Distinct° Breakfast Briefing

THURSDAY 4TH FEBRUARY 2010
8.00AM

LOCATION:
ORIENTAL ROOM,
LONDON CAPITAL CLUB,
15 ABCHURCH LANE,
LONDON EC4N 7BW

2010: LIGHT AT THE END OF THE TUNNEL?

SPEAKERS:

David B Smith
Chair of the Institute of Economic Affairs' Shadow Monetary Policy Committee

James Mackintosh
Comment Editor, The Financial Times

Russell Rook
CEO, Chapel St

On Thursday 4th February, Distinct Business Consulting hosted a Breakfast Briefing titled "2010: LIGHT AT THE END OF THE TUNNEL?" for its clients and guests. Senior executives from the banking, insurance and private equity sectors listened to three speakers provide their prognosis for the UK and the wider global economy.

The first speaker was David B Smith, Chair of the Shadow Monetary Policy Committee. David provided a pessimistic view of the current economic situation in the UK, highlighting that the level of fiscal imbalance that the country is now facing is without parallel. Major structural economic relationships have broken down which renders accurate forecasting very difficult. However, given the existing output gap and accompanying slow return to growth, there is currently a low risk of inflation in the short term, and following the pausing of Quantitative Easing, it's likely that interest rates will continue to be held.

David's view is that to prevent the conditions for the bubble recurring, the mega banks must be split up - which will address the 'too big to fail' question. This will create the competitive forces which have been missing as a result of the High Street banking oligopoly which existed until recently. This will also require a change in attitude from the FSA which has preferred to regulate a small number of large banks rather than a larger number of small banks. Until a more level and competitive playing field is created, and fiscal responsibility returns the outlook for the UK economy is not a positive one. David believes that the most likely outcome for the UK economy in 2010 is a return to recession.

James Mackintosh, Comment Editor at the Financial Times, largely echoed David's sentiments. He highlighted that as banks have become larger they have become more efficient – particularly at skimming off the super-profits which have made their senior management rich. James noted that the decision by Goldman Sachs to limit bonuses to £1m for 2009 may not be seen as magnanimous by the general population, who during their entire working life may aspire to earn £1m in total.

James likened the recent bubble to 'picking up pennies in front of a steamroller' – generally not too dangerous, but subject to catastrophe risk if not totally aware of your surroundings and capable of moving quickly. Unfortunately, it was the bankers who were picking up the pennies, and the taxpayers who have been hit by the steamroller. He believes that shareholders must be exposed to true equity risk, and provided the example of the Dunfermline Building Society as an organization which was not systemically connected to the wider financial network and therefore should have been allowed to fail. By re-emphasising this increased exposure to risk, shareholders will be forced to take a more proactive involvement in the management of their investments.

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James concluded that he didn't really see much light at the end of the tunnel unless it was created by a banker lighting his cigar.

Our final speaker was Dr. Russell Rook, CEO of Chapel St., which operates in the Third Sector, providing healthcare and educational services to local communities. The Third Sector combines both private and public funding to deliver public sector style services with the efficiency of the private sector and the commitment and motivation of the voluntary sector. The recession has cut discretionary spending across both the private and public sectors, entailing that organizations like Chapel St will, in the short to medium term, have to deliver services on smaller budgets. Russell stated that there can sometimes be a virtue of having less money available as it ensures that one thinks much more carefully about how resources are deployed, and the benefits that will be realized.

Attendees views – pulse questions

At the end of the briefing we asked our guests to provide their views on the current economic situation, which are provided below. The general consensus is more optimistic than that provided by our speakers. 53% of our guests believe that conditions will get 'Somewhat Better' in the next quarter, with only 7% thinking they will 'Get Worse'. They are also leveraging the confidence that does exist in the economy by focusing on delivering Value Optimization and Growth in their organizations this year. Cost Reduction is anticipated to receive the least attention, although this may simply be an indicator of 'efficiency fatigue' within the financial services sector and a desire to focus on more positive activities. However, our guests were less confident about the degree of new change organizations will look to take on, with a third in both 'Somewhat confident' and 'Not at all confident' camps. It's clear that there remains a great deal of uncertainty in the City, and we look forward to updating our views in the next quarter.

Do you expect business operating conditions to get better in the next quarter?	Score
Improve significantly	0%
Improve somewhat	53%
No change	40%
Get worse	7%

Attendees ranked the following in order of importance for their organisation in 2010	Score
Value optimization	1st
Growth	2nd
Risk management	3rd=
Consolidation	3rd=
Cost reduction	5th

How confident are you that investment in change initiatives will increase in 2010?	Score
Somewhat confident	33%
Not at all confident	33%
Not sure	26%
Very confident	8%


London Capital Club

Distinct's next quarterly Breakfast Briefing will be held on Wednesday 21st April, when the topic we will be investigating is "INNOVATION – ENABLER OR DISRUPTOR?". Speakers will be representing the financial services, technology and FMCG sectors. If you, or a colleague, would like to attend what promises to be another stimulating discussion, please email David Powell at david.powell@distinctpartners.com to receive an invitation.