

SHCOG

Covid-19 and the Return to Work

August 2021



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

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

Operating in a Remote Working Environment

Risks and Actions

Risk Elements	Risks	Actions
External Communications	<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
Internal Communications	<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'
Risk Assessment	<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
Market Volatility	<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
Data Analysis	<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

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