



**Gordon Nixon has put the global financial turmoil behind him**  
Ken Davies

## The capital gained from culture

### The Monday Interview

GORDON NIXON

The chief executive of Royal Bank of Canada believes mutual respect and teamwork have helped it ride out the financial crisis, writes **Bernard Simon**

**G**ordon Nixon makes a point of escaping Canada's frigid winter each January for a Caribbean cruise. But the excursion is more work than pleasure for Royal Bank of Canada's chief executive. His 700 fellow passengers are RBC tellers, administrative staff, junior employees and middle managers who are being rewarded for superior performance.

Mr Nixon joins the cruises to put into practice the teamwork and mutual respect he has tried to foster among RBC's 73,000 employees in eight years at the helm of Canada's biggest bank.

As he sees it, that culture has played a crucial role in RBC's ability – rivalled by only a handful of other large banks – to ride out the storms that have battered the financial services industry during the past two years.

"We don't tolerate fiefdoms and so forth," Mr Nixon says. "Those are the sort of things that brought down a lot of organisations."

Teamwork and "doing the right thing for the organisation" are non-negotiable elements of RBC's culture, Mr Nixon says. "We can have the hottest-shot trader in the world, but if he doesn't comply with the culture and values of the organisation, we don't want that person being part of the [bank]."

None of Canada's big five banks – the others are Toronto-Dominion, Bank of Nova Scotia, Bank of Montreal and Canadian Imperial Bank of Commerce – has escaped the turmoil unscathed.

RBC itself has taken billions of dollars of writedowns in the past two years on holdings of toxic securities and other asset impairments. Its expanding US retail network, now comprising about 441 branches centred on southeastern states, has taken its share of knocks from the housing market and the weak economy. A C\$1bn goodwill impairment on the US operations in the second quarter drove the bank to its first loss since 1993.

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Even so, the Canadian banks are emerging from the crisis in better shape than most rivals elsewhere. They have survived without any infusion of government money, and have relied far less on liquidity support than US and European lenders. All five have maintained their dividends.

RBC and Toronto-Dominion are two of just six banks worldwide that are still clinging to a Moody's triple-A credit rating. (The others are Bank of New York Mellon, Luxembourg's Banque et Caisse d'Epargne, Rabobank Nederland and Zuercher Kantonalbank in

Switzerland.) RBC has posted net income of C\$5.7bn (\$5.2bn, €3.7bn, £3.1bn) during the past 18 months, in spite of C\$3.8bn in writedowns and rising loan-loss provisions. It will report third-quarter results on August 27.

Helped by a combination of fresh capital from private investors, retained earnings and shrunken balance sheets, the Canadian banks boast an average tier one ratio of capital to assets of almost 11 per cent, compared with 10 per cent in the US and less than 9 per cent in the UK.

Estimating RBC's excess capital at C\$7bn-C\$8bn, Mr Nixon says: "We're now clearly over-capitalised." But, he adds: "I'd much rather be criticised for that than being under-capitalised or over-leveraged. We have the flexibility in this environment to invest in our businesses, to grow our asset base at a time when many banks in the world are having to continue to increase their capital levels and to shrink their balance sheets."

Mr Nixon, 52, has a reputation as a cautious manager. He joined Dominion Securities – at the time Canada's biggest brokerage firm – 30 years ago and stayed on after RBC acquired it in 1987. He has spent most of his career in investment banking, including a three-year stint in Tokyo.

He is "very comfortable" with the balance he has "between work and family and social and sports". He has a passion for golf and enjoys the occasional Saturday-morning game of ice hockey with "a bunch of old farts". And his family has a lakeside cottage north of Toronto.

RBC is gearing up to take advantage of its strong position. "I think we've got a period here that's going to last at least two to five years where banks around the world are going to be shrinking their balance sheets when we have the ability to invest in all of our businesses," he says.

Asked what RBC will look like five years from now, Mr Nixon is noncommittal. "In many ways that's a dangerous question because it was at the root of some of the problems that some banks had in the early part of this decade," he says.

"There's no hurry because there

are going to be lots of opportunities and lots of restructuring in the financial services industry over the next five years. So if you do something, you want to make sure it's very sensible and very strategic."

He rules out some options, such as a move into retail banking outside RBC's established markets in Canada, the US and the Caribbean. "We are going to go into markets where we actually have a franchise, where we have a brand, where we have an ability to generate a reasonable return," he says.

Those criteria apply in wealth management and capital markets too. RBC is already among the world's top 20 money managers, and almost three-quarters of its capital markets business is outside Canada.

On the capital markets side, however, Mr Nixon says: "We're not going to make an acquisition. We're going to grow it by continuing to do what we've been doing for the past five years – which is to hire people, hire teams, extend our balance sheet, build our customer base."

The turmoil south of the border has created an opening for RBC and other Canadian banks to cherry-pick the casualties of the financial crisis without considering acquisitions.

RBC has recruited more than 100 senior bankers who used to work for Bear Stearns, Lehman Brothers, Merrill Lynch and UBS, among others. Its US wealth management arm has hired 300 consultants so far this year. The bank's total headcount grew 13 per cent last year.

"There are a lot of options that we have that are non-transformational that will make a big difference in terms of how we perform," Mr Nixon says.

He is more cautious about what he describes as a "transformational" acquisition. Mr Nixon does not rule out a blockbuster deal, but he says: "If you too aggressively say that you want to do that transformational transaction, then you end up making decisions that are not necessarily the right decisions for the organisation."

"You saw a lot of that in the early part of this decade."

### A great believer in having the right person running each business

Canada's regulators can take at least some of the credit for its banks' stability. Subprime mortgages have played a minuscule role in the housing market. Canadian banks are required to take out insurance from a government agency for mortgages representing more than 80 per cent of a home's value. Unlike in the US, interest on mortgages is not tax-deductible.

But Gordon Nixon, Royal Bank of Canada chief executive, also traces RBC's good fortune to its conservative culture. In the late

1990s and early this decade, he says, there was a "pretty significant shift". The bank wanted to make sure that "where we were extending our balance sheet, we were being paid for it" and that in each case the client decision was sensible.

"We weren't going to lend our balance sheet to a customer in Europe who Royal Bank had no relationship with simply because there was an opportunity to lend money and to earn a return."

Mr Nixon says he is "a great believer in ensuring that you've

got the right person running your businesses and giving them the rope to make mistakes but also to do the right thing". But, he adds: "You can't be afraid to make changes even when you've got good people."

Mr Nixon has shuffled the bank's 10-member executive committee three times during his eight-year tenure. Several top lieutenants have left.

The former chief operating officer is now head of strategy. She has been replaced by a 13-strong operating committee.