



Back to Basics

*The UK banking sector is in urgent need of some fresh ideas. **Steve Pateman**, Head of UK Banking at Santander, talks to Criticaleye about culture, customer focus and working with regulators*

There was a time when school leavers aspired to becoming a banker. It was certainly the case for Steve Pateman, who, on leaving school in the early 1980s, tried to join the retail division of NatWest. "I didn't have any qualifications at the time I applied," he recalls. "The interviewer told me that he was trying to improve the quality of the people he employed and he felt that he wouldn't have achieved that objective with me."

Undeterred, Steve submitted an application to NatWest's international banking division, which was expanding rapidly. At the age

of sixteen, armed with seven O-levels, he started a career which has seen him move into corporate banking, investment banking and markets, rising rapidly through the ranks. "I guess I went from being someone you'd never heard of to running all of the large corporates for the UK by the time of the acquisition by RBS in 2000," he says.

For the next eight years Steve carried on in much the same vein, deepening his experience and understanding of the different banking units, before Santander approached him to run its Corporate & Commercial banking proposition.

According to Steve, moving from an established, well-respected blue-chip institution like RBS to set-up a division from scratch was a tough call but it was something he couldn't say no to: "At the time everyone looks at you like you're mad: 'You're going from this, with 5,000 people and around £1 billion of revenue, to this, which is essentially you and your PA?'"

SMART MONEY

Given what unfolded at RBS, it proved to be a wise move. Steve successfully ►

built a Corporate & Commercial division and is currently Head of UK Banking for Santander, a subsidiary of the Spanish headquartered Banco Santander Group. The Group is in a healthy position, having proved itself robust enough to navigate the economic meltdown.

First quarter 2014 results for the UK arm show profits before tax of £416 million, a 48 per cent increase from the same period in 2013. This was largely attributed to a resurgence in mortgage lending, which increased by 70 per cent to £5.7 billion compared to the first quarter of last year, and the success of its current account balances, which have grown by around £1 billion per month to now stand at £31.7 billion (the 1,2,3 account has proved extremely popular).

At present, Santander has approximately 14 million active customers, almost 1,000 branches, 20,000 staff and there is also talk of a London listing. The opportunity in the UK, claims Steve, stems from creating a more personalised service to support both retail and business customers as opposed to relying obsessively on models and systems. “We do have to use credit models and scoring systems; our regulator would probably be very bent out of shape if we didn’t,” he says.

“But at the same time they should not become a default – decisions should be made with what you see and hear when you go and visit a customer.”

In short, Steve wants to return to a form of the relationship driven banking that he learned from his days at NatWest. He explains that, in the Corporate & Commercial arm, this has entailed introducing a product mix –

“Decisions should be made with what you see and hear when you go and visit a customer”

invoice finance, asset finance, rate risk management, and so on – which matches or surpasses the competition, along with a broader investment in the regional Corporate Business Centre network (50 in the UK at present with the aim of hitting 72 in the next two to three years).

“We often find ourselves on an escalator going in the opposite direction to everybody else,” he claims. “We’re investing in more centres and recruiting more relationship managers at a time when others are withdrawing from these markets,” he says, noting that somewhere between £150 million to £200 million has been spent in the past five years on building the infrastructure.

Notwithstanding Steve’s view that things should be done with patience, the pace of growth has been rapid. “We now have a very significant balance sheet; in commercial banking it is, give or take, £30 billion. If you go back five years, it was £10 billion,” he says.

It would be wrong to think it’s all been plain sailing for Steve at Santander UK as inevitably there have been challenges around people, culture

and implementing strategy. For example, when he joined the Alliance & Leicester acquisition was not even being considered. “Its retail franchise was great for Santander but its corporate and commercial franchise was not much help at all,” he recalls.

“We spent most of the time shutting down things we’d bought but it did force us to get on with it and sometimes I do wonder, if we hadn’t bought Alliance & Leicester, whether we would have pushed ourselves to build the corporate and commercial bank as quickly as we did.”

GROWING PAINS

There’s also been intense regulatory scrutiny. Steve takes the view that when mistakes are made it’s important to be transparent, communicate openly and use the experience “to think about what we could have done better and what we can learn for the future”.

It’s a philosophy that’s been tested: The Financial Conduct Authority (FCA) recently imposed a £12.4 million fine on Santander UK due to failures in the investment advice provided in branches. Although the fine occurred this year, the failings are historical and changes were made back in 2012 to ensure the mistakes identified by the financial watchdog were not repeated.

While there needs to be strong oversight given the failures of the industry, there is a danger that regulation becomes a straitjacket on financial institutions at a time when the UK desperately needs a healthy banking sector to drive the economic recovery. So does Steve believe the current regulatory environment is good for UK banking? ►

"I don't think it's making banking better," he replies. "It's focusing on the wrong things. I fundamentally believe that banking in the UK could be better, absolutely. I hope that what we are doing here at Santander, both in the retail business and corporate and commercial bank, will make it better for our customers and that because of what we have done our competitors will follow."

The impact of the Mortgage Market Review, launched at the end of April, is an example of regulatory overkill, claims Steve, as its requirements for risk profiling of customers, by definition, reduces the flexibility around being able to offer mortgages. "It is affecting my ability to assess customers and is forcing me to make very narrow decisions," he says.

It's unlikely that regulators will be easing off anytime soon but, for Steve, the most effective way to embed excellence and a strong sense of responsibility in an organisation is through culture.

“ *I believe that banking in the UK could be better, absolutely* **”**

"Unless you're going to have man-to-man marking through a retail branch network, there's always the possibility that someone may do something you didn't want them to. Through the management, you are mitigating the risks by ensuring everyone understands what products they are selling.

"The management culture, in terms of how people are rewarded and the values they hold, drives an enormous number of outcomes – much more that people give credit for."

The next few years for Santander UK will be about cementing its position as a genuine alternative to the big four banks. Steve's emphasis on personal relationships and a return to a more traditional style of banking will be interesting to watch too, especially with the increased emphasis on digital and the use of data and analytics.

"I have no doubt that technology will play a massive part in the retail, corporate and commercial bank of the future," says Steve. "People will want to have the ability to pay-on-the-move and access information

wherever they are... But this is not going to replace relationship managers. It will not replace the branch."

The conversations within branches may be different, argues Steve, but skilled advisors will be needed as it comes back to understanding customer needs. "You can have the best information system, but if your delivery system with people [isn't up to scratch], then it will backfire," he says. "Too many people don't understand that."

So far, Steve and the executive team appear to be on track in building a model which harks back to the days when banking wasn't such a dirty word. ■

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Steve Pateman
Head of UK Banking
Santander

Steve joined Santander in June 2008 and became Executive Director, Head of UK Banking in March 2012 with his appointment as a Member of the Santander UK Board confirmed in June 2011.

Previously, he was with NatWest and RBS where he was CEO of Business Banking, MD of Commercial Banking and MD of Corporate Banking. He also worked on a variety of financings, restructurings, capital market and equity issues during his time in NatWest Markets where he specialised in the leisure and retail sectors.

Contact Steve through:
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Vital Statistics

Born:	Herne Bay, 1963
Educated:	Simon Langton Grammar School for Boys
Married:	To Sarah
Children:	Six girls and two boys (ages range between one - 30 years)
Music:	Chris De Burgh
Best Holiday:	Langkawi, Malaysia
Business Hero:	Gerry Robinson, Former CEO of Granada