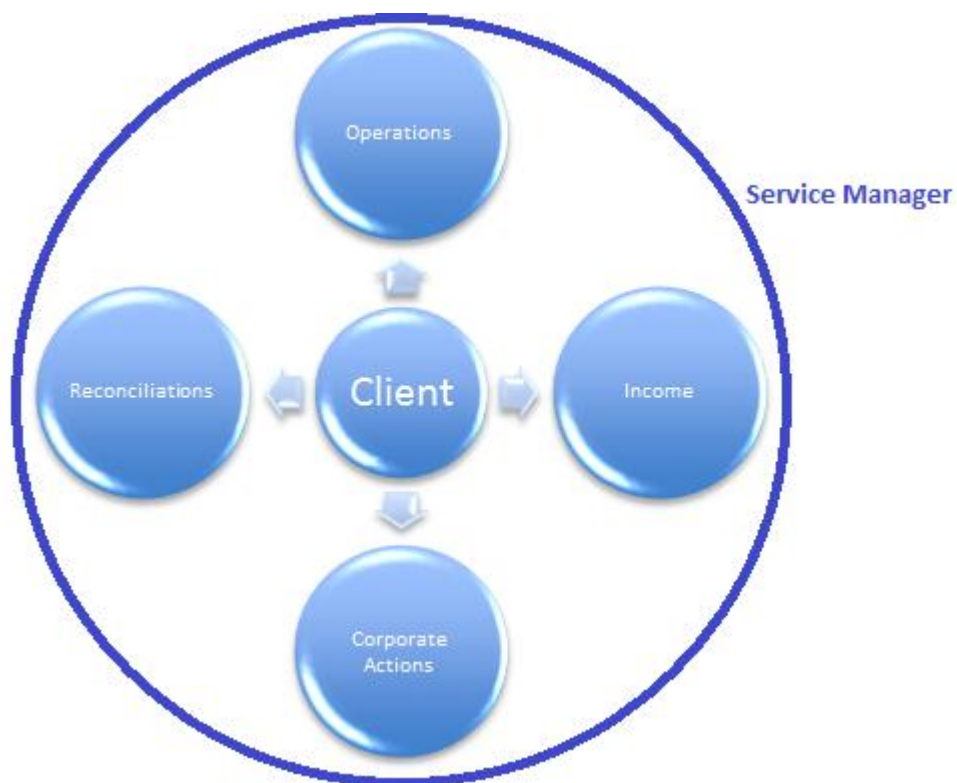
*"...definitely needs someone to overlook all the teams and a big gain in expertise would bring a lot of more value to the client"*



The suggestion is that a new position, a Service Manager is created for this role. This person would be the gatekeeper of all processes and a point of escalation to clients. The Service Manager should be able to see the connection of areas. For example if a trade is not settling due to a corporate action event. Clients would have this person as their representation in the organization, someone to trust that all matters are being resolved.

Views were expressed that a third model (C), hybrid of models A and B is the most appropriate.

**Figure VI – Revised Model (C)**



Model C is the model that can bring the previously defined core value to CIS clients, expertise and service by having someone that they trust, together.

## **Chapter 7: Conclusions**

### **7.1) Introduction**

This chapter draws together the conclusion of this study from previous discussed findings and outcomes, limitations of the study and future study recommendations.

### **7.2) Overview of the study's focus**

This study explores if a new model of service, in a custodian bank, for CIS clients, can bring value proposition to customers.

The overall outcome of this study is a greater understanding of the relationship between the clients with the custodian, the product, the value proposition and trust. Models developed in this research are explanatory and are used to illustrate, but can also provide insights to the business.

### **7.3) Methodological conclusions**

The literature review and research build a solid platform, which the case study research is developed, verifying both theoretical development and sampling suitability. Both stages are selected for their suitability to the research's outcomes and come together to form a cohesive and comprehensive study. Whilst the philosophy of the research allows it to develop and grow, rigorous methodological considerations and protocols are used in order to strength both its validity and transferability to the "real world". Limitations of the work are acknowledged and reduced were possible.

The sample selection is a crucial part of this research. Literature also supports the selected case study methodology used in this research.

### **7.4) Custodian**

A gap in literature regarding the role of the Custodian banks in the Financial Industry is acknowledged in this research.

The outcomes of this study highlight the importance of the custodian to CIS clients, including; cost reduction, flexibility, technology, expertise and access to markets.

Findings also highlights that is very likely that custodians will become mandatory to clients wishing to invest in the CIS product, due to market regulations. In short it represents a strategic position for the organisation.

### **7.5) CIS Product**

This study explores the role that the CIS product plays in the relationship with clients. Due to product-specific characteristics the study outcomes is that this product is still growing. Also the nature of the product, very manual, highlights the role of the custodian for clients, enhancing the importance of the relationship and service provided. In a dynamic and complex market a solid service and technology is vital and the outcome of this study is that the STP of the custodian and flexibility of the product are key areas to clients when looking for the service.

### **7.6) Value Proposition and Trust**

Whereas some studies have emphasized the value proposition as a key marketing concept (Walters, 1999; Buttle, 2000; Piercy 2002), and other have focused on definitions of the internal impact of the value proposition (Webster, 1994; Alloza et al, 2004) this study further explores how it occurs in the Financial services business. There is no specific literature of value proposition in the Financial Services Industry, specially a custodian bank. The outcome of this research however concludes that service, expertise and flexibility are the core factors that can bring the most value proposition to CIS clients. In line with this context, there is a strong agreement among the participants that the proposed new model B would bring more value to customers, but only if amended as it's shown in model C as trust plays a bigger role than expected.

Clients are so attached to trust that they still need someone to be the "go to" person. The research finds that this can be explained for the nature of the industry, aspects such as uncertainty, risk and personal relationships, plays a massive role.

This view is supported by Maas and Graf (2008) "For example, if customers buy insurance coverage for housing or health, they do not know if they will ever need it...but with regard to investments is different as they expect more."

The results of this study provide practical stepping-stones towards improving the creation and delivery of value proposition to customers.

### **7.7) Findings and Research Questions**

Throughout the range of findings there is rich evidence to draw upon to answer the research questions. The benefits of the CIS product and the value proposition to CIS clients have been already highlighted therefore will not be repeated in this section. In a few words, flexibility and STP (technology) expertise and service.

The findings also provide evidence that Model C (hybrid of current model and proposed model) can identify an improved value proposition for CIS clients.

### **7.8) Limitations to Research**

This research is limited by the following factors:

#### Literature review

The gap in literature for the subject of this study it provided to be a difficult obstacle to overcome. It made it harder to justify the analysis. On the bright side this study may be a small step of creating new literature for future research.

#### Sample size

The sample size is small. Even though the interviewees are very relevant for this study the view of eight people may be insufficient to base findings on for this research.

#### Data availability

Custodian's confidential nature and non-disclosure data made it difficult to find sufficient information to provide arguments without jeopardizing data protection.

### **7.9) Future Research possibilities**

It would be interesting to extend the current approach to customers. Gathering client's view of the service provided and their opinion on what are the main areas that could improve.

A replication of this study, in the same company after the transition to model C, would also be interesting and reassuring.

This research focuses on the value proposition due to service-based nature of the CIS product. As the value proposition is delivered through people an investigation could be carried out with firms with product based offering in order to identify similarities and disparities.

#### **7.10) Implications for Practice**

It was established that the new proposed model would not cost more to the organisation therefore could well be implemented. Considering that excellence in service is a source of competitive advantage, in the dynamic Financial Services Industry, this study really provides insights to the organisation. Market competition is pressuring the custodians to retain clients, and the new model, that brings more value proposition to customers, can be a good way to start. The department Director has shown an interest on this research and asked for a copy of the study as they are actually looking at the possibility of implementing the new model of service.

Training is a factor that has to be planned in the details, as the new model will impact and completely change the layout of five different teams. All involved should undertake training programmes. A pilot implementation with one or two clients to test the model could be interesting. Another positive implication is that knowledge would grown on both sides; the CSR and the Operations teams.

#### **7.11) Closing**

The attention given to value proposition in organisations is gaining space in the financial industry, as it can be a source of competitive advantage. The same can be said about the CIS product, as it is one of the very few products that are experiencing growth in the industry. The benefits that an excellent customer service can bring to an organisation are a valuable tool to retain existing customers and gain new ones.

The author's aspiration prevails that clients should receive an exceptional level of service having someone that knows their business, takes ownership of their problems and that they can trust to have their best interest at all times.

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## **Appendices**

### **Appendix I**

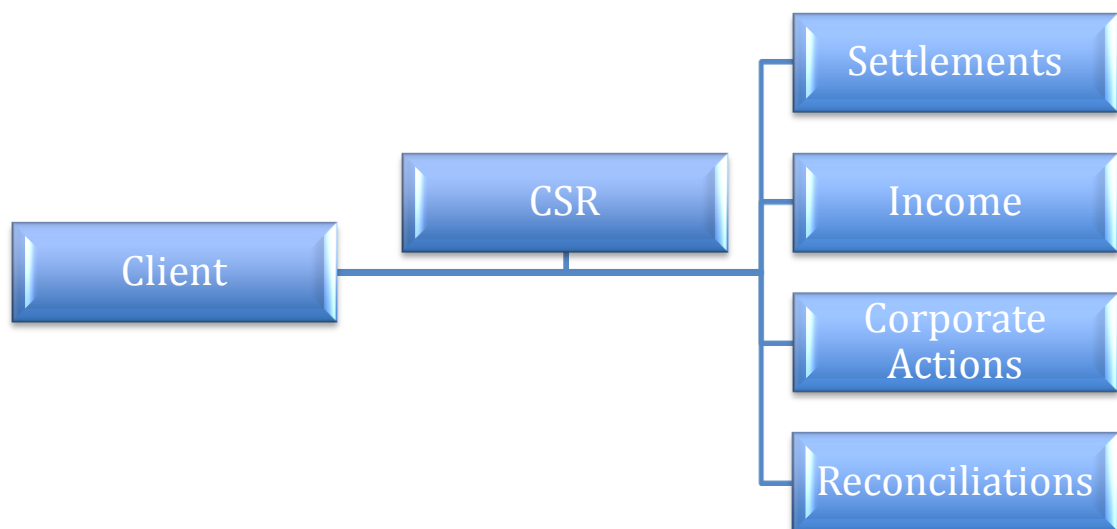
#### **Questionnaire sample**

- 1) What's your background, how long are you in the industry?
- 2) Which financial needs clients expect to fulfill when they contract a Custodian?
- 3) In your opinion what creates value for CIS clients?
- 4) What do you believe customers value in the CIS product?
- 5) What's your perspective of growth of the CIS product in the next few years?
- 6) In your opinion what's the role that trusts plays in the Financial Services?
- 7) The current service model is A what do you think of this model. Any pain points?
- 8) I have a proposed revised model B – what do you think of this model? Are the clients mature enough to use it?
- 9) Would the new model impact the service cost, by how much?
- 10) Do you think Customers would still prefer to have the exclusivity of dealing with one advisor only?
- 11) Anything else that you would like to add?

## Appendix II

### Model A

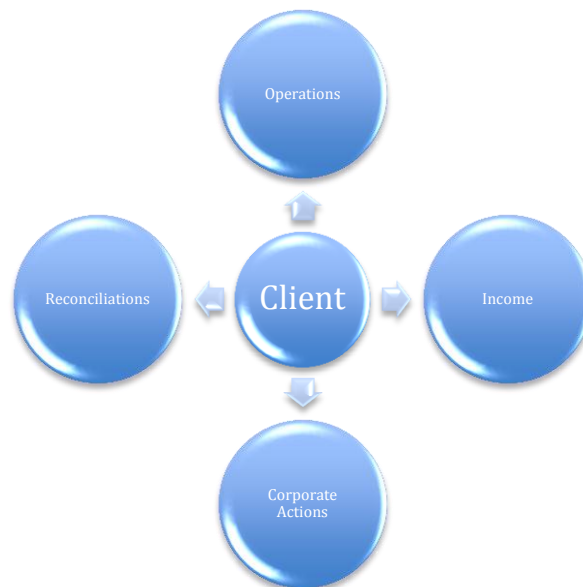
CSR is the first point of contact for all queries and is responsible to liaise with the different teams, being the below the four main ones.



## Appendix III

### Model B – Integrated Custody

Client should be able to deal directly with the main teams – Operations and client delivery integrated to provide a better turnaround of queries





## **Appendix IV**

### **Summary of Interviews**

#### **EK – CIS Product Manager – 28/07/14**

Q1) 14 years within the financial services

Q2) Its different for different instruments.. fort CIS they expect the custody and reconciliations of their assets...comparing to different Transfer Agents...with our model is take a step further and detect the interaction with the TA in house so we can then manage those relationships rather than have to depend on the client having their accounts opened with the TA, have that relationship directly, they had in their own names...some companies do still have that model but the fact that there is five people to play client, FM, TA, either the Custodian or vendors, a lot of cross conversations, our model try to make that very simple flow, the client communicates with us and we then communicate with all different TA's and manage the accounts to get their reconciliations and asset servicing. By having a custodian they can be sure their assets is credibility for their assets and reconciliations.

Q3) value is taking a step further then normal custody and that's the order routing piece, holding nominee accounts....one stop shop for the clients to place the orders and for us to manage those flows with different vendors and TA's and Full transparency flow does add value

Q4) there is a lot of growth at the minute, 5% to 10% of the European market, growth not only with the mutual funds but also with the hedge side of the business....a lot of growth with the current clients and there is a lot of room to growth in the future.

Market wants the impartial credibility to the assets and is becoming more apparent that there is a growth for future

Q5) is becoming more apparent after all the scandals in the past that clients need more transparency, it's not a case of transparency of the function, as in the custodian case, it's important to give that credibility, trust it does play a big part definitely

Q7/Q8) I think the fact is that nobody is going to know everything the factor to consider is the fact the way industry works.

Model B works perfectly for equity and bonds because of the availability of the information and the format of the information, you can get all your CA and Income in Bloomberg, there is no one consistent point of information.

Going through the CSR model A, they make the connection of one trade with a CA event so maybe a hybrid with model B ...the network management is key, someone to make the connection.

You are right, it's very hard to manage all different turnarounds of different teams but we need someone to see it all

Q9) it's hard to say because again the CIS model is different, it could be a case of integration and built the CSR's into the current teams and train them

Reallocation of resources more than taking more resources, CSR is already going to someone in settlements and this person could be the one answering the client, for sure...CA and Income as mentioned the problem is the availability of the information

Q10) it depends really on how they are structured, it could be one person in a company that is managing all of that, well...we would hope so they would if we give them the contacts and sell it the idea, value added in that where the clients come in with a query because it comes into one CSR they are able to understand the impact that this will have down the line, if the teams are split up there is no communication of that...there are pros and cons for everything by having one person of contact and model B can be messy

Q11) No...settlements is the main thing, order routing..another point is how we communicate internally...

**KM – CIS Product Director – 29/07/14**

Q1) 30 years, first job was in London Stock Exchange..nobody had computers and we did by hand the fund performance information and publish every night

Q3) I think they look for three issues, first of all there is the safety of having a custodian managing their funds, is not a legal requirement yet but the world is gonna change and regulations will get more and more concerned and the role of the custodian will become more and more important just because regulators will seek a safe place for the money of the investors.

Second thing is the outsourcing the risk, as you see yourself, we do outsourcing for the security of having someone to take the risk to them.

Also they want to remove the fixed cost of their business, they use to have to manage the staff and communicate all the trades and here if they don't trade they don't have to pay us and remove all this cost from their business

Q2) I think for an ordinary client and we put a cut off and there is no risk for them it is up to us to manage that and clients constantly say that we do everything else and they can concentrate on their client management

Q4) the CIS comes in the custody products as we execute the trade for the client, connectivity to the market, access to funds, client come in as a supplement investor rather than an individual investor

Q5) I think is astronomical. Only in Europe, ignoring USA, Middle East, Japan, we have less than 0,03% of the available market business and we have 100billion in assets in CIS at the moment...so....

I think will be driven by regulation...I think the regulations will say No you have to have a custodian..it will be an obligation and the product will growth even much more

Q6) people think public doesn't like a bank but insurance companies are trying to become a bank as they want to keep you money but they don't want to be seeing as a bank..

We are luck we are dealing institution-institution and trust is not so bad for us.

Funds are still a very new thing to manage and they don't trust us to let the process to flow

Q7/8) the challenge is knowledge and attitude, you have been a pleasure to work with but you know you are minority...you need someone to know that understands the process, you cannot know everything about every client....therefore you have to rely on a group of people to support you...sometimes it can be a matter of interpretation and communication...time barrier, language barrier...if the client ask you a second question you have to go back again and ask again ...the CSR is the most important piece of the model...

We failed in the sense that the people you deal with came from the funds industry and again knowledge is the challenge...between you (CSR) and the experts is were we have failed the most

We have to offer a path through the organization, training and a path for people to acquire knowledge

#### **KJ – CIS client delivery team leader – 28/07/14**

Q1) 7 years

Q2) well, I guess they are looking in terms of scalability we can offer access to all different market, its kind of one spot shop

And what is sold to them is that they also get a babysitter to them (the CSR)...they used to have people doing this job there and when they hire a custodian you can see that they are a bit bitter because they probably have lost a lot of their own friends because the work is now passed to us

Q3) the scalability again, in terms of headcounts again and model where they have a global custodian and a middle office for CIS, the risk is completely moved to their office to our office if they place a trade within cut off

The value is financial, they money that they save in headcounts, the risk they can spread , they save a lot of cash on the down size the client completely loses control, once their assets are under own name (nominee structure) they don't exist anymore

Q4) did not understand the question and answered again q2

Q5) yes, definitely will growth, there is a focus to get big clients now rather than small clients

Big focus on growing the product initially but now the focus is in capture big big clients

The funds industry itself is exploding...clients are starting to dip their toes more and more

Q6) For the ground up I think trust have a lot of impact on a day to day..everybody seems to outsource in these days...if you take our clients and do an end to end view of a trade looks like...our service model is that we do our things within an amount of time (SLA)...and if is not done properly client loses confidence and trust and they start to interrupt on every step of the way..its an absolute lack of trust...realistic if there was trust from the first person to the last person of the chain you would not see 15 emails regarding the same trade...client thinks they have to intervene to make things happen

Models

Model A is absolutely full of flaws....Nobody is competent enough to answer all these questions for all the areas...whats the point of having a client coming to someone that a) doesn't understand the question, b) doesn't know if the question make sense all its doing is passing the ball

Generalist goes to another department who have a query answering section  
operational department (another generalist) goes to the processor and the  
processor has to go externally or to another department internally  
It takes 15 touches before it actually gets to the person that knows the answer...it's  
impossible

If something is urgent...after so many touches its not urgent anymore

There is just too many people doing the same thing..its impossible

Model will be perfect if you can have two things:

A query system that roots the query to the right bucket/person

Maturity – it would require a big push, we don't even ask our clients to format the  
emails in a particular manner...clients are spoilt...if there is a system that client had  
to input minimum information

Client like to have the exclusive person because they don't need to format, provide  
information and they don't have to take any responsibility on the information

Model A is impossible to support in the future days...

No it's a lot easier to make someone to be up skilled in one area than in 10 areas, its  
just a reallocation of resources.

**GP CE Director – 30/07/14**

Q1) 15 years

Q2) they want someone to hold their assets because generally they can't do it  
themselves specially with the IFD...and holding them correctly...

Q3) CIS is slightly different as essentially you are taking away something that the clients use to do it before and they value the straight through process that we have to offer ...STP and cost are the big drivers

Q4) there is more fund to fund platforms through new regulations that allow them to invest in fund and they get exposure to a certain market and you let that fund to take the risk going to the market and they have more leverage in that market

Q5) Absolutely, its growth and the regulations are allowing more buying in the funds

Q6) It's absolutely key but its lost...the trust between people are now looking for back up on everything....e-mails, etc

Q7/8) That's what is happening and up skills the client to use the model, I think they are mature enough, with education they will use it..Client have to respect the rules..have to sell the new operative model to the clients. Someone needs to have the overall picture...you have to have a single owner to make sure the questions are answered...This guy becomes the monitor. The client likes to have someone to go to if the other areas are not responding.

Absolutely that's the way to go, is the way fund accounting works and works perfectly

#### **JO – CIS CE 31/07/14**

Q1) just over 10 years

Q2) I think it depends on the client...for CIS clients it's the biggest need is on the operations side, if they had to do themselves would be a huge cost, also they send the risk to us and they don't have the infrastructure to do it, huge cost involved on

that and the risk...expertise that comes with the provider from the regulatory perspective as well

Q3) I think they value most people that can call and rely on...they want to have that direct contact with people that are responsible and take ownership and will solve their problems

Q4) invest in 8000 funds easily rather than going directly and can offer to a lot of small underlying clients to invest together...they aggregate trades...and they get the leverage from us because we have the contacts and discounts from vendors as

Q5) Plays a massive role...I think is having that kind of relationship where they trust that we will deliver what we are promising and the little extra that is not on the contract but they trust that we will do

There is a huge impact on them...every issue they raise to us they have hundreds of underlying clients pressing them

Q6/7)

There is a lot of value on both and we need improve processes...operations..agreeing the ideal model is a mixture between the two...who is the kind of gate keeper...if the clients goes to the different areas and that will improve turnarounds but there is a knowledge and training gap that has to be fulfill .There is definitely benefit in that (model B) but definitely we need someone to watch it over

With education and the message of how is delivered to them...clients will have maturity

Politics...everyone has to be in it together...have to be very careful



## DT – CIS Operations Manager – 29/07/14

Q1) Just over 15 years

Q2) well I guess is changing over the years, in the past was all about fee structure, price was the driver and now I think is the service, how easy it is to transact...how many people will answered when they pick up the phone and ring us to know about their trade...yes..service is the key

Q3) I think is quality...I guess they only going by being involved on sales pitches for the past few years but they are impressed ... the fund industry is a bit behind, is very manual..and they are impressed by the platform we built and quality is the most important thing

Q4) I don't think we understand why they are investing....at least on the Operations side we don't look at this...we look at the most efficiency way and STP to do it

Q5) I think we don't have a dedicated sales in CIS here...there is no transition for now...It has always being profitable and people have to look at it..its unusual that sales forgot that so quickly but there is a lot of money to be made in CIS yet

Q6) I think specially with the hedge fund business..and there is a lot going on the background ..client have to be able to trust that we are doing our best to place things on time..client have to trust the process and that we are doing everything in a transparent manner

Q7/8) definitely needs someone to overlook all the teams and a big gain in expertise would bring a lot of more value to the client

Have to be careful because if clients think that one team is better than the other they will keep going to the whatever team they feel more comfortable

I can see the benefits of it and CIS teams are quite small so you could integrate them quite easily

The perfect one is the one person doing it all but that's impossible

**DR – Client Delivery Department Director 29/07/14**

Q1) 10 years

Q2) to pick a particular custodian will be price..what they will say is service and also products...which products does this custodian offers

On the back of all of that is how we deliver the service and the people

Q3) expertise, without a shadow of a doubt, it's a difficult product to navigate..wants to have a correct answer..knowing that we have to go to several people and make sense of their answer and send this back to the client on a clear manner is very much appreciated for the client

Q4) Literally is what they are looking to do with different funds and all goes to price again and is a piecible product and we make clients life easy..we do all the labour for them..reporting and clients buy in to us by being a custodian and by doing the leg work for them

Q5) I am seeing quite large deals come down trough deal review at the moment..difficult to know how the market will go but I can see it growth...

Q6) Its huge...absolutely from the ground up....sales people selling to the client, do they trust whats the person is selling to them as an entity, do they believe what they are saying? Are they being truthful...client has to trust the CSM...and when they come on board they we are the clients voice in XXX and we do everything for them...they need to absolute trust that we are answering them correctly and that goes up to the chain, to the Client Executive....and even further to the CEO..Everything turns up to the fact that the client trust the custodian

Q7/8) Clients want one point of contact..regardless if they are the correct people but they also want correct answers and quickly....even though the CSR's know a lot it is impossible to have both...the CSR have to engage to so many different departments and so many people its impossible

I think Settlements should look the CSR's as their clients and I am not sure if that's the case, in fact I know is not

This is exactly the way we are going now...we will ask clients to go directly to the Operations..for example 48% of our queries are settlement related and client should be able to ask Operations...we don't need more people, Operations is already responding those questions to the CSR...so we need to up skill them and they can respond directly to the client..

There is a need of a Service Manager to keep it altogether, for instance if there is a Corporate Action interfering in a trade settlements, the client will go to the Service Manager as a point of escalation and this person will be able to correlate the two areas...joint the dots

That will be key, when client goes to Operations is very important as they need to have a little bit of Client services skills...the CSR will have to Cross train with Operations

They absolute prefer to have one person but we are looking clients to go to Operations but still overseen by the CSR...some will be happy to get queries answered quicker and better but some will be unhappy that they have four different touch points to deal with

Costs – we don't need anymore people...we need to relocate the people that we have..it should have a minimum impact on FTE (number of people)...For example, we had 1000 Income queries last month and we logged 700 queries to Income...they are answering the queries anyway to us...they could be answering to the client directly

and they are experts and should be able to close the query much quicker than the CSR...we are the buffer for the entire bank...its not fair

Absolute this model can work and will work

### **EC – CIS team Section Manager – 30/07**

Q1) 8 years

Q2) clients were looking for us to be more flexible about what they are doing, they use our platform and they know custodians want their business rather than clients need us...so if we don't do it they can get somewhere else...clients have more power now

Q3) it's a one stop shop...is how we sell it to client..is not as smooth as they want which brings client's frustration..I suppose is basically convenience..we do everything for them

Q4) CIS is a growing product...you don't have too many companies going ..offering too many products..global custody is quite mature, there is no massive market that a custodian hasn't broken in yet so it seems to be the hype at the moment

Q5) the huge growth happens 5 years ago but obviously other custodians are getting up to speed...there is still a few developments and enhancements that can happen but I don't see an amazing growth

Q6) is huge and is increasing since the 2008 crash....before there was no controls people and since that happened and clients are now doing more thorough due diligence and clients are kind of careful now and trust plays a major point...it's all over from top down

Q7/8) gate keeper

That's what you are gonna miss....it's a lack of ownership if you don't have someone to see the full picture...the new model will work but you need someone to oversight the whole process...like a service manager to overseen and work as an escalation point

A service quality manager would be a better phrase...need to be someone to motivate...is like a super CSR...as we are expected to be experts in some areas and its impossible...

Q10) It is hard to move from one person but I think they are mature because we are pushing them to be more self servicing and ...there is a lot of push backs to client now...I think clients are a lot more mature now

That model will work but in my eyes only if you have someone to oversight the process

As long as it's done and they have a person to escalate to they will be happy out to go to different teams

Cost – if you are to scope it out there is no much impact in FTE...if you take settlements and acc opening process for start...everything that we do Operations is also doing so...the impact would not be big...is just a matter of reallocation of your people...

