

SHCOG

The post-Covid working environment

What Next?

September 2022



What they said.....

“ The coronavirus is the biggest threat this country has faced for decades. From this evening I must give the British people a very simple instruction - you must stay at home

Boris Johnson, UK Prime Minister
23rd March 2020



“ Three in eight adults (38% or 20.0m) have seen their financial situation overall worsen because of Covid-19. However, almost half of adults (48% or 24.9m) have not been impacted financially by Covid-19, while one in seven (14% or 7.5m) have seen an improvement in their financial situation.

FCA Financial Lives Survey
11th February 2021



“ We have it totally under control. It's one person coming in from China. It's going to be just fine. It's going to disappear. One day, it's like a miracle — it will disappear.

Donald Trump, US President
22nd January 2020



“ In the immediate term, the risk of a pre-emptive monetary tightening curtailing the recovery continues to outweigh the risk of a temporary period of above-target inflation. For the foreseeable future, in my view, tight policy isn't the right policy.

Jonathan Haskell, BoE MPC
19th July 2021



BANK OF ENGLAND

Regulatory expectations (2021)

In order to understand the regulatory expectations, in Q1 2021 we interviewed global regulators. They gave us some consistent messages about their expectations of Compliance Functions' response to the pandemic.

Risks

- Banks will need to identify the new and increasing risks that arise as a result of the pandemic
- These will be heightened by the remote working environment and reduced workforce
- The economic conditions have also created volatility that has overwhelmed certain control functions
- Regulators are aware that resources will be reduced by Banks to achieve cost reduction

Expectations

- Banks will need to establish a new risk-based strategy for regulatory compliance
- There will be an expectation of greater coverage of Business activities
- It will need to be sufficiently flexible to adjust to extreme market conditions
- It will also need to be able to pre-empt and mitigate forward-looking risks

Response

- The revised strategy will need to harness technology to provide greater coverage
- Banks will need to have a flexible people strategy that manages new ways of working
- Banks will need to develop analytics to identify red flags in both regulation and conduct

Regulatory expectations (2022)

What do regulators expect from firms now?

Risk identification

- Firms should consider where hybrid working may cause detriment to customers and markets
- Firms should recognise that the nature and source of risks to the control environment will be different in a hybrid
- Consider where there is a potential to damage market integrity and increase the risk of financial crime

The hybrid plan

- Firms will need to demonstrate a proactive risk identification process and corresponding control framework
- Firms will need to find a way to demonstrate how they maintain the right culture in a hybrid working world
- Firms will need to show that “*the nature, scale and complexity of the firm 's activities does not require the presence of an office location*”

Covid as a stress test

- During 2020 market volatility swamped some firms and they asked regulators to allow them to loosen controls (i.e. in trade surveillance) – this was in insightful ‘real’ stress test to regulators
- Firms will be expected to show how they stress test a hybrid environment to identify weaknesses
- affect the firm 's ability to oversee its functions including any outsourced functions

More data, more analysis

- Management have significantly more data as a result of remote working (40bn more emails generated, 66% more review time)
- The firm can meet regulatory requirements, such as call recordings, order and trade surveillance, and consumer access to services
- The firm has considered any data, cyber and security risks in a hybrid arrangement

Strategy that is in step with FoW

- The firm 's senior managers have appropriate governance and oversight under the Senior Managers regime, and through committees such as the Board, and by non-executive directors where applicable. This governance is capable of being maintained.
- The firm has considered the effect on staff, including wellbeing, training, and diversity and inclusion matters
- If any staff will be working from abroad, the firm has considered the operational and legal risks

Operating in a Remote Working Environment

Risks and Actions

Risk Elements	Risks	Actions
<p>External Communications</p>	<ul style="list-style-type: none"> - Use of unauthorised media - Recording of video calls - Information sharing/'trade signals' 	<ul style="list-style-type: none"> - Reinforce staff comms requirements - Carry out sample test of communications - Assess emerging client comms strategy
<p>Internal Communications</p>	<ul style="list-style-type: none"> - Compliance connectivity to 1LOD - Managing conflicts of Interest/data sharing - Issues identification 	<ul style="list-style-type: none"> - Develop effective 1LOD engagement process - Align new risks to data sharing controls - Reassess red flag process for 'early warning'
<p>Risk Assessment</p>	<ul style="list-style-type: none"> - New/emerging risks need to be recognised - Resource impact on RTB and CTB deadlines - Senior Managers' risk oversight 	<ul style="list-style-type: none"> - Create a dynamic 'Covid' risk assessment - Review impact on key regulatory deadlines - Establish auditable governance framework
<p>Market Volatility</p>	<ul style="list-style-type: none"> - Ability to respond to market trigger events - Capacity for effective surveillance - Information asymmetry with clients 	<ul style="list-style-type: none"> - Review stress scenario trigger events - Create virtual 'swat' teams to respond - Assess conduct outcomes for clients
<p>Data Analysis</p>	<ul style="list-style-type: none"> - Growth in data coverage - Lack of capacity to analyse - Analysis tools needed 	<ul style="list-style-type: none"> - Review stress scenario trigger events - Create virtual 'swat' teams to respond - Assess conduct outcomes for clients

Return to the office

What are the key considerations?

Employee needs

- Employees are starting from the point that they work 5 days a week remotely and 2 or 3 days office working will now be a change to the norm
- They are looking for a vision of the Future of Work and most firms have been unable to articulate that vision
- Safety and Trust are key issues for staff and they are looking to understand how the new strategy factors those in

Firm's needs

- Firms are looking to maintain productivity and client service without an ability to measure that output
- There is an assumption that returning to an office-based environment will achieve this
- Firms are concerned that if they are seen to be too 'directive' in office returning they will lose staff trust

Objectives

- Staff wish to ensure that there is a purpose to their time in the office, not replicating home working
- Firms will wish to ensure effective team working to achieve business outcomes
- To achieve these objectives firms need to establish a Future of Work strategy which many have not done

Responsibilities

- The tone from the top message does not motivate individual employees to act
- Team-based operating models are proving more effective to create personal accountability and empowerment
- But the firm will need to recognise where roles are required by regulation or facilities to be office-based

Defining the Future state

- Firms need to establish an overall policy and create a cascade of responsibility to line managers and teams
- The approach needs to determine what activities are carried out in the office and how the office environment needs to be configured to best serve that purpose
- Staff will wish to have experiential learning built into their office-based working

Evolving strategies

How are the current strategies playing out?

Different strategies

- Some firms are relying on staff preferences which is leading to inconsistent and chaotic outcomes
- Others are defining roles in 4 or 5 types each of which requires a different minimum office time (some including a Monday or a Friday as mandatory)
- Many firms are creating 'teaming' events to remind people of the value of a 'live' environment

Speed of return

- The return for most firms is proving slower than expected and is 'lumpy' depending upon the demographic and culture of teams or business units
- There are cadres of returners/non-returners emerging (i.e. more junior employees without families and living in the City are returning more quickly) – this has the potential to create sub-cultures
- This initial period may turn into the norm unless there is a strategy to drive a change

Cascading responsibilities

- Empowering teams and line managers to organize themselves is proving far more effective
- Staff feel greater loyalty to their immediate colleagues and their local objectives than to 'the machine'
- So the most effective firms have a corporate vision that sets out a positive Future of Work vision with direction but through delegation to local teams and units

Location matters

- The experience during the pandemic is driving behaviours (i.e. the European experience of 18 months in lockdown is very different to that of many US and Asian peers)
- The local environment may determine whether home working or office working is preferable to an individual
- Staff expectations of a future typical working year will be influenced by national/regional factors

Developing future talent

- As home working becomes more embedded development of young talent will become harder
- Firms will need to create a different way of cascading experience and creating experiential learning methods
- The war on talent will intensify as experience becomes harder to identify and firms will need to market their working environment more effectively

Establishing a post-pandemic working environment

Firms' insights

- ▶ “This will enable us to have a more flexible and diverse workforce with access to global talent”
- ▶ “Remote working has caused Compliance to work 30% harder to achieve the same results”
- ▶ “There is a perception by management that there have been no significant issues during lockdown, but the reality is the issues have not yet been identified”

FCA expectations

- ▶ “Our expectation is that going forward, office and working from home arrangements should be equivalent – this is not a market for information that we wish to see be arbitrated.” Julia Hogget
- ▶ FCA expects Senior Managers to identify, manage and report new risks raised by the pandemic
- ▶ Regulators will expect firms to evidence a post-pandemic strategy which recognises and addresses the risks in the transition environment

People factors

- ▶ A majority of staff do not wish to return to full-time office working
- ▶ Some firms will require staff to return to office working..
- ▶ ...but the majority will not and are now planning for a mixed home/office workforce
- ▶ The uncertainty of a return date is causing firms to base their next stage strategy on remote working as the primary location

Compliance and the business

- ▶ Firms are starting to recognise that they cannot just replicate the ‘new’ environment from the ‘old’
- ▶ Therefore the post-pandemic strategy is more fundamental than where Compliance staff work but also how they will work
- ▶ The nature of Compliance roles will need to be interchangeable between staff and redesigned to be effective for the purpose

Success factors

- ▶ Compliance is visibly connected to the business and supports the new working environment
- ▶ Compliance effectiveness will need to be more clearly measured than ever before
- ▶ Compliance technology will need to be a core component of the Compliance strategy and needs to be aligned to the ‘actual’ business model

Next steps....

- ▶ Identify areas where the Compliance WFH process is not effective and design alternatives
- ▶ Develop a ‘tag team’ approach to enable effective hand offs between Compliance staff
- ▶ Establish those areas where bandwidth will become an issue due to revised regulatory expectations
- ▶ Design a technology strategy to address bandwidth challenges and new ways of working by the business

Q & A

- What do you see as the biggest challenges and risks in the Future of Work (FoW) for our businesses, for the Compliance function and for you?
- Do you anticipate or want more direction from regulators addressing their expectations of the FoW environment and a common standard for hybrid working?
- Are there areas where greater clarity is needed such as minimum on-site resource requirements for Compliance staff or enhanced expectations for remote oversight?
- Does the new environment present any opportunities for Compliance and are you designing your FoW strategy to maximise those opportunities?
- What do you think your office will look like in 12 months time and do you see that state as the ongoing BAU environment?