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RETHINKING THE UK FINANCIAL SERVICES TRADE ASSOCIATION LANDSCAPE

Comments by Mark Boleat on consultation paper issued in January 2015 by a group of banks

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Introduction

1. In January 2015, a consultation paper *Rethinking The UK Financial Services Trade Association Landscape* was published. The author was not an organisation but rather a group of individuals occupying senior positions in banks operating in the retail market in Britain. The paper proposed the creation of a new trade association for the retail banking, consumer, wealth and commercial banking industry. Responses to the consultation are invited by April 10 2015.

2. This response is a personal one, albeit by someone who has some experience in this field as –

- The author of *Models of Trade Association Co-operation*, a DTI/Trade Association Forum publication on trade association structures, and *Managing Trade Associations*, the leading work in its (very small) field.
- Co-author of *Who Speaks for the City?*, a study of financial trade associations in the finance industry.
- Former chief executive of the Council of Mortgage Lenders, the Building Societies Association and the Association of British Insurers, including responsibility for creating the Council Mortgage Lenders.
- Consultant with substantial experience in advising trade associations and the government on trade association strategy and restructuring.

3. The author is currently Chairman of the Policy and Resources Committee of the City of London Corporation and Deputy Chairman of TheCityUK, both organisations having an interest in an effective trade association structure. The views are however those of a "trade association junkie" and should not be taken to represent the views of either organisation. The response has been written purely to contribute evidence so as to permit a more informed debate on an important issue. It can be regarded as a public document and is posted on my website.

Executive Summary

- It is unsatisfactory that there is no clarity as to the "owner" of the consultation document; having the equivalent of a PO Box for submissions and no contact details for anyone to discuss the paper is not helpful. The time frame for produce final recommendations (one month from the closing date for responses to the consultation) is impossibly short.

- The paper refers to "an initial assessment of these potential models" but gives no details of that assessment, making in difficult for others to comment on the analysis that led to the conclusions. There is just a single monetary figure in the whole paper and no analysis of costs.

- The analysis in the paper seems to take no account of the experience with trade association restructurings and the admittedly limited literature.

- The paper suffers from looking at just one part of the banking industry, defined to include part of the wealth management industry, while giving insufficient attention to other parts that would be significantly affected by its principal conclusion. The recommendations reflect the composition of the steering committee.

- At first sight the banking industry needs a single trade body that covers the totality of the banks' activities not one confined largely dealing with retail issues. The consultation paper fails to address this important issue.

- The preferred option is unworkable. The grouping of associations covered by the proposal, particularly the inclusion of the Wealth Management Association, is illogical. The proposed model would be bureaucratic, and therefore costly and inefficient. In particular there would be confusion as to whether the staff in the central unit or the sectional councils "owned' a particular issue and as to where the true governance would lie.

- The paper takes no account of transitional costs of moving to a new structure, in particular diversion of executive time away from the day job.

- The proposed new arrangement ignores the basic truths that businesses want to belong to trade associations comprising organisations like themselves and that market forces apply.

- There is no analysis of where, for example, foreign banks, wholesale banks or building societies would fit into the new structure.

- The fact that the paper has been written indicates a level of dissatisfaction, justified or not, with one or more existing trade associations. However, a real problem is that the large banks are often not joined up in the handling of public policy issues; this needs to be addressed before the trade association structure.

- While structural changes are necessary it will be more efficient for these to be implemented in a piecemeal way and combined with internal changes in a number of associations.

- The following procedure is suggested going forward –

    - The consultation exercise needs to be recognised as unsatisfactory but the responses should be independently analysed.
    - Individually the banks should each assess the value of each of the associations to which they belong, sharing the results of this assessment.
    - Representation of the payments area, given the establishment of a statutory regulator, should be reviewed with the objective of achieving more effective and efficient representation and services.
    - The causes of the dissatisfaction with the representation of banks should be analysed, with an acceptance that much of the problem is within the banks.
    - Based on these actions the banks should agree a series of actions covering their internal operations, the functioning of the BBA, more effective coordination and joint working between associations and changes to the trade association structure where there is demonstrable benefit.

The process

5. It is normal practice for consultation exercises to be conducted by clearly recognisable organisations, so that those commenting know who is making the proposals. There is an absence of clarity as to who "owns" this particular exercise. There was a "steering committee" comprising senior executives responsible for retail banking in major banks, but the logos of all ten banks are then listed as the steering committee and the disclaimer refers to participating organisations. It is relevant to know if the views expressed are, for example, those of the CEO Personal and Banking Division of RBS, that division of the Bank or the whole of RBS. This is not an academic point. If the proposals do really represent the corporate views of all ten banks listed then the consultation paper needs to be taken very seriously. In this context it is noted that it is intended that the final recommendations will be produced within one month of the closing date for responses. This will include an implementation

plan and timelines and will be produced following consultation with stakeholders. It is impossible to do this in any meaningful way, which has to include engagement with the existing associations, in three months let alone one month. The timetable rather suggests that key decisions have in effect been taken already.

6. This lack of clarity is reflected in the fact that the paper has no publisher and no contact details for further information. Responses are required to be sent to an anonymous electronic post box. A simple query to that post box (on the subject covered in the next paragraph) elicited no response.

7. The paper concludes that a new structure is needed and identified three models. On P.13 it is stated that "based on an initial assessment of these potential models, the steering committee believes that an association as described in Model C [creating a single trade association to represent the segments] is most likely to be able to achieve the objectives outlined above.' Given the radical nature of the preferred option presumably there was extensive analysis. It would be reasonable to expect that that analysis would be available to inform the consultation. A request for details of the analysis to the electronic post box met with no response, not even an acknowledgement. The paper has just one figure, a third party estimate of the total cost of the largest 10 associations at £50 million. In passing it should be noted that this figure does not relate to the retail banking associations; the total annual subscription income of the associations included in the proposal is less than £20 million.

8. It is normal in such a consultation paper to at least refer to relevant literature and past experience relevant to what is being proposed. There are three relevant studies (declaration of interest – written or co-written by the author of this paper) –

- *Models of Trade Association Co-operation*, published by the Trade Association Forum, and funded by the then DTI, in 2000.
- *Managing Trade Associations*, published by the Trade Association Forum in 2003.
- *Who speaks by the City?*, co-authored by Mark Boleat and David Lascelles, published by CSFI in 2002. This publication has recently been updated by under the title *Batting for the City: Do the trade associations get it right?,* Keyur Patel, CSFI, 2013. The £50 million referred to in the previous paragraph is taken from this report but there is no other reference to it.

9. There is also extensive experience with restructuring trade associations in the finance and other sectors, some of it referred to in *Models of Trade Association Co-operation.* These publications may now be dated and of course the analysis in them can be questioned, but at least one would have expected some reference to experience and relevant publications. Relevant extracts from the publications are appended.

The partial nature of the study

10. My book *Managing Trade Associations* includes the following quote –

> "Trade associations are membership organisations. People – and organisations – join clubs where the members are like them and where there can be a sense of community. A tennis player generally wants to be a member of a tennis club, not a sports club offering five sports one of which is tennis. For this reason sports clubs are generally structured so people can join the section of their choice rather than an amorphous sports club. Similarly, a tennis club generally wants to belong to an association of tennis clubs rather than an association of sports clubs. In the same way as a tennis club may be viable only as part of a sports club a tennis clubs' association may be viable only as part of a sports clubs' association. The trick is to balance the natural community with viability.
>
> Trade associations become involved in internal company politics. It may suit a division of a company to belong to its own trade association where it can have some clout rather than be part of a bigger association to which the company as a whole belongs. For example, the mortgage or consumer lending part of a bank would prefer to belong to specialist

associations for those functions rather than a general association for banks, and the shoe division of a clothing manufacturer would rather belong to a shoe association than a more general clothing association."

11. It is therefore no surprise that a group of chief or other senior executives of large diversified retail banks have a preferred option of a trade association comprising large diversified retail banks in which people like them would be on the governing council. A group of chief executives of specialist building societies would have a preferred option of a specialist trade association for specialist building societies and a group of chief executives of universal banks would prefer a trade association of universal banks. The problem is that retail banking is done by standalone full service retail banks (eg Virgin Money or TSB), retail banking divisions of universal banks (eg RBS and Barclays), foreign banks (eg Handelsbank and Bank of China) and specialist retail banks (eg building societies and finance houses). And there are many "non banks" that provide services that come within the retail banking definition, such as the credit card companies.

12. A preferred option of a new association presumably means the demise in its present form of the BBA, but there is no mention of how those members of the BBA not included in the new structure would receive the trade association services they need. Presumably foreign banks with no retail business, including the global investment banks, would have to create a new association or beef up substantially other associations such as the AFB, CIMA and AFME. It is not clear from the paper whether these banks have been consulted on the sort of arrangements that they would prefer.

13. Retail banks need a range of trade association services from some specific to a subset of their business, such as mortgage lending or branch banking, through to issues that apply to the whole banking group, such as liquidity and capital requirements and reputation management. The BBA currently covers the whole range of activities for its members. The bulk of its work is on wholesale banking not retail banking. At first sight the banking industry needs a single trade body that covers the totality of the banks' activities not one confined largely dealing with retail issues. The consultation paper fails to address this important issue.

The preferred option is unworkable

14. The consultation document sets out a preferred option based on an initial assessment of three models. However, there are no details of this assessment and only one monetary figure so it is impossible to analyse the merits of the three options and the "do nothing" option for comparison.

15. The preferred option can be summarised as follows –

- A new single trade association to represent the whole UK retail banking, consumer finance, wealth and commercial banking segments.
- At the top would be a coordinating council to -
    - Ensure that strategies, policy development and stakeholder engagement are aligned across all segments.
    - Have overall responsibility for coordinating government relations, advocacy and communication on the most important and cross-cutting issues.
    - Lead on prudential matters that impact the wider industry, taking expertise from the segment or product councils.
    - Ensure a constant focus on engaging customers, rebuilding trust and enhancing the industry's reputation across segments.
    - Manage overall operations and administration for the association, streamlining infrastructure and providing shared services to deliver efficiency gains for its members.
- This council would have a strong executive team, including a CEO and functional leaders (e.g. Directors of Strategy, Government Relationships and Communications), to manage and align priorities for each segment or product.

- There would be five segment or product councils covering Payments (with a mandate that includes cards), Mortgage, Retail (with a mandate that includes savings products as well but excludes payments and mortgages), Wealth (with a mandate that includes Asset Management) and SME & Commercial.
- Segment or product councils would be responsible for all issues related specifically to the respective segment or product. These councils could house the specific technical capabilities, produce research, analytics and data, and organise training for member institutions. Individual communications teams would handle specific segment or product communications, coordinating with other councils through the coordinating council.

16. The proposal is faulty in a number of respects. Firstly, the group of associations covered by the proposal is not logical. It is particularly difficult to see what the Wealth Management Association is doing in the list. It has 109 members just four of which are large retail banks – and two of these are different parts of the same bank – HSBC. There is no reason why the members of the WMA should agree to the proposal. Much the same applies to the Tax Incentivised Savings Association. The Intermediary Mortgage Lenders Association provides a specialised service to its 23 members at a cost of £3,800 a year each. Such a body would not fit comfortably within the new "super association".

17. The second problem is that the proposed structure is unworkable. Figure 2 states that the management team would comprise a CEO and the directors of the five councils. There would be five directors covering policy and advocacy, strategy and consumer trust, central administration, communications and one unnamed function, although they would not be members of the management team. Each council would have its own staff in respect of policy and advocacy and communications, but reporting to the people with the same function at the co-ordinating council level not to the relevant director of council. This is unworkable. There is no neat dividing line between what is done at sectoral level and what is done at industry level and what is done at pan industry level. And ultimately who does the official call to speak to the right person a new emerging mortgage issue – the CEO, the Director of the council, the head of policy and advocacy at top level or the equivalent at council level? How can the directors of segment councils manage when their key staff do not report to them and what authority would the five directors at top level have when they are not part of the management team? Even trade association federations do not attempt to operate in this way. There is room for only one department doing communications and one doing policy and advocacy. The problems of managing federations, which this would be, are familiar to those who have attempted to so. There are inherent tensions between the chief executive of the federal organisation and, where they exist, the chief executives of the constituent associations, between the elected officers of the parent organisation and the constituent associations, over funding, and over particular policy issues where, for legitimate reasons, the individual associations have different interests. The paper fails to recognise these tensions let alone address them.

Transitional costs

18. The preferred option would require the creation of a single new trade association and the demise of the BBA (perhaps only in part), the Asset Based Finance Association, the Council of Mortgage Lenders, the Finance and Leasing Association, the Intermediary Mortgage Lenders Association, the Payments Council, the Tax Incentivised Savings Association, the UK Cards Association and the Wealth Management Association. In passing it is noted that for some reason the list does not include the Building Societies Association even though building societies account for a significant proportion of the mortgage market. Each of these associations currently employs staff and occupies offices, in some case on long leases. Each of them also has their own governing council that would have to agree to being dissolved, or the large retail banks could try to force this simply withdrawing from the other trade association. Past experience suggests that the relevant section heads would be very reluctant to do so. Note that all the major banks joined the CML at the instigation of the heads of their mortgage businesses and against the agreed policy of the heads of the banks. Market forces do work to some extent in the trade association market. Membership of associations is voluntary; if members consider they are not getting value for money than can walk away.

19. One would have expected the analysis to at least give a broad brush estimate of the closure costs of the existing bodies (redundancy costs and the cost of surrendering leases largely) and the start up costs of the new body, together with an assessment of the savings through having a single body, although given the proposed structure it is not at all clear that there would be any savings.

20. *Managing Trade Associations* listed four potential showstoppers to mergers or restructurings: property position, cultural differences, subscriptions scale differences and codes of practice. There is not a single mention of such issues. The subscription issue can be simply stated. Differences in subscription scales depend partly on differences in service provision but also on differences in philosophy and history. Two otherwise identical associations may raise the same subscription income per member on average but do so in very different ways. One may have a high minimum, a severe taper and a fairly low maximum. The other may have no minimum, no maximum and a proportionate scale. Producing an acceptable scale to members of both associations is very difficult.

21. There is another very important issue. Trade association restructurings are not done quickly because of the need to get multiple agreements, to close down existing associations, employ new staff, obtain premises etc. 18 months to two years would be a typical time frame. *Managing Trade Associations* spelt out the implications -

> "For trade associations even setting off on the merger road is high risk. Ad hoc co-operation and coalitions are all valuable in themselves and useful learning experiences. If they are not successful then not much damage is done and there is always the benefit of learning from mistakes. By contrast, mergers are high risk and difficult or impossible to reverse. They involve a high cost in terms of legal and other expenses, the time of officers, the diversion of attention away from mainstream work and the disruption that is inevitably involved when the merger is implemented. Even when a merger is not completed the costs can be very high.
>
> There are also consequences for the membership of the association. Announcing that an association is going down the merger road will change the attitude of members, particularly if an association signals that it no longer has a viable future as an independent entity. Those members who were beginning to question the value of the association will be reinforced in their views and may be reluctant to renew membership, particularly if they are also a member of a potential merger partner.
>
> Many members will be unhappy at the way the merger is being handled. The more that is done behind closed doors the more critical those not in the inner circle will be, yet a premature announcement is dangerous.
>
> An association wishing to merge must handle the issue very carefully and professionally. A merger, even a very successful one, will be costly. An association should not publicly raise the issue of a merger unless it believes, after proper study, that a merger is not only logical but is also likely to succeed. Once such a decision has been taken then the issue must be addressed professionally and with urgency. The sooner the matter is concluded the lower the cost and the less the disruption."

22. The staff in the affected associations will sensibly be open to offers (which will largely come from the members of the association).

23. The transitional costs are such that the case for a merger or creating a new association has to be more like 80/20 that 60/40.

What are the issues that need addressing?

24. Nothing in this response should be taken as implying that the status quo is appropriate or that I am against trade association restructuring. As a chief executive I established the Council of

Mortgage Lenders, and as a consultant I established three new associations and facilitated restructuring exercises in a number of sectors. In some cases the detailed analysis led to the conclusion that the status quo was preferable. As Director General of the ABI I considered a merger with the BBA in conjunction with my opposite number; we concluded (with no consultancy help) that that would not be sensible but rather we should co-operate more closely. The ABI and the BBA subsequently (at a considerable consultancy cost) announced that they intended to merge only for this to be abandoned for the same reasons as the previous two chief executives agreed that a merger was not sensible.

25. At first sight the trade association structure in financial services does not look so unreasonable as to demand massive change, bearing in mind that the industry is huge and comprises tiny specialist organisations through to universal banks. It is also the case that the right people can make a less than optimum structure work while the wrong people will not make a good structure work.

26. It is the case that there are several developments that should cause at least a review of part of the structure, in particular –

- The introduction of the Payments Regulator at least requires a significant change in the role and structure of the Payments Council, now that it no longer has a public interest or regulatory role. This would seem to be an issue regardless of the proposal now on the table. Indeed, the existence of a separate trade body for payments has long been an issue given that payments is a substantial part of the business of banks.
- The introduction of the Vickers reforms may strengthen the need for a splitting of trade associations for retail banks from wholesale banks. This could be achieved by a restructuring within the BBA or by a slimmed down BBA and expanded AFME.
- The loss of the Libor function (and associated income) has implications for the role and finances of the BBA.
- The establishment of the Banking Standards Review Council with a huge budget.

27. It is also clear that there is dissatisfaction on the part of some with the BBA. It does not follow that this dissatisfaction is justified. But if this is the concern it would have been helpful for the process to have started with consideration of the causes of the dissatisfaction, so as to assess whether structural reform is a solution.

28. There is a fundamental point here. Large companies frequently criticise trade associations for failed to be adequately joined-up, duplicating work etc etc and point to the large number of associations they belong to. But often those same large companies are not joined up in their representational work. Trade associations often find themselves having to deal with at best poor internal communications and at worst warring factions within member firms. The fact is that the banks have voluntarily chosen to join a number of trade associations, presumably because they felt it was worth it, and presumably they feel it is worth it to remain in membership. Indeed it is not uncommon to find a single bank having multiple membership of individual associations. Sensibly, a large bank should look at the totality of its representational, public affairs and other relevant work (eg analysis of new regulatory issues), which is handled through a combination of in-house work, trade association work and external consultants. In all probability trade associations subscriptions are a relatively small proportion of the total. The bank should then assess the value of its expenditure under the various headings. This may lead to a wish to reduce expenditure on some associations, but equally it could lead to a smaller in-house operation or reduced expenditure on external consultants. And any restructuring on trade associations will not work unless the big banks get their own houses in order first.

29. This exercise should have begun with each large bank doing an in-house assessment as outlined above and then an analysis of the various factors that have or are likely to have significant implications for the trade association structure, an assessment of obvious weaknesses and the reasons for those weaknesses and then a considered analysis of the best method for addressing the

weaknesses. Instead a different approach has been adopted, starting with a conclusion, for which no evidence is presented, that the current trade association structure is inefficient, and a solution, that a new association is needed subsuming nine existing associations. That the large banks want reform means that there will be reform. The approach now should be for the banks individually to do their internal analysis and then for a sector by sector approach, starting with the obvious one of payments. In this area big bang tends to be destructive not transformative.

Summary - the way forward

30. So given the analysis in this paper and the new starting point how should matters be progressed? The following procedure is suggested –

- The consultation exercise needs to be recognised as unsatisfactory, partly because of the failure to provide the analysis that led to the conclusion and partly because the impossibly short time frame for taking final decisions reinforces a view held by some that the consultation is simply going through the motions. However, the responses should be independently analysed – and not simply by a mechanised "counting of votes". And to aid transparency those responding should be asked if they want their responses to be public (bizarrely the consultation reverses the normal practice of saying that responses will not be confidential) and where the answer is yes the responses should be posted on the consultation website.
- Individually, the banks should each assess the value of each of the associations to which they belong – measuring input of subscription and time commitment and output in terms of information and representation. The results of this assessment need to be shared, perhaps through a third party, so as to identify areas where improvement is needed.
- Representation of the payments area, given the establishment of a statutory regulator, should be reviewed with the objective of achieving more effective and efficient representation and services.
- The causes of the dissatisfaction with the representation of banks should be analysed, with an acceptance that much of the problem is within the banks.
- Based on these pieces of work, which will take about six months, the banks should agree a series of actions to improve the position, covering their internal operations, the functioning of the BBA, more effective coordination and joint working between associations (which will not happen unless this is also done in banks), and changes to the trade association structure where there is demonstrable benefit.

Responses to consultation questions –

General comment
The response to the consultation is as set out earlier in this paper. The consultation questions miss some of the main points and fail to ask even the most basic question of whether any of the models are an improvement on the present position. The absence of any analysis in the consultation paper also makes it difficult to gives sensible answers to some of the questions. The responses below need to be read in this light and are given simply to aid the simplistic number counting of responses.

3.1 Do you agree there are opportunities to improve the trade association effectiveness and efficiency for the retail banking, consumer finance, wealth and commercial banking industry?

Of course; there are no organisations where effectiveness and efficiency cannot be improved.

3.2 In your opinion, what specific opportunities are there to improve effectiveness and efficiency in the current landscape?

Difficult to say in the absence of any analysis. The most scope for improved effectiveness and efficiency probably rests within individual banks and trade associations and in ad hoc co-operation between associations on specific issues.

4.1 What are your views of these potential objectives?

Six objectives are listed: co-ordination on cross-cutting matters; clearly defined, distinct mandates; effective engagement with stakeholders; cohesive approach to communications; inclusivity; and continued technical expertise with strong strategic oversight. It is stated that these have been suggested by stakeholders. However, they are clearly not objectives but rather standard methods of working for trade associations. It rather seems that the question that may have been asked of stakeholders related to how the new preferred option should work. It can hardly be the case that any business wishes to have ineffective engagement with stakeholders or an uncohesive approach to communications.

Standard objectives for a trade association are –-
(a) To represent the collective interests of members to Government departments, regulators, political agencies and the media.
(b) To be a research centre, providing analysis on the industry and other relevant market information.
(c) To be a technical centre providing commentary, guidance and advice on all legal and other regulatory developments of relevance to members.
(d) To provide a forum for the exchange of non-competitive information.
(e) To promote the image and reputation of the industry.
(f) To provide training and business development services.
(g) To establish and operate codes of practice for members.

4.2 Do you think trade association should fulfil any other objectives?

Yes, as listed above.

4.3 Do you agree that Model C is most likely to deliver the objectives outlined above?

As the objectives are not objectives and there is no analysis of the various options, even on the basis of the information given the answer has to be no. Just 20 lines are devoted to explaining the three options. It is stated that "based on an initial assessment of these potential models, the steering committee believes that an association as described in Model C is most likely to be able to achieve the objectives outlined above". No details are given of the "initial assessment". If the three models are the only option then Model A would be the preferred one as it carries least risk.

4.4 Are there any other models that could more effectively increase efficiency and effectiveness of the industry's trade associations?

Yes, although the word "models" imply that it is structures that are all-important. They are not; in a trade association it is people that matter.

4.5 What are your views on this potential structure [for the preferred model]? What are its strengths and weaknesses?

In the absence of any analysis the initial view has to be that the structure is bureaucratic and would not be acceptable to organisations other than those represented on the steering committee.

4.6 Given the importance of international, non-retail and non-commercial banks in the industry, what is the best way to ensure that their voice is adequately represented?

Having a steering group that included them would have been a good start, rather than presenting them with a fait accompli. The failure to do so may well have put any restructuring back. To the extent that there are problems in the structure they will not be solved by one subset of the industry working on its own in a non-transparent way to come up with a structure that suits them and then expecting others to find a place in the new structure.

4.7 Are these the right segment or product councils, to ensure important issues are addressed appropriately and that overlay between the segments and products are minimal?

Not qualified to comment but within the limitations of Model C seem at first sight to be reasonable.

4.8 What are your views on this potential membership model?

Ideal for members of the steering group but unacceptable to others as it puts all the power with the large diversified retail banks who alone could justify the subscription to be a general member.

4.9 What measures would need to be built in to ensure sufficient representation and share of voice for diverse members?

If Model C is adopted then in accordance with normal practice for such federations each of the product councils would have to be represented on the co-ordinating council.

4.10 How could governance structures be constituted to ensure that opinions of a diverse membership are sufficiently represented?

Roughly the same question so roughly the same answer. The existing governance arrangements for the smaller associations are a good starting point.

5.1 What are your views on each of these approaches [to implementation of the preferred model]? On balance which approach would be most effective for the retail banking, consumer, wealth and commercial banking industry?

It seems premature to ask questions about implementation when no decision has been taken on structure and when no information is given on the key variables such as staff and property costs. However, the default position has to be that one starts with the present associations rather than the wholesale disruption that a new association would create.

5.2 What other approaches could be more effective and/or less disruptive?

A proper analysis of the existing position would provide the data necessary to identify the best approach.

5.3 What other factors should be considered to ensure effective implementation?

Again premature. *Managing Trade Associations* listed four potential showstoppers to mergers or restructurings: property position, cultural differences, subscriptions scale differences and codes of practice. There is not a single mention of such issues. The book also listed the reasons why proposed trade association mergers fail -

- Bad timing, in particular a premature move which can reduce the chances of a logical merger actually happening.
- Insufficient logic, in particular in respect of the real overlap of membership, interests and services. There are a number of examples of mergers being announced and subsequently abandoned which should never have been announced because the associations did not fit.
- Failure to address the showstoppers, in particular the property position, at an early stage.
- Poor leadership by the officers of the merging associations. Often this takes the form of being too ambitious or not understanding the political nature of trade associations.
- Inadequate resources being devoted to the project and resultant failure to maintain momentum.
- Fudging key issues, like keeping two offices and having joint chief executives.
- Trying to maintain the old associations within the new association.
- Not having a single person managing the implementation phase.
- Not communicating adequately with the memberships of the merging associations.
- Personality issues, in particularly people who see their life-long ambition of being chairman of one of the associations slipping away from them. In practice, this could be the biggest problem.
- Preconditions such as one association insisting that its chief executive is head of the merged organisation or that their office is the HQ, and promises about staff positions and committee membership.

5.4 How would you ensure effective governance of the process, ensuring representation of various views around the industry?

Given the starting point this would be very difficult. The rather obvious answer is to ensure representation of all views at the outset not after a subset of the industry has already reached a preliminary decision.

Appendix 1 Extracts from Executive summary of *Models of Trade Association Co-operation*, January 2000

Trade association politics and dynamics

Trade associations are complex organisations, and often highly political. As a general rule companies want to belong to associations comprising companies like themselves. However, they also want services that often can be provided only by organisations that have a wider spread of membership sufficient to produce a critical mass.

An overview of models of co-operation

Trade associations now need to co-operate with each other to a greater extent that previously so as to adapt to changing markets and financial pressures. A goal for many is to reduce or at least hold operating costs while preserving their identity and increasing their effectiveness. This goal cannot be achieved by an association working in isolation.

The concept of a "single voice" is generally accepted in trade associations. The question is how it is to be achieved. Also, there are costs in achieving a single voice that have to be weighed against the benefits. The key point is that the single voice applies to issues as well as sectors. A trade association may need to be part of many "single voices" with different partners. A single voice does not necessarily mean a single association.

Trade associations traditionally have not worked together; in many cases they have seen each other as the enemy. The new environment requires a significant change in culture in many associations. The overall objective of serving the members must always be at the forefront. There should be a predisposition to co-operate with other associations to achieve this objective. There has been a strong move in this direction over the last few years.

There are a number of models of co-operation –

- Ad hoc informal co-operation for one-off issues.
- Coalitions and alliances to deal with major issues that are important to a number of associations.
- Joint organisations to cover some aspects of business – particularly at the European and international level.
- Federations.
- Mergers, where there is a significant overlap of interests and potential membership.
- Sharing best practice, particularly through the Trade Association Forum.

There are no sharp dividing lines between these various models. Ad hoc co-operation merges into coalitions, coalitions merge into federations and federations can become de facto mergers. The different terms can also have different meanings. Many federations have a unitary structure, and what is called a federation in some sectors is called a liaison meeting or a forum in other sectors.

Over a period of years most associations use several of these models. As market circumstances change there can be a gradual move from informal co-operation to joint organisations and perhaps a full merger or federation.

Mergers

Mergers between trade associations can bring substantial advantages in terms of both effectiveness and efficiency, but are major undertakings and must be properly resourced. Mergers tend to happen only if there are strong outside pressures to reinforce the internal pressures. A merger is on a totally different plane from the other forms of co-operation. The moment that an association is known to be "in the market" it will suffer disruption until the issue is resolved. Poor handling can easily kill a sensible merger proposal. Potential "showstoppers" must be identified at the outset and properly analysed, and all issues should be addressed speedily and without fudging.

A trade association should take a long-term view of potential merger opportunities and position itself accordingly.

Guidelines for successful co-operation

The guidelines for successfully co-operating with other associations can be summarised -

- Each association should regularly analyse its current and likely future market position and assess the scope for co-operating with others. In doing so associations should draw on best practice, particularly the results of the Trade Association Forum 1999 benchmarking exercise.
- Associations need to have a culture in which co-operation with other associations is seen as the normal method of working. This requires leadership from chief executives and elected officers.
- Associations are moving to a project based method of working. Consideration of potential trade association partners should be part of the process of setting up a project group.
- Associations should be prepared to use different models of co-operation for different purposes.
- It must be recognised that trade associations are primarily political rather than economic organisations. Timing and handling are vital when major structural changes are being considered.
- For any form of co-operation the goals must be clearly understood at the outset otherwise there is the danger of different associations having different expectations that cannot be met.
- More formal co-operation agreements should always be in writing and regularly reviewed.
- In any co-operation agreement one person or association must be clearly in the lead.
- Mergers should be regarded as a huge step. The path towards a merger should be embarked on only when a detailed analysis has shown that it can be achieved successfully. Where a merger is really an acquisition this needs to be recognised by all the parties.
- Federations should not be seen as a soft option where a merger is appropriate. Federations seem to work best where there is a single secretariat but the members belong to the constituent associations.

Extracts from Chapter 16 of *Trade Association Strategy and Management*

Co-operation and restructuring

> Trade association structures need to adapt to changing market circumstances. There is a continual need for new associations to be created, existing associations to merge, federations to be created or disbanded and for ad hoc co-operation arrangements. A key issue is who takes the lead in restructuring arrangements.

Trade association dynamics

While trade associations share much in common they operate in different markets. In any given period external factors will necessitate the creation of new associations, mergers, demergers and the creation of coalitions and federations. Over time there may well be a decline in the number of associations, but this is not inconsistent with new associations being created. In particular circumstances a demerger of one association may be logical at a time when most associations are considering mergers.

Trade associations must largely take the environment within which they work as given. The really successful associations are those that anticipate changes in the environment and make the right structural changes at the right time.

There is no one single correct model towards which all trade associations should be striving. At any one time most associations, other than perhaps very specialist ones, are likely to be involved in a range of co-operation arrangements with a number of other associations. And, over time, they will expect to terminate some arrangements and start or modify others. At regular intervals they should have a fundamental re-examination of their approach which could lead to the development of more extensive arrangements.

There are three groups of people who make things happen in a trade association –

- The chief executive
- The chairman and perhaps other elected officers
- The large members.

The extent to which an association is involved in ad hoc co-operation, coalitions and alliances depends largely on the chief executive. If he or she believes in working in this way then other staff will follow that leadership. Conversely, if he or she wants to work in isolation this will effectively prevent anything other than very modest co-operation arrangements.

Where a fundamental co-operation arrangement is being considered, such as a merger or federation, then leadership and skilled handling from the chairman and the chief executive are essential. If these are not forthcoming then the initiative will fail.

The role of the big members is crucial. Their support is essential if a merger or federation is to go ahead. They can force action against even the opposition of the chairman or chief executive – if necessary by removing them. The big companies in many sectors often have their own informal groupings. If the association or associations in the sector are not considered to be performing effectively then those groupings can begin to take on some of the functions of the associations. In extreme cases the large members may threaten to leave the traditional associations en masse and set up their own new association.

The relative strengths of these three groups will vary from association to association and will vary in an association over time. Any association considering a fundamental reform needs to understand where real power lies; equally associations looking for a partner need to understand where power lies in potential partners. Reading the constitution is unlikely to be of much help.

Trade association politics

An understanding of trade association politics is essential to any consideration of models of co-operation, in particular mergers.

Trade associations are membership organisations. People – and organisations – join clubs where the members are like them and where there can be a sense of community. A tennis player generally wants to be a member of a tennis club, not a sports club offering five sports one of which is tennis. For this reason sports clubs are generally structured so people can join the section of their choice rather than an amorphous sports club. Similarly, a tennis club generally wants to belong to an association of tennis clubs rather than an association of sports clubs. In the same way as a tennis club may be viable only as part of a sports club a tennis clubs' association may be viable only as part of a sports clubs' association. The trick is to balance the natural community with viability.

Trade associations become involved in internal company politics. It may suit a division of a company to belong to its own trade association where it can have some clout rather than be part of a bigger association to which the company as a whole belongs. For example, the mortgage or consumer lending part of a bank would prefer to belong to specialist associations for those functions rather than a general association for banks, and the shoe division of a clothing manufacturer would rather belong to a shoe association than a more general clothing association.

Trade associations also tend to develop lives of their own and can be very resistant to change. They can command a loyalty among some members and individuals that becomes quite illogical. It is not uncommon to hear members talking of "supporting the association's conferences and social events" whereas the function of the association is to support the members.

Any significant change will be fiercely resisted by some influential people. A merger will be seen as the association being "swallowed up" by the other association. This is true of many mergers but in the case of trade associations such views can carry great weight.

It is unkindly said that inertia is the driving force behind some associations. Many members will happily pay a subscription year after year and seem little concerned as to what the association actually does. An association that raises its head above the parapet will be criticised by some members.

None of these points should be obstacles to co-operation arrangements. But, they must all be taken into account when such arrangements are being planned. Unless the politics are understood and managed, seemingly logical co-operation arrangements may be doomed do failure.

Creating a new association

[Not included}.

Ad hoc co-operation

[Not included]

Coalitions and alliances

[Not included]

Federations

[Not included]

Mergers – the rationale

A merger between trade associations is basically like any other merger. Two or more organisations come together as a single entity. There are two basic ways in which this can be achieved – a new

organisation being created or one of the existing organisations being the legal foundation of the new body – but the actual vehicle is of secondary importance to the substance of the merger.
The logic for trade association mergers is similar to that for mergers between industrial and commercial companies but with an added point. One advantage of a merger is that costs should be reduced because there is a need for only one chief executive, one office etc. In the commercial world, competition between providers is regarded as a good thing, benefiting consumers. Indeed, mergers between companies can bring competition concerns, and a monopoly is regarded as undesirable. By contrast, competition between trade associations in a sector is regarded as a bad thing. There is duplication of effort and a less effective representative voice. In addition, competing associations may spend an undue amount of their time demonstrating to their members what a splendid job they are doing rather than actually doing the job. The ideal is for a single association for an industry so that the representative function can be performed effectively.

There is seldom a good case for having competing trade associations in a sector. By definition they are likely to be ineffective and probably are allowed to continue in operation because no one has the energy to rectify the position or because of personality clashes. But in a dynamic economy the situation is more complex. In some cases a new association may be created because the existing association is ineffective. After a period of time one of the competing associations will win and the other will be folded into it – but the process has to be gone through.

A more common scenario is where two or more sectors merge over time such that associations which previously represented discrete and separate sectors find themselves with overlapping membership and operating in the same sector.

The two key justifications for trade association mergers often overlap –

- The need to reduce costs. In practice trade associations seldom if ever merge only for this reason – because there is insufficient incentive for anyone to make a merger happen. Where however mergers within a sector, which can also involve mergers between sectors, reduce subscription income then the need to reduce costs increases and can prompt consideration of a merger. Many merger proposals are driven by financial difficulties in one or both of the associations.
- As sectors merge so the problems of competing associations become apparent. The large companies are likely to be in all the relevant associations and will find that they are paying two or more subscriptions for one service.

Increasing co-operation through coalitions and alliances is a proper response to these developments. But these are time consuming in themselves. It is a matter of judgement as to when the environment is right for a merger rather than looser forms of co-operation.

Why mergers are difficult for trade associations
There are probably many sectors where there would be logic in merging trade associations – to provide more effective associations and to reduce costs. In the commercial world such mergers would happen. In the trade association world, generally they do not for a number of reasons -

- There are no clear owners of the business who will derive significant financial benefit from the merger. On the contrary, the members of the governing bodies, who will be taking the necessary decisions, are likely to face considerable downsides – extra work, some criticism and loss of office, and little upside. And the chief executive faces losing his or her job. Accordingly, there is little incentive for anyone to seek to initiate and carry through a merger.
- Egos have an unusually important role – people do not want to lose their opportunity to be chairman of the association or a committee.
- Members can have an astonishing loyalty to a trade association and will believe that in any merger the other association will come out on top.

In the commercial world there is a great prize in finding suitable merger partners or even identifying sectors where mergers are logical. In the trade association world these aspects are easy. The problem is making a logical merger happen.

The word “takeover” is almost never heard in the trade association context. Whatever the reality of the position the expression used is always “merger”. Often a “completely new association” is established, which looks remarkably like the largest association pre-merger. Where there is a clear takeover it needs to be treated as such even if the word “merger” is used officially. However, often where a takeover seems appropriate, not only is it described as a merger, but it has many of the characteristics of a merger, with detailed negotiations, compromises and so on. For the larger association the effort may well not be worthwhile.

At the outset the associations concerned must clearly understand the nature of what they are trying to do. A takeover should be relatively easy to deal with. If there is goodwill on both sides it is a “win win” situation, with the larger association acquiring a wider membership base and the members of the smaller one getting the benefits of belonging to a more effective association.

Completing an acquisition should be a relatively simple task. The key point is that the members of the small association must be “sold” the concept. Above all this requires leadership by its officers, combined with a magnanimous and welcoming attitude by the acquiring association. Where the small association is in financial difficulty the selling task should be relatively easy.

The chapter is primarily concerned with real mergers although many of the points are also relevant to acquisitions.

For trade associations even setting off on the merger road is high risk. Ad hoc co-operation and coalitions are all valuable in themselves and useful learning experiences. If they are not successful then not much damage is done and there is always the benefit of learning from mistakes. By contrast, mergers are high risk and difficult or impossible to reverse. They involve a high cost in terms of legal and other expenses, the time of officers, the diversion of attention away from mainstream work and the disruption that is inevitably involved when the merger is implemented. Even when a merger is not completed the costs can be very high.

There are also consequences for the membership of the association. Announcing that an association is going down the merger road will change the attitude of members, particularly if an association signals that it no longer has a viable future as an independent entity. Those members who were beginning to question the value of the association will be reinforced in their views and may be reluctant to renew membership, particularly if they are also a member of a potential merger partner.

Many members will be unhappy at the way the merger is being handled. The more that is done behind closed doors the more critical those not in the inner circle will be, yet a premature announcement is dangerous.

An association wishing to merge must handle the issue very carefully and professionally. A merger, even a very successful one, will be costly. An association should not publicly raise the issue of a merger unless it believes, after proper study, that a merger is not only logical but is also likely to succeed. Once such a decision has been taken then the issue must be addressed professionally and with urgency. The sooner the matter is concluded the lower the cost and the less the disruption.

Issues to be addressed in merger discussions

In considering the merits of a trade association merger there are a series of key issues that need to be adequately addressed.

The first set of issues relates to the *rationale for the merger*. There are four tests –

- Is there a significant and growing overlap of membership? Such an overlap is most likely to happen as a result of merger activity. The overlap needs to be real. It is quite possible for there to be a theoretical overlap in that the members of two associations may have the same parent companies. However, if the members are autonomous in practice and operating in different markets then the overlap should not be regarded as significant. The overlap is very significant where senior people from the same companies sit on committees of both associations and overwhelming where these are the same people.

- Is there a significant and growing overlap of issues where representational work is concentrated? Unless there is, there is little opportunity to reduce costs or increase effectiveness.
- Is there a significant overlap in terms of service provision? Even if two associations have a strong overlap of interests and members they will not be a good fit if one is a full service high cost association while the other provides only minimal services but is lower cost.
- Do the associations fit generally? Where one association is much bigger than the other a straight acquisition is likely to be a better option.

A merger between two trade associations where one is largely a professional body or a marketing body raises particular issues. Generally, such mergers do not work, but a great deal of time is spent in examining if they can work. The sharing of services is likely to be a more satisfactory way of reducing costs and maintaining effectiveness.

Ultimately a view must be taken on whether the overlap now and the likely future trends are sufficient to justify a merger. Unlike in the commercial world there can be no justification for a trade association conglomerate, seeking to cover a number of unrelated areas.

A related factor is that reduced subscription income as a result of mergers between members with an expectation of this trend continuing is a powerful factor which will put a trade association merger on the agenda. In fact many mergers are initiated because one of the partners faces a serious financial crisis. Where this is the case the facts need to be understood at the outset otherwise recrimination is likely at a later stage.

At an early stage there has to be a broad brush estimate of the possible savings as a result of a merger. In practice such savings are likely to come from accommodation and staff costs. It is more difficult to "sell" a merger to the members if the cost savings merely compensate for reduced subscription income. Members can see the benefit of a merger if their subscriptions go down; a selling point that subscriptions would otherwise have to go up substantially is more difficult.

The second set of issues is *potential showstoppers*. These are often ignored as they may be thought to be just detail that can be sorted at a later stage. However, they need to be addressed early on.

The major showstopper is likely to be the *property position.* An example can illustrate the issue. Two associations may have similar income and expenditure accounts, paying similar amounts for their property, a mortgage payment in one case and rent in the other. Both have subscription income of about £3 million a year. The first association could have a freehold worth, say, £10 million while the other may have taken out a long lease at the top of the property market which now has a negative value of £10 million. Clearly in such a case a merger would not happen. While this may be an extreme case, it would be very rare for property positions to be identical. This issue needs to be understood at a very early stage otherwise a great deal of abortive work will be done.

A second possible showstopper is *cultural differences* in one or more of a number of areas –

- The extent of member involvement. Where one association is largely run by the secretariat with the members providing policy input and the other is run by committees then a merger will be difficult. The committee run model is unlikely to be appropriate but the members of that association will not be prepared to lose that feature as a result of a merger.
- Regional organisation. Where associations have regional organisations the members will not want to lose them on a merger. An association without a regional organisation will not want to acquire one. In practice, the latter may be the only workable option as a price that may have to be paid.
- Maturity. Perhaps paradoxically, long-established and mature associations may be easier to merge than newish associations. Certainly, the merger of a new association with a long established one may be difficult if there are significant differences in approach and working practices.

- Past history. It is quite likely that potential merger partners will have been competitors in the past. If that competition was unfriendly to the extent that there is substantial bitterness between the two associations this will make a merger difficult.

The third set of potential showstoppers relates to *subscriptions*. Differences in subscription scales depend partly on differences in service provision but also on differences in philosophy and history. Two otherwise identical associations may raise the same subscription income per member on average but do so in very different ways. One may have a high minimum, a severe taper and a fairly low maximum. The other may have no minimum, no maximum and a proportionate scale. If the scales have been long-established the members will be accustomed to them and may not be aware that there are other types of scale. Generally, members of associations are more sensitive to increases in subscriptions than they are to the absolute level. In this particular example it would be almost impossible to devise a subscription scale acceptable to the members of both associations.
Where associations have an overlap of interests and members but very different levels of service provision such that on average subscriptions in one association are twice those in another, this will make a merger difficult unless there can be broad agreement perhaps on a lower level of service provision with some increase in subscriptions for the members of one of the associations. Where these differences are compounded by different types of scale the difficulties are greater. No member will expect to pay more as a result of a merger. There is a danger of the level of service being reduced to the lowest common denominator. One solution is to maintain the previous subscription scales for the former members of each of the associations for between one and three years or perhaps phasing in a new scale over a similar period. This may work but could also be delaying the problem and cause resentment on the part of those members who see others getting exactly the same service for a lower price. Experience suggests that such an arrangement cannot normally run for more than two years.

A final set of showstoppers is *codes of practice*. Many associations have codes that are meaningless - mainly references to adhering to laws and regulations and acting in accordance with the highest standards of integrity. These are not a problem in a merger. However, there are some codes that do have a substantial effect on the way members work to the extent that not all companies in a sector want to or are able to comply with them. Indeed, some associations have been set up either by companies who want such a code or by members who are not prepared to subscribe to an existing industry code. If one or both potential merger partners has a significant code this could well be a showstopper.

After the rationale and showstoppers come the more obvious issues –

- What structure will the new association have? Will it be fully integrated or will there be a federal structure?
- Where will the association be located? The answer to this may be relatively simple where both associations are based in the same geographic area, and very difficult if they are not.
- What will the staff structure be; in particular who will be the chief executive? This is a vital point as the chief executives of both associations are the people who will make the merger work, yet there is scope for only one chief executive of the merged association. This issue must be addressed head on and not fudged.
- The subscription scale. The more closely aligned the existing scales the easier this is to deal with.
- How will the costs of the merger be met?
- What will the association be called? In some respects this is a detail. But in other ways it is of huge importance because of the signal it gives. It is also the case that there are many people with small minds to whom the name is the most important issue. A quite undue proportion of time in merger discussions is spent on the name. In some case a long convoluted name may emerge; in others a totally new name unconnected with the business may be the end result. Sometimes the decision may be an easy and obvious one. If it is not there is something to be said for taking professional advice.

Each one of these issues is capable of moving from the “issue” to the “showstopper” category, depending on its particular nature and the way it is handled.

Making mergers happen
[Not included]

Why mergers fail

There have been a number of planned trade association mergers which have failed to be completed and a number which have been completed but which have not been successful. The worst of all possible outcomes is where a merger of two associations leads, in effect, to five associations: the new merged association, the two old associations remaining in practice and two breakaway associations of disgruntled members. Mergers are likely to fail for one or more of the following reasons –

- Bad timing, in particular a premature move which can reduce the chances of a logical merger actually happening.
- Insufficient logic, in particular in respect of the real overlap of membership, interests and services. There are a number of examples of mergers being announced and subsequently abandoned which should never have been announced because the associations did not fit.
- Failure to address the showstoppers, in particular the property position, at an early stage.
- Poor leadership by the officers of the merging associations. Often this takes the form of being too ambitious or not understanding the political nature of trade associations.
- Inadequate resources being devoted to the project and resultant failure to maintain momentum.
- Fudging key issues, like keeping two offices and having joint chief executives.
- Trying to maintain the old associations within the new association.
- Not having a single person managing the implementation phase.
- Not communicating adequately with the memberships of the merging associations.
- Personality issues, in particularly people who see their life-long ambition of being chairman of one of the associations slipping away from them. In practice, this could be the biggest problem.
    - Preconditions such as one association insisting that its chief executive is head of the merged organisation or that their office is the HQ, and promises about staff positions and committee membership.

Extracts from *Who speaks for the City*, Mark Boleat and David Lascelles, CSFI, 2002

Mark Boleat

"**Does the current structure meet current needs**?

This question is almost impossible to answer. There is certainly no evidence that the structure is hopelessly inadequate for its purpose. However, there is no doubt room for improvement. The question can be addressed from a number of angles.

The government and government agencies, primarily in the shape of the FSA and the Treasury, are the main recipients of representative work. Does the current structure serve the government's aim of securing an effective dialogue with the industry? There have been no public concerns (or seemingly private concerns) expressed by the government or the FSA on this matter. However, they may take the view that this is entirely a matter for the industry. If it fails to have an adequate representative mechanism then it is the industry that suffers rather than the government or the regulators.

Some institutions and sectors are probably served very well, particularly where there are strong specialist associations such as the CML and FLA. But they are able to serve their members well only if they work with other associations where the need arises and do not attempt to represent their members on everything. They do not have the resources to do so.

The group of institutions most entitled to ask whether the structure serves them well are the major banking and to a lesser extent insurance groups. The major banking groups in fact belong to all of the retail associations listed in Appendix 1 (with the exception of the AITC) and to most of the wholesale institutions. The big four banks each belong to around 15 trade associations, while the big insurance companies belong to around eight each. These associations will often be making representations on the same issues.

Do the major banks co-ordinate internally their relationships with trade associations and seek to ensure that their interests are adequately represented in all of the institutions to which they belong? The answer is probably that they do not, and indeed the various subsidiaries are probably very keen to retain specialist associations to speak for them.

It is also the case that the banks do a great deal of representational work directly - albeit often not very well, certainly in the past. And the pattern in many industries is for the big companies increasingly to get together outside the trade association structure to work on major issues. The importance of the issue for the large banks can be judged by a comment from HSBC in the summer of 2001 that the recent inquiries into the banking sector had cost it £10 million in staff and management time, printing costs, consultants and lawyers. This figure does not include the cost of implementing the recommendations of the investigations. Perhaps a question that HSBC should be asking itself is whether it has the right representational structure in place, either directly or through the various trade associations to which it belongs, to minimise the number of such enquiries and also the adverse media that inevitably results from them. The fact is that the banks are a soft touch for a government that wishes to score political points."

David Lascelles

"So what is the way forward?

The evidence strongly supports the case for a multiple and varied TA sector: the finance industry is evolving so fast and in so many directions that it is creating fresh interests all the time, without necessarily killing off the old ones in the process. There is always more. In this world, City institutions are almost certainly best served by specialised TAs which are strong on their subject rather than by large TAs who have to satisfy a broad church. Specially persuasive is the argument that even if TAs merge, they have to remain fragmented internally in order to keep on top of all the interests they follow, and that the scope for cost savings through merger is therefore limited. And at the end of the day, diversity safeguards the flexibility and pragmatism that underpins the City's success.

But this conclusion is bound to encounter objections.

One is that it buys the trade association line. City institutions want to see fewer TAs to simplify their lives and reduce their membership costs, but TAs tend to argue for specialisation, perhaps to justify their existence. However, finance is not getting simpler, and if today's financial conglomerate is active in a dozen markets at once, it must expect to join several TAs to advance its interests in them. This is not to rule out consolidation altogether. But it seems that the scope is limited, and that the pressures are actually moving the other way. If City institutions really did want to see a more streamlined TA sector, they should take a more active interest in their TAs' affairs than they currently do.

Another objection is that multiple TAs will only lead to a babble of voices. Here, the way forward must lie in the growing practice of collaboration and resource-pooling among TAs. A well-developed contact network already exists among many of the City's leading TAs. Their chief executives meet once a quarter with institutions like the Stock Exchange and the Bank of England to talk about issues of common concern, and liaise over how to address them. This has helped TAs avoid stepping on each others' toes, and duplicating effort. It has also encouraged the practice of establishing ad hoc groupings of TAs to address particular issues. For example, the investment banking TAs formed a City liaison group in 1997 initially to coordinate positions on the formation of the FSA, but more recently to influence the Brussels agenda. The insurance TAs have a similar committee to look at European issues. A City coalition was effective in helping the Chancellor fight off the withholding tax threat from Brussels, and has remained in existence to deal with subsequent matters. City TAs also play a leading role in the Joint Money Laundering Steering Group which produces guidelines on how to implement the rules in this controversial area. (Another area where TAs collaborate, incidentally, is over cost. A number of them share premises, back offices, even staff to keep their budgets down.)

Compiling and managing these groups will become an important part of the City's quest for vocal harmony on both domestic and international issues, and needs to be encouraged. By whom? Although the City Corporation and officialdom both take an interest, and nudge where possible, this has to be an area where the TAs themselves take the initiative. Suggestions of official interference would be compromising and probably self-defeating.

A third objection is that consolidation would be more "rational". It is possible to see two structural shapes that might be created by a trade association Gosplan. One would consolidate all the TAs into a small number of sectoral mega-TAs, for example for banking, insurance and fund management. But it is hard to see what would be gained by this other than the creation of large battalions, which, as we have seen, are not best suited to fight today's complex and highly technical battles. Indeed, such a structure would more likely reduce than raise the effectiveness of the fighting forces. Or else Gosplan could try to be more subtle by clustering TAs according to sector, possibly by having an umbrella TA for each sector which dealt with big picture issues, and a set of smaller ones which represented the more segmented interests. Alternatively, each sector could be represented by an institutional TA which handled policy and others which looked after market or product issues. Indeed, some sectors already have structures of this kind (eg. investment banking), though experience has shown that the scope for actually reducing the number of TAs in this way is quite small.

A fourth objection is that having multiple TAs makes it even harder to perceive where the City's "collective" interest lies. But what does that mean? An interest in having City-friendly policies, sensitive regulation, a supportive constituency in Whitehall? To be sure. But these are pretty obvious. It is a myth that the City has a collective interest in anything other than the broadest principles that everyone knows and recognises. Therefore this supposed "loss" must be small. Moreover, it is increasingly outdated to talk of the City in a geographical sense: nowadays it is a collection of international markets.

Conclusion

Efforts to streamline the City's trade association structure will doubtless continue: to save costs, to match underlying changes in the market, to create broader alliances. And efficiency gains can certainly be made in some areas. But the evidence is compelling that major structural reform will achieve little: the City is simply too big and complicated to pack its interests into a few large trade associations. And even if it did, the mega-associations would be plagued by factionalism and splinter groups. Today's complex markets and regulations require enormously high levels of focused expertise, and the capacity to deliver this will prove more valuable both to members and officialdom than the ability to mobilise huge battalions.

Keyur Patel in the 2013 update *Batting for the City - Do the trade associations get it right*

I cannot see any overwhelming rationale for an overhaul of TA structures in the postcrisis environment. Though there are important questions of cost, duplication and competition, there is still evidence to suggest that the financial services industry is best served by specialised bodies working together with broader, institutional ones. But that is not to say that the current mix is the right one. The most important role TAs have is managing the volume of detailed regulation that is driving the financial industry's biggest overhaul in a generation. That will require TAs to do several things:

- To demonstrate value without losing focus. Each TA needs to demonstrate to its members where it adds unique value – especially at a time when costs are coming under increasing scrutiny. The industry is best served by TAs which take the lead on issues where they have expertise but which do not stray too far into other areas. The danger is that, in trying to justify their existence, they spread themselves too thin, leading to duplication and mission creep.
- To engage effectively with decision-makers. It is crucial that TAs get the tone of their message right, and also their audience – balancing the focus of lobbying between authorities in the UK and Brussels.
- To restore trust in financial services. This is really an issue for financial institutions themselves – but TAs need to identify areas in which they can lead. They must also demonstrate that they are not just a mouthpiece for their biggest financiers and can challenge members when necessary. As one TA chief executive put it: "we are not there to represent the views of our members – that would make us a laughing stock. We are there to represent their interests".