A Call for Action

An Interview with
Donald B. Marron, Chairman, Lightyear Capital

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EDITORS' NOTE *Donald Marron founded Lightyear Capital in 2000 and serves as Chairman and a member of the Investment Committee. Prior to this, he served as Chairman and CEO of PaineWebber Group Inc. for 20 years. In 2000, PaineWebber merged with UBS AG, creating a top wealth and asset management firm. Following the merger, Marron served as Chairman of UBS Americas until September 2003. Prior to his tenure at PaineWebber and UBS, Marron served as President and Chief Executive Officer of Mitchell Hutchins. He began his career at the New York Trust Company and, in 1969, co-founded Data Resources Inc. (DRI) with Harvard economist, Dr. Otto Eckstein. Marron served as DRI's Chairman until McGraw-Hill Inc. purchased the firm in 1979. Marron attended The City University of New York. In February 2013, New York University announced the launch of the Marron Institute on Cities and the Urban Environment, an interdisciplinary and international effort to advance vital new research and teaching on cities and the urban environment.*

COMPANY BRIEF *Based in New York, Lightyear Capital (www.lycap.com) is a leading private equity firm making primarily control investments in North America-based, middle-market financial services companies. Through its affiliated funds, Lightyear has raised over $2.5 billion of capital and has completed investments across the financial services spectrum, including asset management, banking, brokerage, financial technology, insurance, and specialty finance. The senior team of professionals averages over 25 years of financial services-related experience.*

Is the industry stronger now and how is the economy faring today?

We're turning the corner but it's turning slowly.

We're now much stronger than Europe. New York is certainly the center of the financial world, which you can see from every point of view: hiring, real estate, and all of the elements of expansion including the commitment given to the city in technology through the relationship with Cornell. This is a result of the Mayor's initiative.

Second, corporations are running in a very lean and efficient fashion, and there is every indication this will continue. However, that isn't good for employment, and it probably means that corporations aren't investing in the long-term future as they were before.

Third, unemployment will continue because we have a structure in this country of jobs being created for the 21st century, while the vast number of people have been trained in the 20th century mindset. This has led to structural unemployment and means economic growth has selectively improved the lives of some Americans, but not generally.

By contrast, the world is awash in liquidity, which you can see from the amount of money that is flowing into low-interest investments of all sorts. That liquidity is a positive going forward because it enhances the strength of its owners; it is essentially money that can be invested in the future. What we have to look for now is the willingness of individuals, corporations, and institutions to commit that capital. That willingness is primarily a function of whether our government can be seen doing more than existing in a state of constant gridlock.

I would watch what happens over the next six months in Washington carefully as an indicator of the willingness of both political parties to compromise in order to put policies in place that will continue growth and improve upon it.

Is it tough to remain optimistic when you see how broken Washington is today?

It is tough, but this is a country with an innate sense of optimism, even though the Washington gridlock needs to be addressed in order for this country to work well long term.

The fact that the markets are doing well and the economy has improved on its own probably encourages those on the sidelines to think that they can wait it out longer. However, the long-term investments for the country – R&D, housing, infrastructure, providing health and economic care for the bottom 20 percent of the population – require some action by Congress beyond what they have done so far, and this needs to change.

Has true financial reform occurred and have we safeguarded ourselves against future challenges?

What was done was only what was essential to keep the unimaginable financial crisis from happening. Now that they are trying to implement reforms in a more stable financial economy, some things look less necessary than they did in that moment of crisis.

Leverage has been reduced; liquidity has improved; responsibility has been more clearly defined, and the banks, in particular, have had their horizons narrowed.

As you restrict what banks can do, the effect is to reduce the probability that banks will recruit and retain the best talent in the business. Talent seeks a combination of ideas, capital, and technology, which big institutions provided in the past. Now, talent can go anywhere to find capital and the technology can be outsourced. You can see that in the growth of all kinds of separate entities: first, it was hedge funds and private equity; now, it's nonbank banks and a number of other special enterprises. This will continue to change.

Overall, is it constructive? Yes. But the refinements that are coming will be important.

Do major institutions need to achieve a certain size and scale to be global leaders?

The question is not if they're too big to fail but if they are too big to manage. It's about recruiting and retaining the talent despite the constraints on compensation and capital, and the new areas they can expand into.

The financial industry does find ways to be creative in the face of challenges. So I'm optimistic about what will happen, but the bigger financial institutions get, the faster management responsibilities rise.

What was your vision for the NYU Marron Institute on Cities and the Urban Environment?

John Sexton (NYU President) approached me with the idea because there wasn't a school anywhere for the study of cities in the broader sense.

Today, over half of the world's population – 3.6 billion people – live in cities. And by 2050, that figure is expected to nearly double to 6.3 billion. The impact of this growth demands that the basic elements of a city be addressed: environment, poverty, infrastructure, communication, real estate, and transportation. However, there is no single place where people can go to study how to manage cities. This is important because cities are growing bigger and becoming more complex.

New York has done well because Mike Bloomberg knows how to build and manage entities, but he also had the capability to recruit a management team unlike any other city. His leaving office brings up the question as to how we train and recruit the talented people that Bloomberg was able to bring to our city.

Does the next mayor of New York need to have a strong business sense as Mike Bloomberg does?

Business ability and experience is important, but what he has done is bring much more: a work ethic, a sense of accountability, and a desire to complete projects and measure their effectiveness. This is what makes a good manager. ●

