

From Resilience to Reinvention

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Featuring:

Satya Nadella, Chief Executive Officer, Microsoft

Todd Gibbons, Chief Executive Officer, BNY Mellon

Moderated by Tom Hoare, Deputy Chief Communications Officer, BNY Mellon

Tom Hoare:

Hey everyone, I'm Tom Hoare. I'm the Deputy Chief Communications Officer here at BNY Mellon, and I want to welcome you and thank you for joining us for this latest episode of our BNY Mellon *Perspectives* podcast series, where—in times of calm and crisis—we bring to you the leaders and influencers who are making an impact in our financial world, in our industry, and beyond.

We've got a really cool episode for you today. We wanted to share with you a really insightful conversation that took place just a few weeks ago at this year's Sibos conference. Now a little bit of background. For those who don't know, Sibos is a very prominent, annual meeting in our industry. It's organized by SWIFT, a worldwide network that is used by banks like us and other financial institutions to quickly, accurately and securely send and receive information – critical information for both institutions and consumers alike, such as bank payments. We are, of course, a member of the SWIFT network and have been a long time, active supporter of the Sibos conference.

This year's Sibos conference was virtual, like many other events around the world, but we still had a really strong presence there. Our participation at this year's conference was anchored by a really interesting conversation between two CEOs. Todd Gibbons, the CEO of BNY Mellon, our very own leader, had a really interesting dialogue and conversation with Satya Nadella, the CEO of Microsoft. Now BNY Mellon and Microsoft, we're doing a lot together, and this conversation touches on a range of topics. It touches on everything from leadership, to innovation, to the future of the world post-COVID, and even how to think about culture—how to think about constantly renewing and reinventing a culture in the way

that Satya and his team at Microsoft are doing, with a growth mindset. I think you're really going to enjoy this conversation so let's get to it. And, as always, we want your feedback. Listen, rate, review -- tell us what you think on Apple podcasts, on Spotify, or wherever you listen to your podcasts. We do want to hear from you. You can also find us on social media -- LinkedIn, Twitter, Instagram. Tell us what you think. Tell us about topics you want to hear about or guests you might want to hear from, and we'll incorporate your feedback as we go forward. Enjoy the conversation, and we'll see you on the next episode.

Todd Gibbons:

Hello, everyone. It's great to be with you, even if it is virtual. We're going to use our time today to discuss how technology is poised to change financial services in the coming years and how to approach transformation and ultimately achieve what will be—what should be—sustainable results. I'm very pleased that Satya Nadella from Microsoft is here with us. He's the perfect partner to join us in this discussion, so Satya, thanks for being here.

BNY Mellon has had a great partnership with Microsoft for many years. We are an important transaction service provider to the tech industry more broadly, but our partnership with Microsoft encompasses support for their servicing and management of their cash investments and liquidity needs. We have more recently partnered on helping clients manage their investment data, and we're pretty excited to talk about that. We're also one of the few big banks to adopt Microsoft 365, and we're now collaborating on a number of initiatives that have expanded our ability to host data—leveraging Microsoft's machine learning and AI tools—and provide analytics to our clients on Azure, Microsoft's Cloud.

Our two companies have long histories in their relative industries and we've each had to reinvent ourselves a couple of times. I'm kind of envious, Satya, of the remarkable success over the six years when you really did go through that reinvention. My calculation shows that you're up about 500% in market cap, so quite impressive.

With that, let's get started. Satya, I'll direct a question to you. Obviously, COVID-19 has changed our world in a lot of ways, and it's certainly strengthened the business case for digital. How mature do you see the financial services industry today compared to other industries in utilizing technology, and how do you see this changing over the next decade?

Satya Nadella:

First of all, Todd, it's fantastic to be with you, to have this discussion, and to be at Sibos virtually. In some sense, if you step back and [consider] this pandemic or this tail event... We didn't start 2020 thinking that this is what we had to look forward to, and obviously, the massive constraints and real challenges on many, many fronts. There's a health crisis. There's an economic crisis. There's social unrest. There's so many things going on throughout the world. In that context, I would say businesses have had to really dig deep both so that they could recover... then respond. Recover first, and then of course, reimagine core parts of how they do business. All in real time, right? It's not as if you can even say, "Let me compartmentalize." You have to sort of literally do all of these things in parallel.

In that context, I think the digital technology has become that one malleable resource we have had that has helped us—in some sense—continue operations. Even before we get to sort of some of the things that are transformative, just from a resilience [perspective], I'm pretty stunned actually, Todd, with the level of economic productivity we, as a global society, have been able to maintain with all of these constraints. So resilience requires digital tech. I think that realization now is widely understood, but it's also about digital tech leading the transformation. You referenced, even in our own partnership if you look at it, how you think about your clients in your interactions and how you manage those relationships. We've had to do the same as well—how you yourself are delivering the products. In fact, we consume some of your products, and that's not all delivered through SAS and other mechanisms, which is completely different.

I think each of us is using tech to fundamentally build in more resilience into our core enterprise, as well as reimagine business continuity. In that context, financial services is both advanced and challenged because after all, most financial services firms have been big investors in tech. But one of the issues of tech is if you fall behind what is the efficient frontier, then you have more of a hole to dig out of, and that's, I think, one of the challenges. In fact, you see that even between fintech and what financial services is. You see even at the cost per transaction, if you start in the cloud, you will start with a very different footprint when if you start with the mainframe. That idea that you need to be pushing forward in spite of having all the IT spend. I would claim that financial services now needs to use this opportunity to move much more quickly to the efficient frontier of technology.

Maybe with that, Todd, I can throw it to you because you are a participant in the industry. I get to work with you and learn from you and many others, but I wonder what you make of all of this as far as even just the power of digital technology as the financial sector transforms.

Todd Gibbons:

I think you hit on some of the key messages. I think it's fundamentally changing. It's certainly going to transform how we look at disaster recovery in the future. It's obviously made us far more resilient, and when I think of ourselves...We're 236 years old and our business model and strategy have shifted over time and been obviously, even just in the past few years, much more technology dependent. Just some examples, Satya, of the things that we do: We're the sole provider of US Treasury security clearance, so our clients rely on us and the government relies on us to be extraordinarily resilient and efficient, and we were able to do that flawlessly because of the investments in technology that we've made.

As we look out, I think with many businesses, scale is more critical than ever, and clients are recognizing that they need to outsource to take advantage of that scale. I think we're seeing that across financial services, and you alluded to some of the infrastructure stuff, but it's above and beyond that. I mean, it's about applications and the management of data. I also think, and appropriately so, client expectations around reliability, transparency, client experience—they're much higher than what we've been used to—and I think institutional clients themselves, have been getting from us, oftentimes, what looks like pretty clunky

stuff. I think they want the look and the feel that the consumers now have gotten used to in more modern times.

I think as we look out at machine learning and some of the stuff that we're doing with you, it's not only helping us get efficient, it's enabling solutions that we wouldn't have even imagined just a few years ago. One example of that is we're able to do a prediction on the probability...When a trader executes a trade in the Treasury market, we can give them the probability of whether that settlement might fail and what they might want to do to mitigate the implications of that, and then as you alluded to, COVID is already really advanced the need to digitize, and if anything, accelerating the trend. Not just for us, but everybody in the industry.

Satya Nadella:

No, absolutely. Absolutely.

Todd Gibbons:

Let me turn it back to you, Satya. Culture is fundamental to digital transformation. You and I have talked about this, and I really enjoyed listening to your perspective. You've been on a significant culture transformation at Microsoft. What lessons have you learned and what advice might you have for me and my colleagues?

Satya Nadella:

Yeah. One of the things, Todd—you and I have talked and compared notes quite a bit on this—is, what does it mean to continuously refresh, renew the company's culture and mission? In fact, the two pillars [culture and mission] are focused a lot on is that sense of purpose of the firm, the foundational, "Why do we exist even as a company?" You talked about your 230-plus years of history. Why is it that we exist as a company? And then, what's the culture that allows us to bring the very best of what we can be to drive the company forward? There's a lot of the "what" in the middle, but the necessary conditions are the "why" and "how," so that you can even get the "what" right? To me, [it's about] having a sense of purpose. Microsoft was created in 1975 with the notion that software could be an interesting piece of technology, that we'll create some technology so that others can create more technology.

We built the basic interpreter for the Altec. That was what Bill [Gates] and Paul [Allen] created as their first product. If you look at 2020, it turns out it's a much bigger market than what they imagined in 1975. We build technology so that BNY Mellon and all the others at Sibos can build more technology—so you have your own software capability and we want to be an enabler of that. So, being in touch with that mission—renewing it, of course—lots has changed since 1975 in terms of the technology paradigm. But our core identity and purpose has not changed, so that has been very helpful. Then on the culture side, Todd, I distinctly remember in the late nineties, we achieved a lot of success and we, at Microsoft, thought it must be because we were brilliant.

It turns out that we achieved all that success because we learned from and listened to customers, and we stayed focused on our mission. It's straight from ancient Greece to modern Silicon Valley. There's only one thing that brings down civilizations and companies: hubris. For us—that's why I think even, for me—we were influenced by Carol Dweck's work on child psychology. We adopted that growth mindset as the cultural meme, and it has been super helpful, Todd, to just even wake up each day and start not by preaching to others but by confronting my own fixed mindset. If you say you want to be a learning organization, you have to confront the mistakes you make and also acknowledge that you're not perfect. So those are the two cultural and mission things that I think have been very, very helpful in our transformation.

Switching gears, Todd, let's talk about culture. One of the other things obviously that's super important for you, me and every leader here is to get right on how to ride some of the new paradigm shifts in the tech trends, right? When I look at—you even referenced some of these, right? Being on the efficient frontier of cloud infrastructure. If you're building anything new now or even replanting, sort of, some of the work you've done, you've got to be on the Cloud and Cloud Native. You got to get your data in order. You've got to have large-scale AI models like these new transformer models. The list goes on and on and on, and it's exciting. Even as you were recounting a lot of these examples. I was wondering what you make of this, Todd. How do you think about the core fundamental tech trends and their intersection with what is happening in the financial sector?

Todd Gibbons:

Yeah, Satya, it's a big question, and I think there's a lot going on underneath it. First of all, I would say—and I'm not even jumping to the cloud yet—first of all, I think COVID did accelerate some things, right? I think all of us have seen much quicker adoption of our existing digital tools, even some of the legacy stuff, so whether it's our retail applications or the electronic delivery of data, it just reinforced the need to digitize. I think that's taking place much, much more quickly. You even pointed out that fintechs have had the advantage. They get to start day one in the cloud. We don't. Large banks have clearly been exploring it, and we're taking advantage of cloud services now more than ever, but we still have a lot of legacy technology and technology debt that we're going to have to deal with.

That's not unique to us—that's typical of a major bank. It's forcing us to maintain the discipline and ultimately make the investments—and make sure that we set aside the investments that we're going to need now to make us more efficient and more relevant as we go forward. We're the largest manager of investment data in the world by a pretty large margin, and it's a business that we've built over the last 25 years. Some of it was software that we sold to our clients. Some of it was hosted on our own infrastructure.

We're partnering with you, as you know, and I think working together is going to be game-changing. By using Azure, we provide the platform for our clients to consolidate data from many providers. So it's not just if we're the custodian, but multiple custodians. They also have the ability to take in third-party data—whether it's market information—and use the

AI and machine learning tools that you're able to provide them. That's an amazing starting point, so we kind of alleviate the data-management headaches that our clients have, and we enrich what they can do with the data that we've got. That's not a core competency for our clients. In addition to that, we're now in this wonderful position to build apps driven by the data.

I'll give you a couple of examples that we think are pretty neat. We've just started to offer something we call distribution analytics to asset managers, and they can see what investors are buying, and where they're buying, right down to the account level. Now, what that does is it enables them to design and target the distribution of investment products almost in real time—so making them far more efficient and really enhancing their profitability. Again, when you can do something like that, you're really enhancing relationships.

One of the other things that's pretty neat that we've built is an ESG app that uses multiple third-party data sources, as well as some crowdsourcing that we're doing with the clients that are on the app. So as they do deep research on clients' particular ESG scores and strategies, it's shared, and it's building up the data more and more—so they can get more and more granular and more accuracy in the data on the ESG scores.

It's something that's been of significant interest in Europe, but it is a much faster-growing trend. The interest in ESG, the resiliency that comes along with that, and how well that investing does in the U.S.—we're seeing that grow at a very rapid pace. The other thing that we're doing is partnering with third-party providers, like you and others, but also with fintechs that oftentimes can be more innovative. We're taking advantage of that and enabling them to distribute their apps more effectively on our platform.

We view partnerships in this new world as extremely important. When two firms like us come together and merge technology and engineering capabilities, as well as deep subject matter expertise, it's amazing what we can learn from each other and what we can do for our clients.

I don't think there's any way that we can kid ourselves that anybody can be all things to all people. I think one of the things we're going to continue to see is more partnering and more merging of expertise.

I think we just have a few more minutes. Satya, as we close, can you talk about the long-term trends that you're seeing related to the future of work? I've always enjoyed going out to your offices and seeing what you're projecting it to be. Now more than ever, I think that's important for all of us at this conference. Will we ever go back to the way things were, and is there a new normal?

Satya Nadella:

Absolutely, Todd. In fact, your previous comments as I was listening to you, there seems to be a simple scorecard that is relevant in financial services. It's probably relevant across industries, right? If you think about the way you described it—even the transformation that

can occur at the efficient frontier on the cost per transaction. How can you use technology so that your cost per transaction, so to speak, is coming down monotonically? Your predictive and analytical power is going up because of data and AI. That's the second set of metrics that I think any organization can have. Then there's the experience—whether it's for your own employees on how they get work done or whether your customers and partners—how are you changing the workflow? That sort of leads to even this question about: “What's the future of work?”

We're doing the most at-scale experiment ever of remote work. There are three things, Todd, that stand out. One is how people collaborate. Interestingly enough, in financial services to a large degree and in our sectors, people can work remotely, but the reality is we do depend on people, who are going into manufacturing lines, first-line health work, retail—so one area of collaboration is between people who are working remotely and people who are on the frontline. For example, HoloLens and augmented reality/remote field assistance have become massive lifelines for business continuity, so that's one area. The other one is, even a product like Teams, it was built for collaboration. So it's not just about a video meeting. It's the work that happens before the meeting, during the meeting, and after the meeting. A lot of the feature innovation needs to enable these workflows.

A second area for us, which is a massive area of learning is actually skilling and learning. If you look at, say, if somebody gets onboarded into the bank, how are they going to actually develop the connections and all of the institutional knowledge? You need to be able to incorporate the skilling, reskilling, and training right into the workflow, so a lot's happening here. We've seen this massive surge in demand for things like LinkedIn Learning. But the idea of taking something like LinkedIn Learning or your own corporate learning and putting it right into Teams, so that people can learn as they work—that's another major area of how I think work changes.

The last is wellbeing, Todd. As somebody described it to me: “I don't know whether I'm working from home or sleeping at work.” It's a real challenge because I think some of the things we took for granted—transitions, and even how we depended on the social capital we had built up—are now draining.

Wellbeing matters. How do we ensure it? Even, for example, there's a thing called video meeting fatigue. We, in fact, have done EEG studies, which show that, so that's why we even invented this “together mode,” so as to get rid of the grids so that we can actually sit across each other in a conference [at a] table. That changes, in fact, even the mental fatigue. There's a lot of innovation. I think we will come out of this with a lot of understanding of what truly drives productivity. Not just in the narrow sense, but inclusive even of our wellbeing. We're definitely not going to go back to the way the world was before, but we're also not going to remain the way it is today. We're going to probably take the best of the two worlds and blend them appropriately.

The key word for me is flexibility, Todd. One thing that we have learned from any dogma in any form is everybody needs to be in the workplace or everybody needs to be remote—that

is probably not going to work. We will need to have more flexibility in some of these digital tools, for sure. We're going to give us that.

Todd Gibbons:

Okay. Follow-up question to that, Satya. I mean, you've had the advantage to speak to corporations and leaders around the world. As you look at this environment that we're operating in, and you talked about the video fatigue, I know that we're all feeling it from time to time. We all had this surge and a lot of adrenaline and energy when we first got into this. Are you seeing time decay and maybe a lull in productivity? I liked the idea of putting the team around the table and getting us out of window panes and things like that. That might make it feel a little bit more like social interaction. What's your read on productivity and where we are now?

Satya Nadella:

Yeah, and that is the question. For example, our software developers and their productivity is our lifeblood, right? We measure it a lot, and you look at all the metrics, they all look great and as far right in green as they can be. I do have a little bit of a doubt, which is—how do you measure, for example, long-term innovation? You don't have real metrics for true innovation and invention. Patents is one. We look at that and say, "It's harder to have the kind of serendipity that may have existed when people were brought together." I'm not even saying, quite frankly, it's just about the workplace. It's even conferences, right? Some of the places where people would go to. A computer vision conference, for example, where people would come together. Researchers from different places would get inspired.

Things are happening virtually. People can use that. We are doing our big IT conference this week. More people from more parts of the world are able to join, so I think there's something new. We don't yet know how that is translating into true innovation. In the short term, I do see increases in productivity for knowledge workers. Interestingly enough, the first-line workers are able to stay more connected with some of the knowledge workers because some of these remote tools are being used. But I do worry about fatigue. I worry about that social connection. Again, not something we've ever had great metrics on. Firms are about social capital and how does one measure it. How does one know you're building back social capital? I am thinking about like, "What's a way for my own leadership team to come back together, maybe, even physically, for half a day? With social distancing, so that we can build back some of that capital." Those are, I think, places where it's still unsolved, and I see many companies asking the same question.

Todd Gibbons:

Yeah. It's a fascinating time. Before I let you go, can I ask you one last question? We're talking about transformation and ultimately it really the nail on the head for me here with the cultural change—this concept of going from “hubris” to “humble” or to a “learning organization.” How do you do it?

Satya Nadella:

Every day starts with knowing that you've not done anything. I say that because, in some sense, having a consistent voice starting at the beginning saying that we do need to change and we need to continuously change, right? It's not even about viewing it as some destination that we need to reach quickly. It's about reinforcing the need to continue to make the case. The thing is we, as human beings, like to talk about change, but we want the other person to change. We don't want to change, right? That is human nature. So starting with me being able to acknowledge that, "Look, I need to change, here is the case for change." And staying on that drumbeat. That's not one meeting, Todd. It's boring for leaders, right? We all get bored with stuff we all have to sort of repeat.

There's not a meeting I start that doesn't reinforce our mission or our culture. Quite frankly, it has to start at the top, but it's every person in the organization that has to have that commitment. I do believe if I had to sort of attribute this change, at least at Microsoft, six years ago, I think it wouldn't have gone far. I think this even going from a know-it-all to a learn-it-all culture and this growth mindset, I think, speaks to everybody, right? It's not trademarked by Microsoft. It is about you becoming a better human being, a better parent, a better partner, a better coworker, a better friend even. So that's why I think it's got some real legs in Microsoft.

Todd Gibbons:

That's fantastic. Satya, thanks for ending with that, and I really appreciate you joining me. As we go through the terrible situation that our world is facing, it is an opportunity in many ways to reset some aspects of how we work and work together. I think, ultimately, that great companies will seize on that. You've certainly helped me to see some of that, so thanks a lot, and be well.

Satya Nadella:

Thank you so much, Todd. Thanks for the opportunity to join you today.

Tom Hoare:

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