FEDERAL RESERVE BANK
OF SAN FRANCISCO

# "Becoming Owners: The Business Case for Customer-Centered Banking"

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***Remarks as prepared for delivery.***

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## Introduction

Thank you for that kind introduction, Ravi, and for being the gracious host of this year's symposium.

The Monetary Authority of Singapore and the Federal Reserve Bank of San Francisco have partnered on this event for the past several years. But this is my first time making the trip to Singapore – and I'm really excited to be here.

Now, before I begin, I have to give the standard disclaimer: the remarks I'm about to deliver are my own, and do not necessarily reflect the views of anyone else within the Federal Reserve System.

## Navigating headwinds

Banking for the common good. It's a natural evolution of the conversations we've been having at this event, and many like it, for the past several years.

Being more customer-focused… using finance to create inclusive growth… understanding the role that organizational culture plays in all of it… these are hot topics for both the financial services industry and regulatory institutions.[1] And progress *has* been made.[2]

Yet consumers remain wary – even a little skeptical – of financial firms. I've got a front row seat for this in the San Francisco Bay Area. There are a lot of people willing to turn to Big Tech – and away from Big Banks – when it comes to managing their finances. A study last year found that 58 percent of Americans would be willing to move their banking to non-traditional financial companies like Amazon or Google.[3]

And it makes sense. Banks are still repairing the breach of trust caused by the global financial crisis. Repeated scandals showed that banks weren't always good actors. Poor corporate culture and profit-first practices created significant consequences for consumers.[4] People lost homes, retirement savings, college funds… a sense of *security*. It left deep scars.

Since then, much-needed regulations have improved the resiliency of the financial system, making future crises less likely. This has helped boost confidence in the industry.

But the world didn't stand still while banks worked to recover their credibility with the public. Technology-based competitors emerged with customer-centric approaches to finance.

[1] Bailey (2018), Menon (2019), and Lagarde (2019).
[2] De Nederlandsche Bank (2015) and Australian Prudential Regulation Authority (2016).
[3] Center for the Digital Future at USC Annenberg (2018).
[4] Federal Reserve Bank of New York (2018) and Williams (2018).

They offered targeted products, tailor-made to serve the needs of a diverse customer base. They worked to keep costs low, and efficiency and convenience high. Notably, these firms also talked about the broader good, and how their business models help promote a better future.[5]

Putting these things together, traditional financial institutions are facing some pretty strong headwinds. And they're headwinds that can't be addressed through regulatory guardrails alone.

So what can be done?

Here's my view: banks – large and small – need to become *owners*. Owners who are committed to – and accountable for – doing right by their customers and their communities.

You might be thinking that sounds like a lot. Or maybe that it's even too high of a standard. But speaking from experience, I can tell you: it *is* possible.

## Becoming owners

The Federal Reserve System faced its own challenges in the wake of the financial crisis. Public trust in our institution plummeted, and it's been slow to come back.[6] And like private-sector firms, we face an ever-changing landscape, and a highly competitive environment for the best ideas and talent. This was especially true at our Bank, with its proximity to Silicon Valley.

So about four years ago, the San Francisco Fed decided to take a hard look at our own organization. What was working? What wasn't? Our culture soon emerged as one of the biggest areas in need of improvement. So we decided to change it.

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[5] Menon (2019).
[6] Saad (2019) and Gallup (2019).

We started with the basics. We focused not only on what employees do, but also *how* they do it. And we emphasized skills and behaviors that would enable our best work… things like collaboration, emotional intelligence, influence, and critical thinking.

This was our starting point – our foundation. But something was still missing.

To really get to the next level, it became clear we needed to do more. We needed to become owners. Ready to hold ourselves accountable to our mission, vision, and values – no excuses. Prepared to trust our employees to do the right thing – even when no one is watching, and even when there isn't a detailed rulebook to follow.

This transition to a culture of owners hasn't been easy. And we're far from done. But embracing this mindset has changed us – and for the *better*. So I want to share with you what we've learned.

**Defining your values**

The first step in becoming an owner is defining your values. What do you believe in? How will you go about achieving your mission and vision?

At the Federal Reserve, we're tasked with a dual mandate – promoting full employment and price stability. We also support safe and sound banking and payment systems. That's our mission.

At the San Francisco Fed, we want to be the best in public service. That's our vision.

Our *values* are something different – but equally important.

They're spelled out on a banner that greets every person who walks into our lobby each day. It says: "Our work touches every American and countless global citizens."

That's our core value – service. Service to the people and the communities we represent. That's the reason we show up to work every day. That's our touchstone.

## Building trust

Defining your values is essential. But it's only the beginning of building a culture of ownership.

To give values life, and make them real for every individual you work with, you have to take action. And those actions have to be rooted in trust – the trust that your people will act in the interest of others *and* the organization.

Let me give you an example. This is what the San Francisco Fed's employee handbook used to look like. It was created with the best of intentions: to help people become successful members of our team. But what it turned into is pretty intimidating.

It's heavy. It has a lot of rules. Worst of all, it sends the message that we need to micro-manage and monitor the very people we're counting on to be our ambassadors – our employees.

This is the *opposite* of trust.

So we threw the whole thing out.

Here's the new one. Big difference. I can carry it around with me, for one thing.

Gone are the lists of dos and don'ts. In their place is a new mindset – one that defaults to the *positive*. It describes our values, and calls on employees to uphold them using their best judgment. Most importantly, the new handbook moves away from solving for potential *bad* behavior, and instead emphasizes the expectation of *good* behavior.

We followed the new handbook with more radical moves. We told people they could "dress for their day," and "flex for their day," and "stop doing it" if certain processes no longer added value.

Not surprisingly, all these changes caused some heartburn. You might be thinking about all the things that could go wrong. What if people take advantage? What if we can no longer get our work done?

I get it. Conducting business this way requires a lot of trust at every level of the organization. And people are going to bump into each other as they figure things out.

So it's important to have a plan in place for mitigating those conflicts. Part of this can be achieved by simply acknowledging that growing pains are a natural part of the process.

But it's equally important for leaders to model how situations should be evaluated when judgment – rather than a rule book – is the deciding factor. Employees take their cues from the top, especially during times of change.

So it's essential for all of us to hold ourselves accountable to the values we've defined, even if it's uncomfortable or unpopular in the short term.

If you're willing to do this, I know you'll be pleasantly surprised.

Living without a detailed rulebook *is* possible – if you've defined the right values, and empowered employees to act in the best interest of your organization and its customers.

They'll do the right thing – even if no one is watching, and even when they face uncharted territory.

**Committing to a growth mindset**

So once you've defined your values, and built an environment of trust, how do you keep growing? How do you stay agile?

There are two essential ingredients for success: diversity of thought, and inclusion of ideas.

Now, I'm not talking about optical diversity, where you simply set the table with people who look different. I mean true diversity, where you encourage new ideas and differences of opinion, and include them equally in the discussion.

Put simply: listening to a wide variety of viewpoints produces better outcomes. It ensures you're considering all angles. And it makes you aware of issues and problems that aren't even on your radar.

I've found this particularly valuable as a new leader.

I'm naturally a fast talker. I love nothing more than batting ideas back and forth like a ping pong ball. I'll get excited, interrupt, draw on a whiteboard – it's an event, a brainstorming mania.

But I recently had an epiphany. Not everyone is like me. And in my excitement to jump in first, I was crowding out lots of other good ideas. I was inadvertently pushing people onto the sidelines.

So I started writing notes to myself, reminding me to slow down. I've worked harder to include more introverted voices, or remote employees who find it difficult to interject on the phone. And I've told others around me to hold me accountable to this goal.

It’s a work in progress. But I’m happy to report that a number of quieter voices have emerged and become valuable contributors at my table. And they’re helping to transform our organization.

**Making the business case**

This is what’s working for us at the San Francisco Fed.

But you may be thinking: Sure, this sounds great for a public service organization. Your job is to pursue the common good. How would this work in the private sector, at a profit-making bank?

And I’d like to answer that question with two stories.

The CEO of the online retailer Zappos once wrote an article in the *Harvard Business Review* to explain how his company had earned its reputation for delivering best-in-class customer service.[7] And he told a story about a woman who called in after forgetting to mail back a pair of shoes she’d planned to return. There’d been a death in her family. So the Zappos rep sent her flowers.

That’s the kind of thing that’s possible when employees are empowered to act as ambassadors for your values. Yes, that phone rep may have spent $50 to do the right thing – but as the CEO himself said: “now she’s a customer for life.”

This works for shoes. And I can tell you from personal experience that it also works for banks.

When I was 16 years old, I needed a checking account. I was working full-time and needed to pay rent and utilities – and they only took checks.

[7] Hsieh (2010).

So I found myself at a bank in Ballwin, Missouri, where I grew up. And when I talked to the new accounts clerk, I found out that minors couldn't open an account without a parent's signature – bank policy.

But both of my parents were out of the picture. When I explained my situation to the clerk, she decided to take a chance.

She opened my account. Helped me fill out the deposit form, and select my checks. She even took a few minutes to explain the basics of banking, so I could avoid any overdrafts and fees.

She wasn't a manager. She didn't have to do this. But she did. She led with her values, and the values of her organization. She put my need for a checking account at the center of her business.

And that stuck with me. I stayed a customer at her bank for almost 20 years.

**Aligning interests**

We have a phrase in economics – incentive compatibility – that describes this situation. It's the moment when the planets align, and what's good for me, is good for you, is good for society.

We're at that moment now for the financial services industry.

If you're willing to become an owner… if you're willing to put your customers and communities at the center of your business… banking for the common good will move beyond the title of this conference, and become the new industry norm.

Thank you.

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