

Deloitte.



The future of the City
Financial services after the lockdown

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Foreword



Foreword

Financial services (FS) have traditionally been highly centralised in a handful of international urban centres. So identified is the industry with specific places that those very place names have become synonymous with the industry. 'The City' and 'Wall Street' are how we describe FS, even after many institutions shifted to other nearby locations, such as Canary Wharf and Mid-town.

There are powerful reasons for this centralisation: history and tradition, the physical and technological requirements of trading and traders, the requirement to collaborate, the importance of trust, conduct and culture, and regulatory demands. But COVID-19 has challenged this equation of the City of London with the 'City', in other words, of place with activity and industry.

The pandemic, with its swift and near-total 'stay-at-home' message, represents a massive forced experiment in working from home for the whole FS industry. The industry has responded well, coping with the operational challenges.

In the short- to medium-term, and even without government-mandated 'stay-at-home' orders, home working is likely to continue. In the absence of a vaccine for COVID-19, social distancing will dramatically reduce capacity in offices and on the public transport systems that serve them.

As a result, FS now has an opportunity to re-shape radically how and where it operates. To make the most of this opportunity, it needs to consider a range of issues, including: operations, not least the ability that new data storage and computing power provides to automate tasks; technology; talent; risk management and controls, and legal and tax matters.

To understand how operating models could evolve in future, Deloitte commissioned a survey of 500+ employees who work in FS in London. These included employees from insurance, investment management, and retail and investment banking. We wanted to understand how the experience of home working under lockdown might translate into not just changed working patterns, but an entirely different operational model.

One significant finding of our survey is how removing commuting boosts both perceived productivity and positivity. Removing the need for a daily commute dramatically increases the size of the talent pool. Given differential commuting patterns among men and women, especially mothers, this represents a chance for the industry to further improve diversity, as it has committed to do.

We look forward to debating, and participating in, the evolution of the City together over the coming years.



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Executive summary



Executive summary

The COVID-19 lockdown represents a massive forced experiment in working from home (WFH). This report considers how the experience and insights gained may inform longer term choices about working arrangements in the industry.

The findings in this report are based largely on a survey of more than 500 FS employees, conducted by YouGov between 5 and 11 May 2020.

The COVID-19 lockdown experience: a silver lining

Most respondents (70 per cent) found the working from home experience a positive one, and only ten per cent found it negative.

The reasons for the overwhelmingly positive response to WFH were primarily not having the time-consuming, expensive and frequently unpleasant experience of commuting, and also greater flexibility in the daily schedule.

There were differing views among respondents about productivity when working from home. 38 per cent felt more productive, and 24 per cent of respondents felt less productive. The absence of the daily commute was the primary reason for both the positivity and perceived increased productivity.

Business remodelled

Many are predicting the demise of the traditional office. Before changing physical footprint, FS employers should ask:



Which processes can be automated and which tasks are best performed in the office?



What are employees' expectations around WFH?



What are the implications of WFH for the talent pool in FS?



What about the regulatory aspects of extensive remote working?



Should some work be re-shored?



Should FS jobs be moved from central London to the UK regions?

Digital demands

The COVID-19 lockdown has been a catalyst for the rapid adoption of digital technology in financial services. WFH and the use of digital tools were already fairly common practice prior to COVID-19 and many employers were therefore well prepared when the lockdown began.

We expect that because of digital technology, and its contribution to WFH, firms will prioritise specific activities for the use of office space, such as in-person meetings. If WFH is to be used extensively, the efficiency gains (such as a reduction in paper-based processing) must be embedded in operating processes; models of working must be more resilient and able to withstand further waves of COVID-19 infections or the emergence of a new zoonotic virus; and control systems need to be reviewed and updated to manage the risks of WFH.

Task at hand

Our survey looked at a range of tasks to identify whether some are performed either more or less efficiently at home than in the office. Respondents who felt more productive at home pointed mainly to increased productivity in tasks that typically require no collaboration with others, such as checking emails, analysing information or data (for example, building spreadsheets), and reading or drafting documents.

Tasks in which individuals felt less productive when working at home varied. This suggests that factors other than the task contribute to a sense of lower productivity. These include the working environment (e.g., having to supervise or care for children at home) a lack of interaction with colleagues leading to a loss of motivation.



Trust 2.0

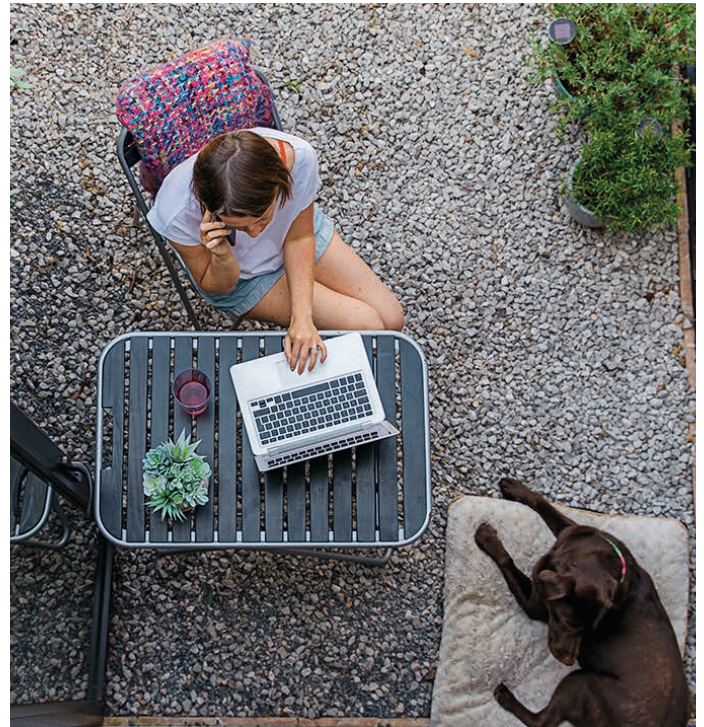
Financial services are built on trust. Digitisation and WFH, in changing the nature of the working environment, will also change the way in which trust is built and sustained.

The aspect of office working valued most by respondents were those involving in-person interaction, including unplanned conversations and collaboration prompted by close physical proximity in the office.

Work and life imbalance?

Well before the COVID-19 lockdown, the divisions between home life and work were becoming increasingly blurred. While this can bring added flexibility, which many appreciate, it is also causing a shift in the work-life balance that can erode well-being for many people.

Our survey indicates some grounds for optimism. Most respondents considered their well-being to be good before lockdown started and many (36 per cent) felt that it had improved further since then. However, 24 per cent thought the opposite. Employers will need to address the risks to well-being from WFH for all employees, but especially for the many who do not enjoy it.



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The COVID-19 lockdown experience



The COVID-19 lockdown experience

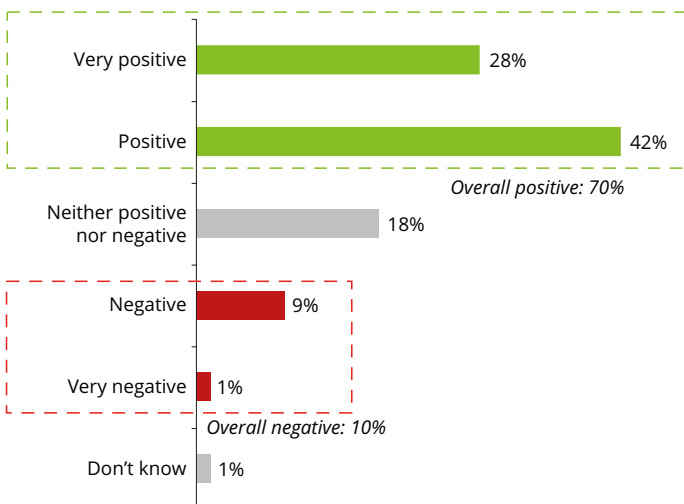
Financial services have traditionally been highly centralised in a handful of international city centres; but to some extent, yet to be determined, things will be different after the COVID-19 lockdown ends. It is almost certain that WFH will feature more prominently than in the past, but we can expect other changes too.

The COVID-19 lockdown, with its swift and near-total stay-at-home restrictions, has been a massive forced experiment in WFH for the entire FS industry. Going forward, the experience gives the industry a chance to reflect on its working practices and its physical footprint in city centres.




Working from home: A positive experience for most

To date, working from home has been a more positive experience than might have been expected, at least for most Financial Services (FS) employees. 70 per cent of respondents to our survey rated their WFH experience as either positive or very positive, compared to just ten per cent who had a negative view. There did not appear to be any noticeable difference in views between individuals in junior, mid-ranking and senior positions.

Figure 1. Overall experience of working from home



On the face of it, these are very surprising findings. While FS firms have had business continuity plans (BCPs) in place for years, the speed at which almost the entire workforce had to switch to remote working was both unexpected and unprecedented. BCPs often relied on a move to a single remote site, rather than wholesale home-working. It might, therefore, have been expected that FS staff would have had neither the kit nor the environment for working at home effectively and dealing with increased work pressures during the crisis. Even though, unlike in 2007-09, financial services have not been at the epicentre of this crisis, they have been hard hit in a number of ways. Each sector has faced its own operational challenges:

-  At the outset of the pandemic, retail banks were hit by a wave of requests, from both retail and business clients, for forbearance and for emergency government loans
-  Insurers were deluged with travel and business interruption enquiries and claims
-  Investment bankers had to wrestle with extreme market volatility: the Bank of England governor, Andrew Bailey, described conditions in the gilt markets on 19 March as “bordering on the disorderly”¹
-  Investment managers had to respond to plunging equity indices, while also reassuring investors to whom they were obliged to send out multiple 10 per cent drop notices under the MiFID II directive (until the Financial Conduct Authority issued a forbearance note on 1 April, allowing wealth managers to not follow strict rules – on reporting a 10 per cent portfolio drop to clients within 24 hours to clients – for six months).



All sectors had to deal with the Bank of England's decision, just before the UK went into lockdown, to cut the base rate to just 0.1 per cent, the lowest in its three-century-plus history. These super-low interest rates present particular problems for both banks and insurers. Banks traditionally make money on the 'turn' between the rates at which they borrow and the rate at which they lend, and this net interest margin is squeezed when interest rates are low. The valuation of insurers' future liabilities to pay pensions, calculated by discounting future payments at a current interest rate, increase when interest rates are lowered.

So why has working from home been so positive for FS?

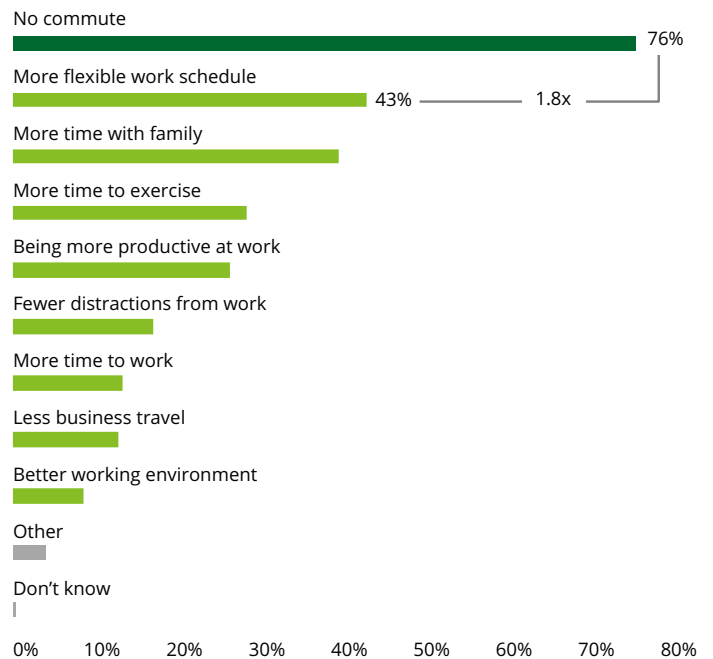
Respondents to the survey who indicated a positive experience with WFH were asked to identify up to three main reasons for this. By far the most common response was 'no commute'. The absence of commuting obviously frees up time, but the proportion of respondents citing not commuting was higher than the numbers citing having more time for other things, such as spending it with family, exercising, or working. This suggests that respondents find the experience of commuting unpleasant.

Anecdotally, some employees enjoy their commute, not least because it provides a temporal and spatial barrier between work and home. A commute can also be enjoyable if travellers are able to use their time productively, for example reading, working or listening to podcasts.

But clearly most respondents in our survey do not enjoy commuting. FS employees probably travel during the rush hour, when public transport is crowded. Commuting into central London is also expensive by international standards. It can also be time consuming and unpredictable, and during the COVID-19 pandemic there have also been concerns about health and safety.



Figure 2. Top reasons for a positive working from home experience



The other main reasons why WFH has been a positive experience for many relate to flexibility in the daily work schedule – choosing when to work – and other ways of making use of the extra time in the day. One respondent commented: "I'm an owl naturally and I've been able to get up later and go to bed later."

Attitudes to WFH may be shaped to some extent by a sense of 'we're all in this together'. When most people are in lockdown, they are sharing similar experiences. However, as more people return to the office post-lockdown, a sense of 'them and us' may emerge, and change the views of some still working at home.

From the employer's perspective, the impact of WFH on business performance must also be considered. Most employees may be having a more positive experience, but is this making them more efficient – or more effective – in their job?

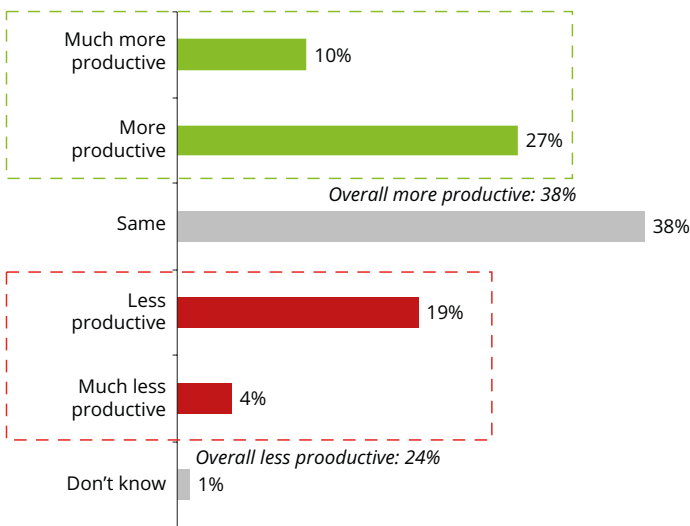
Respondents to the survey who indicated a positive experience with WFH were asked to identify up to three main reasons for this. By far the most common response was 'no commute'.



Perceptions of productivity

Our survey tested perceptions of the connection between WFH and productivity. Overall 38 per cent of respondents said they were more productive working at home than in the office, and 24 per cent thought they were less productive.

Figure 3. Overall productivity change, working from home vs. working from the office (prior to lockdown)



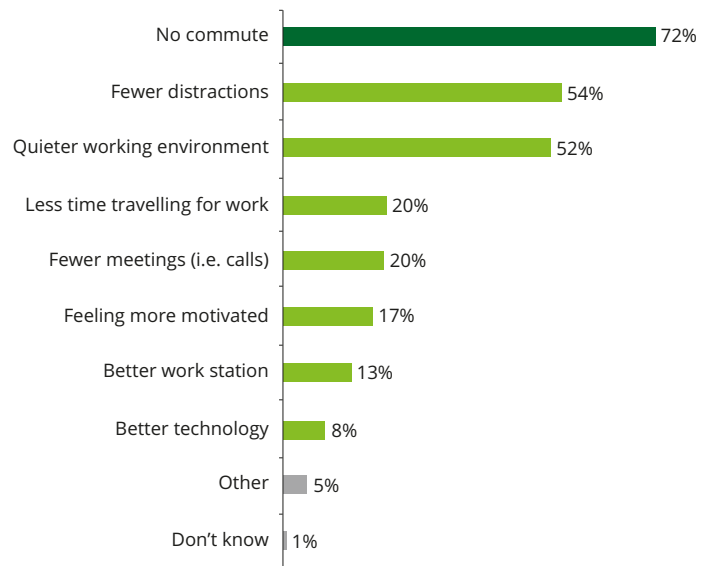
This may seem surprising, given that home working was imposed at short notice, and with little time to prepare, and that the home environment is not necessarily conducive to sustained working. For many, the experience of WFH has also come at a time of disruption to family life as a result of school closures and the need to look after children in a restricted domestic setting. One respondent commented, perceptively, that WFH “has forced me to re-think ways of how to do my job.”

Overall 38 per cent of respondents said they were more productive working from at home than in the office.

Commuting and (perceived) productivity

The key contributor to (perceived) productivity is the fact that less time is spent travelling, with 72 per cent of those who feel more productive WFH citing ‘no commute’ as one of the main reasons.

Figure 4. Top reasons for being more productive working from home vs. working from the office (prior to lockdown)



However, there are some important caveats to these survey findings.

Productivity in its ‘traditional’ sense assesses units of output per unit of input (time), which is difficult to measure with work in FS. It seems that respondents may feel more ‘productive’ simply because they are working for longer rather than completing tasks more quickly. One respondent commented about the time saved by not commuting that “two hours travel time is now work time.”

Productivity (efficiency) is not the same as achievement (effectiveness). Companies need to consider the effect of WFH on business development and growth, competitiveness and decision-making generally. Where does the drive to improve – the ‘buzz’ of idea generation – come from when people are working at home, in isolation from colleagues and other associates?

So perceptions of productivity among FS employees may not be a true reflection of the reality.



Business remodelled



Business remodelled

COVID-19 has changed perceptions about physical location, and therefore the whole operating model for the financial services industry.

The transition to wholesale working from home has so far largely been an operational success. FS employees feel that they are, on balance, more productive, and have found it to be a positive experience. As a result, employees are expecting to work from home much more in the future, compared to pre-lockdown.

FS firms have the opportunity to revisit large swathes of their operating model. New options have been opened up by the WFH experience, combined with technological developments in data storage (cloud) and analytics.

Automate now?

Deployment of digital solutions to enable remote working has been at the successful response to the COVID-19 lockdown. As a general principle, organisations more advanced with their adoption of digital technologies were able to respond to the crisis faster. In organisations still dependent on manual processes, supported by fragmented and inflexible architecture, targeted remediation was required.

Organisations with advanced digital infrastructure were able to draw on mature cloud capabilities to adapt and scale up for handling huge spikes in demand for services (e.g. loan processing in banking) and maintain relatively seamless operations.

This adaptability and scalability meant these organisations were less affected by the key-person dependencies experienced by their peers. In future, FS should accelerate digitalisation to deliver a more sustainable and resilient operating model that also assists firms in reacting to the likely cost challenges in a post-COVID-19 world.

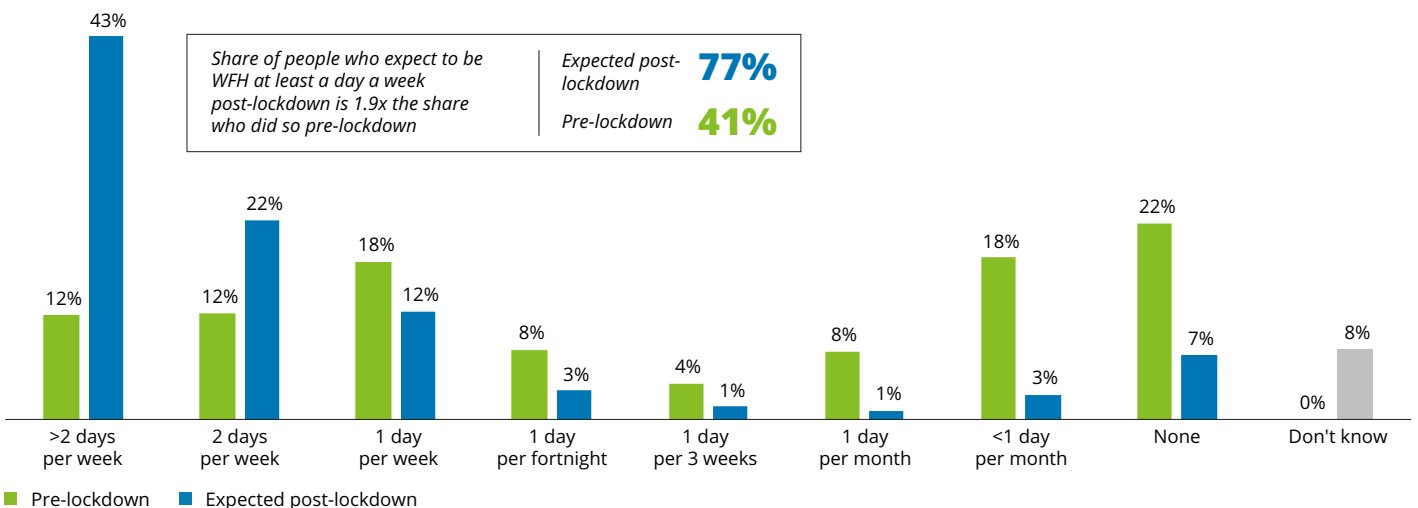
Deep pool

Asked about working in the future, 77 per cent of survey respondents said that they expect to work from home at least one day a week post-lockdown, compared with just 41 per cent before. If these expectations are realised, it could have implications for both the size and composition of the talent pool available to FS firms.

An increase in WFH, making it possible to work from remote domestic locations, should increase the talent pool available to FS.

The Office for National Statistics (ONS) has reported a trend to longer commutes in the UK, but that commutes for women are shorter than for men.² ³The Institute for Fiscal Studies (IFS) has shown that this gap in commuting times increases after the birth of a woman's first child and continues to widen for the following decade.⁴

Figure 5. Frequency of working from home, pre-lockdown vs. expected post-lockdown





This suggests that some mothers eschew long commutes, which has the unwelcome side effect of limiting their job opportunities. Extensive working from home would increase the potential geographical size of the talent pool, in particular for women.

Extending WFH may, therefore, be a way to improve gender balance in financial services, to which the industry has publicly committed itself via HM Treasury's Women in Finance Charter.⁵

WFH: unexpected consequences

Although remote working can be a huge benefit for FS employers, there are risks attached – possible tax, immigration, regulatory and other legal and financial consequences, for both employees and employers.

Tax

Should an employee spend a lot of time overseas, they may be deemed resident there for tax purposes. The (complex) laws on residence and domicile may, therefore, need to be considered.

Immigration and other regulations

The rules on immigration differ between countries. Some allow remote working activities on a tourist visa, some require a work authorisation for any type of work (remote or local), and others have not taken a stance on the issue. Not having the right immigration permission can have serious consequences, for both employee and employer.

Regulatory aspects also include whether individuals have the appropriate permissions to perform their roles in other jurisdictions, or if their absence from the UK will raise challenges from UK regulators. Working abroad may adversely affect an employee's existing UK immigration permission, their future eligibility for acquiring 'Indefinite Leave to Remain' status in the UK and/or an application for British citizenship.

Although remote working can be a huge benefit for FS employers, there are risks attached – possible tax, immigration, regulatory and other legal and financial consequences, for both employees and employers.

And there are other implications for the employer. Depending on the jurisdiction, the number of employees involved, and the time they spend abroad, the employer may be deemed to have a 'permanent establishment' there, but without a physical or legal presence. Should this happen, there may be requirements to register with the local tax authorities, and potential a knock-on impact from an indirect tax perspective.

For senior executives, remuneration committees should consider the impact of any change in working patterns from a legal, tax and regulatory perspective, as well as potential views of external stakeholders. Shareholders are not supportive of any changes to executive remuneration to compensate executives for any changes in their personal tax status. Remuneration committees now have a wider remit to review workforce remuneration policies and should ensure treatment is consistent and fair across the organisation.

To pre-empt all these problems, employers will need to communicate with staff, set clear policies, and implement monitoring and recording systems to ensure compliance from immigration, tax, social security, regulatory and employment law perspectives in all jurisdictions in which employees may want to work.

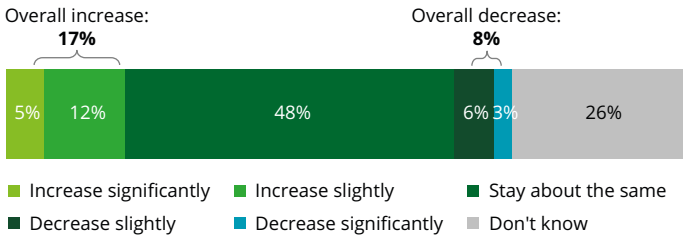




Re-shoring?

In our survey, we asked respondents whether, in the medium-to-long term (from 2021 onwards), they expect their employer to increase the numbers of workers outside the UK (for example in call centres, or for IT support in India). More respondents (17 per cent) expected an increase in the use of workers outside the UK than those who expected it to decrease (eight per cent).

Figure 6. Medium- to long-term expectations over employer's use of workers based outside the UK

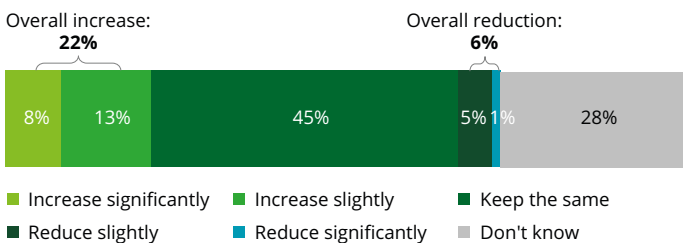


This net positive balance, albeit small, is perhaps surprising. Our observation is that FS firms have had mixed experiences during the pandemic with the operational resilience of their offshore service providers. The crisis may help firms to challenge their long-held views about what can or should be done offshore, or even by virtual employees/machines.

Tilt to the regions

According to TheCityUK, the industry trade body, two-thirds of employees in the industry already work outside central London. Our survey respondents, on balance, expect this proportion to increase. Asked whether they expected their employer to change its physical footprint outside London, just six per cent expect it to decrease, while 22 per cent expect it to increase. This could be because lower-density population areas (with less commuting) are seen as less risky to health.

Figure 7. Medium- to long-term expectations about employer's presence outside London

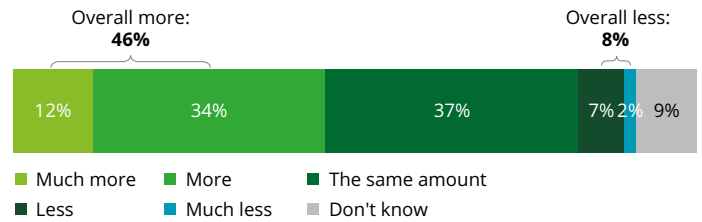


FS expectations about office space

Jes Staley, CEO of Barclays, has said, "The notion of putting 7,000 people in a building may be a thing of the past".⁶

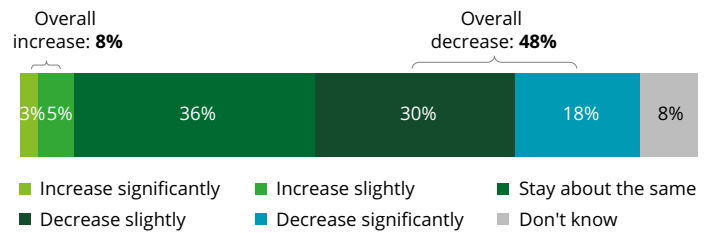
In the short term, we estimate that enforcing social distancing could reduce the capacity on regular FS floors by 50 per cent, and on trading floors, which are typically tightly packed, by 65 per cent. Factoring in smaller lift loads would reduce effective building capacity to 20 per cent of pre-lockdown levels. When asked about changes that their employer might make to the layout of offices, 46 per cent of our survey respondents expect greater social distancing (such as distance tapes on the floor, no hot-desking, and reconfigured floorplans).

Figure 8. Medium- to long-term expectations about the amount of physical space between people, compared to before lockdown



However, 48 per cent of respondents expect the space occupied by their employer to decrease over the medium-to-long term (from 2021 onwards). This is consistent with the intention of the vast majority of respondents' intention to work from home more. Only eight per cent expect their employer's footprint to increase, possibly because this group anticipates a prolonged need for social distancing.

Figure 9. Medium- to long-term expectations of total space occupied by employers



Available space may be used differently. One option could be to use local bank branches, which retail banks have been closing, as small, local work hubs, with all the advantages of a dedicated professional environment, security and IT, but without the hated commute.



Digital demands



Digital demands

Digitisation: moving years in weeks

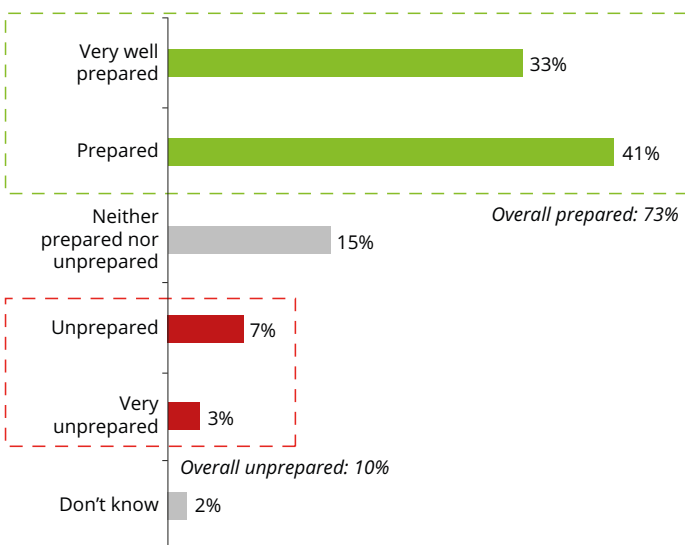
The COVID-19 lockdown has been a catalyst for the rapid adoption of digital technologies in financial services. With mandatory WFH, digital connectivity has been essential, among colleagues, and between employees and clients. The industry has moved years in weeks.

WFH was already fairly common practice in parts of financial services before the lockdown. As many employers had already provided employees with WFH equipment, employees were relatively well-prepared, even though the crisis was unexpected. The transition was surprisingly swift and smooth. This has emboldened FS leaders to ask: how far and how fast can we transform our business?

Preparedness for prolonged WFH

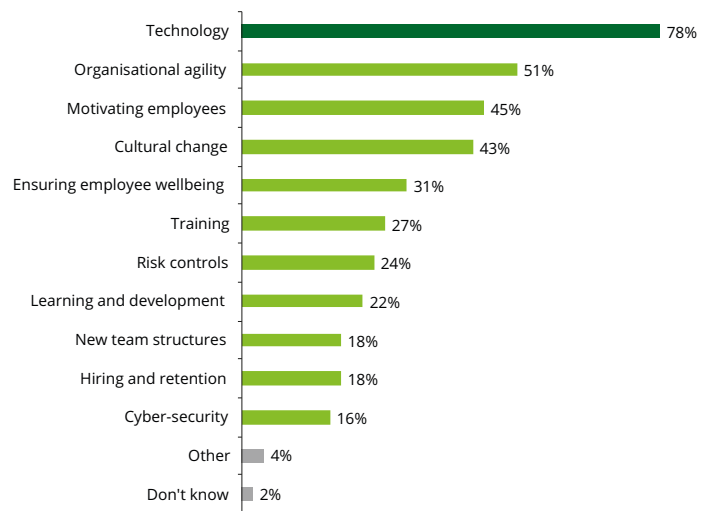
Our survey asked respondents to rate their employer's preparedness for a prolonged period of WFH when the government's stay-at-home rules were first introduced in March. 73 per cent thought their employer was prepared and only ten per cent of responses indicated that their employer was unprepared. One respondent commented: "Unprepared before lockdown as most staff could not access systems at home. This was resolved very quickly, however."

Figure 10. Preparedness of employer for a prolonged period of WFH



Among the ten per cent (of only 49 respondents) who thought their employer was unprepared going into lockdown, most indicated that there was a need for more or better technology. But some also recognised that effective remote working is not just about technology. A number of individuals said their employer could improve its organisational agility, its motivation of employees and its adaptation to cultural change. Concerns about risk controls and cyber-security were comparatively few in number.

Figure 11. Areas of investment needed by employers rated as unprepared for lockdown and WFH

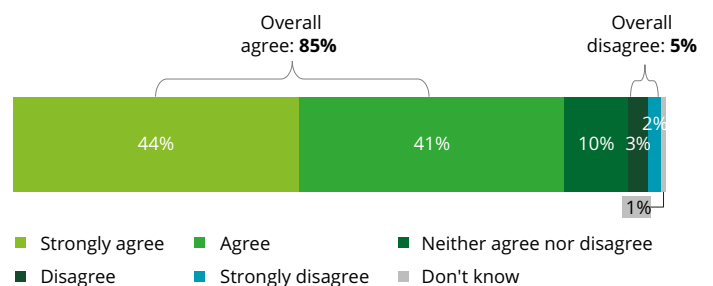


Note: Sample size = 49

Provision of technology

When asked if they agreed that their employer had provided the technology to enable them to WFH effectively during lockdown, the vast majority of all respondents (85 per cent) agreed, and only five per cent disagreed.

Figure 12. Agreement that employer provided technology to enable staff to work from home effectively during lockdown





The most widely-used support measures provided by employers to help optimise employees' WFH experience have been online chat tools (used by 66 per cent), collaboration tools, such as file-sharing (56 per cent) and online video tools (45 per cent). Most respondents were happy with the equipment and tools that their employer had provided and nearly two-thirds (64 per cent) said that they did not need anything else that did not already have.

Sustaining successful WFH

However, while employees are happy with the tools provided, employers will need to measure performance and productivity more rigorously if WFH is adopted more widely in the long term. They will also need to supply employees with appropriate technical support, and to train them to make the best use of the technology provided.

The sudden yet largely successful shift to a more digitised and (so far) resilient operating model has been aided by a number of supporting circumstances.

- Working from home was an imperative, to keep FS businesses functioning, given the risk of infection from commuting and spending all day in offices. Lloyd's of London, for example, closed its famous Underwriting Room in Lime Street even before the government announced its lockdown measures. Brokers and underwriters were voting with their feet: the day before the closure, footfall in the Room had fallen to about 200, from the normal 5,000 level⁷
- Technology underpinning remote collaboration, such as Zoom, Microsoft Teams and WhatsApp, has advanced rapidly in recent years
- Regulators have provided a supportive environment for WFH. For example, the Financial Conduct Authority stated that its rules permitted digital signatures by wealth management clients on key documents and it also temporarily flexed its requirements for recording dealers' conversations.^{8,9}



Figure 13. Usage of employer-provided tools for WFH



Sustaining successful WFH

In future, we expect firms to prioritise the use of physical office space for specific purposes, such as in-person meetings, and make more extensive use of WFH supported by digital technology. FS employers need to focus on three areas to accelerate digital transformation and build long-term resilience into these new ways of doing business.

- The positive gains from digitisation must be embedded in working practices. There should be a ruthless focus on securing efficiency gains, for example with less use of manual and paper-based processing
- Measures must be taken to address the risks introduced or revealed by WFH:
 - Controls should be implemented to protect employees and customers/clients from data breaches
 - Operations must be made more resilient to withstand further waves of the COVID-19 infection, or even the emergence of another zoonotic virus. This will call for flexible working models, and the ability to adapt quickly, efficiently and effectively to unforeseen developments
 - Operational risk controls must be reviewed and updated: for example controls over personal devices used to support trading
- Changes in business practices should align with the evolving expectations of customers/clients and the market generally in the post-COVID-19 'new normal'.



Task at hand



Task at hand

Productivity and WFH: the secret sauce

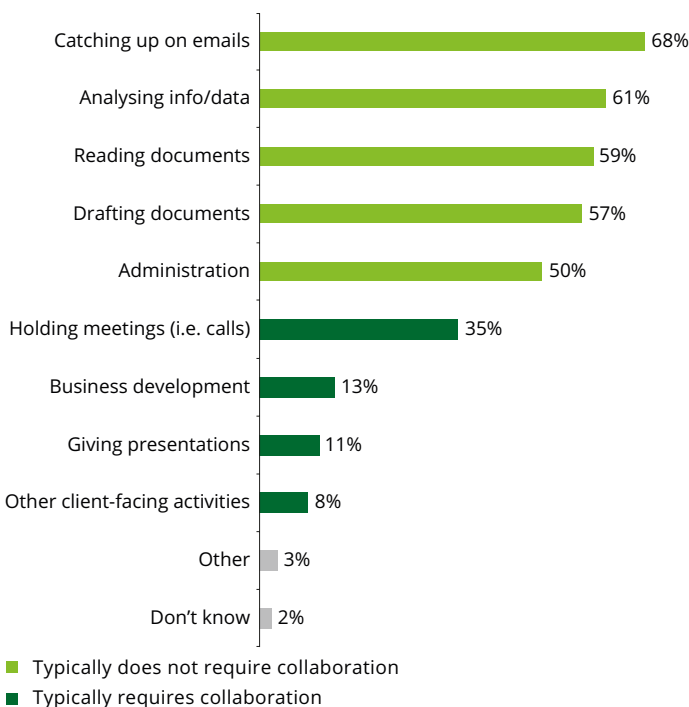
FS entered lockdown as a highly-centralised industry, concentrated in London's Square Mile and Canary Wharf. While home-working had been increasing, there was a strongly-held view that in-person interactions were crucial to the trading, money and risk management and advice provision at its core. While back-office tasks had been outsourced, often off-shored, many believed that front-office tasks had to be conducted face-to-face in the office. The front office of investment management, for example portfolio management, was characterised to us by one practitioner as a 'team sport' requiring in-person interaction.

It was, therefore, a surprising revelation that more than three-quarters of respondents to our survey felt either more productive working at home (38 per cent) or just as productive at home as in the office (another 38 per cent). A quarter said they were less productive. This raises the questions: in what ways do FS employees feel more or less productive working at home, and why?

Productivity by task

We found that the nature of the task is a major reason why some can be performed more efficiently at home than in the office. We asked those respondents who felt more productive during lockdown which tasks they performed most efficiently (up to three choices).

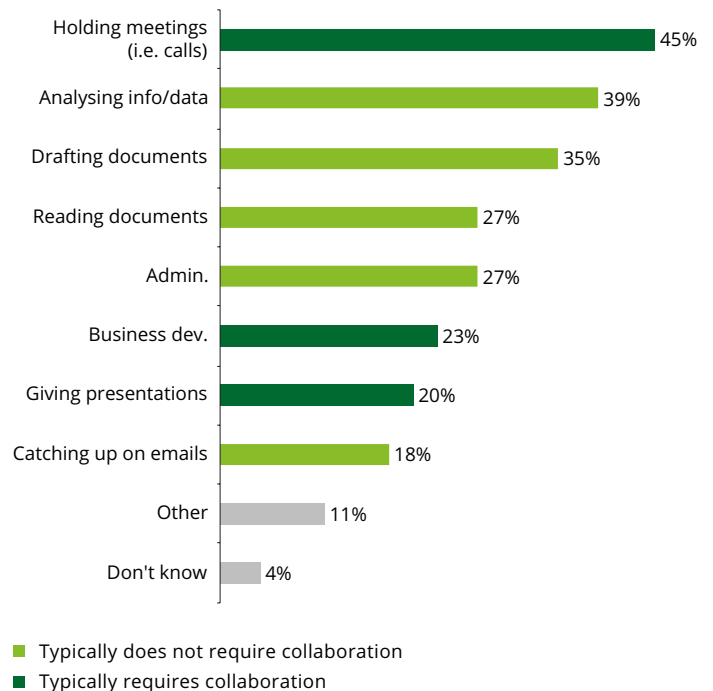
Figure 14. Most productive home working tasks: views of those who felt more productive working from home than in the office



The most productive tasks are those that typically require no collaboration and are likely to be completed more quickly if the individual is not disturbed or distracted. Catching up on emails and analysing information or data (for example building spreadsheets) were the two most productive WFH tasks cited in the responses, and reading and drafting documents were not far behind.

Asked why they felt more productive working from home, the top responses were 'no commute' (72 per cent), 'fewer distractions' (54 per cent) and 'quieter working environment' (52 per cent). The survey also asked respondents who felt they were less productive at home than in the office which tasks they did less efficiently.

Figure 15. Least productive working from home tasks: views all those who said they were less productive working from home



Among these respondents, there is no clear pattern to the relative efficiency in performing tasks, with both collaborative and non-collaborative tasks feeling less productive. 'Holding meetings' was cited most frequently as an unproductive task (by 45 per cent) and 'giving presentations' was cited by 20 per cent. But tasks requiring quiet concentration, such as 'analysing information or data' (39 per cent), 'drafting documents' (35 per cent) and 'reading documents' (27 per cent) were also cited by many as tasks where productivity was lower.

The fact that respondents found both quiet and collaborative tasks less productive at home suggests that other factors may be at play.



WFH productivity: environment, age and motivation

The working environment and personality also appear to be factors that affect WFH productivity, although these also relate in some respects to the nature of the tasks.

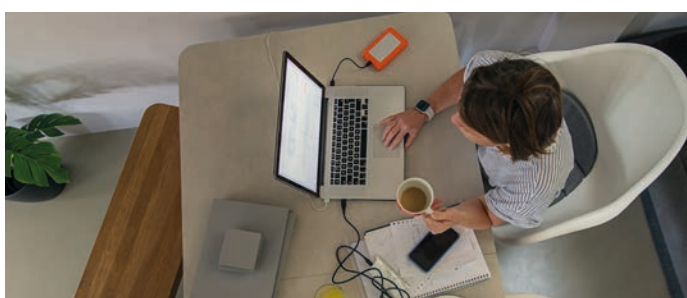
A number of respondents commented specifically about the difficulties of working at home when there are children to supervise and care for. One individual felt less efficient “doing anything at the same time as looking after a child.” Given that school closures have been an emergency public health measure, this suggests that levels of WFH productivity among some respondents may be higher in the longer term than they have experienced during lockdown.

Younger employees appear to find WFH more challenging than those who are slightly older. 30 per cent of respondents aged between 25 and 34 said that among all aspects of working in the office, they most valued their workstation, compared to just 18 per cent on average among all age groups. 25-34 year-olds are also hampered working from home by unsatisfactory working conditions.

The problem of insufficient suitable equipment at home is one that can be fixed, and for FS employers wanting to enable more extensive working from home, investing in bespoke equipment may be a worthwhile investment. A bigger challenge is the lack of human interaction when working from home, especially for more junior employees, who learn so much working alongside senior colleagues.

Among those who feel that WFH makes them more productive, 17 per cent gave ‘feeling more motivated’ as a reason, compared to 46 per cent of those with a negative view of their efficiency who indicated ‘feeling less motivated’ as a top reason.

Reasons mentioned by those who felt less productive at home included ‘stress from the lockdown’ ‘no human interaction’ and ‘lack of easy input from colleagues’ as reasons. While lockdown stress is a temporary phenomenon, these other comments suggest that there is a core of FS employees who need the interaction of office working to be productive.



Post-lockdown: WFH or office working?

WFH was an increasingly common practice in FS firms before the lockdown. The issue now facing firms is whether and to what extent WFH should be increased when lockdown ends, and which tasks can best be performed at the employee’s home.

Where productivity gains are achievable, firms can hope to benefit financially and in terms of employee motivation. On the other hand, some jobs are performed better in the office, not least those involving business development and innovation. And if large numbers of employees work at home for much of the time, there could be a risk of an erosion of well-being due to feelings of isolation and overwork.

Claims of improvements in productivity with WFH are not fully proven, because the efficiency of individuals is difficult to measure in financial services, where most tasks are non-standard in nature. There is some evidence of greater productivity from WFH, but so far this is limited. A research team at Stanford University carried out an experiment in 2013 on call centre employees at Ctrip, a NASDAQ-listed Chinese travel company.¹⁰ The nine-month experiment on volunteers found that call centre employees who switched to working from home were 13 per cent more productive, partly because of working more minutes per shift (due to savings in travel time) and partly because of handling more calls per minute, attributed to a quieter working environment. This might suggest that WFH will improve productivity even for non-standard tasks, but the evidence is by no means conclusive. Many of the WFH volunteers in the Ctrip experiment wanted to return to their call centre after the experiment ended.

To capture productivity gains, FS firms should analyse whether there are certain roles, or tasks within certain roles, that can be organised for WFH and that can be performed as well as or better than in the office. Decisions about WFH should factor not only in the implications for productivity, but also regulatory considerations, and how changes affect the ability of the firm to build and maintain trusted relationships between its people and with external stakeholders. WFH jobs or tasks should ideally be given to individuals who prefer home to the office, and are likely to work well there, and not to those whose response would be negative.

All this implies a highly flexible approach to organising work – horses for courses. Firms should consider mapping employee journeys (i.e. a day in the life of employees from key segments of the workforce) to understand in more detail how to reallocate tasks between the office and home. Incumbents may also wish to seek best practices from the working patterns of FinTechs, which often tackle the challenge of innovating with a largely remote workforce.



Trust 2.0



Trust 2.0

Financial services are built on trust. Trust is a crucial ingredient in the relationship between a firm and its customers or clients; and there must also be trust between colleagues within the firm, and between the firm and its employees – reflected in the culture of the organisation.

Digitisation and WFH are changing the features of the working environment and with it the nature of trust. We might call this a shift to Trust 2.0.

Video conferencing and in-person interaction

One of the stand-out features of the COVID-19 lockdown has been video conferencing. Many people have embraced video conferencing platforms enthusiastically, to stay connected with colleagues, clients and others, in an attempt to operate business as usual. Digital tools are also being used by clients: for example, in investment management, clients have conducted due diligence meetings on managers by video conferencing, a process that would typically involve several in-person meetings.

Although video conferencing and online chats have obvious benefits in a WFH environment, many individuals think that in-person meetings are more effective. Among responses to our survey, comments included: “meetings and workshops are often more productive face-to-face” and “collaboration tools [are] not as effective as in-person design meetings.” Another respondent attributed loss of productivity when working from home to “less easy input from colleagues.”

The results from our survey provide evidence of the value that employees see in office working and the in-person interaction that comes with it.



Figure 16. Most valued aspects of working in the office



The top three answers all relate to the value of face-to-face communications. This is likely to be partly because it is more productive and effective in stimulating ideas. But another reason is that in-person communication can build and reinforce the sense of trust between colleagues, and between employees and clients.

In-person interaction and trust

We take the view that for many FS employees, the value of office working, and the ability to meet with other people, relates primarily to building trust in relationships. Few people would dispute the view that it is more difficult to build trust when there is no in-person interaction. Body language, rather than spoken words, is arguably the most powerful way in which individuals communicate on issues where they want the other person to trust what they are saying.



Even with video conferencing, where individuals can see each other, body language is much more difficult to communicate and read than when people are talking to each other in the same room. So when people are working from home, and communicate at a distance, building trust may take more time and be more difficult.

Not all employees enjoy working in the office and/or meeting in-person with others, and this may well be an issue for employers to consider when making choices about the working environment post-lockdown. In answer to the survey question: ‘Which aspects of working in your employer’s offices ... do you most value?’ one respondent commented: “I don’t like working in the office. It is bad for my anxiety levels and general well-being.”

Employees and employer: organisation culture

Many FS firms have built a powerful reputation built largely on brand name and culture. Culture is readily understood as a general concept, but not so much when it gets down to the detail. The statement that corporate culture is ‘what people do when no-one else is in the room’ is a cliché, but one that has some truth to it. So when employees are working on their own at home, how is corporate culture sustained? In spite of video conferencing, it may be difficult to bond as a team when its members work remotely.

Employers need to protect the trust between themselves and their employees when establishing working practices post-lockdown. To what extent should employees be trusted to work at home for the right number of hours and on the right activities, or can they be trusted to comply with rules in the office for social distancing or wearing face masks, for example? To what extent will monitoring be needed? Excessive monitoring might destroy trust, if it is seen as an invasion of privacy.

Trust in the ‘new normal’ environment

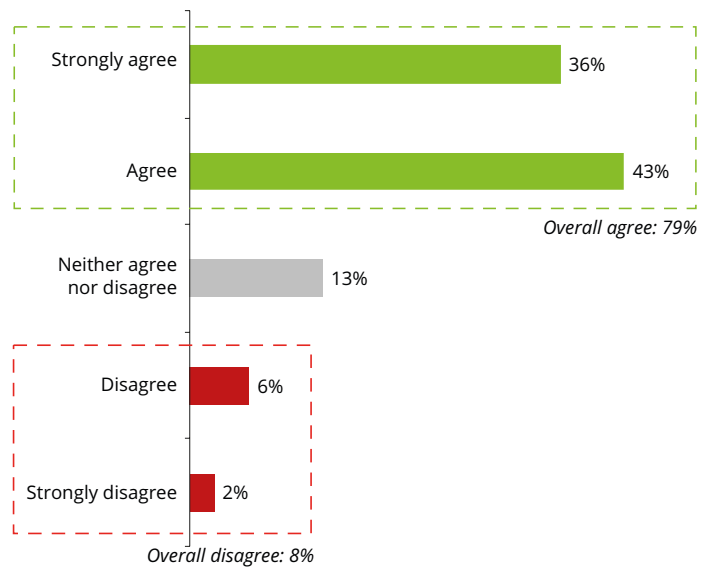
For financial services firms the relevance of trust in the ‘new normal’ after the lockdown ends can be summarised as follows:

- Individuals will need to work harder to build trust in relationships via online channels while working at home. This may take time, longer than in the office
- Employers need to leverage their physical footprint, and use their office space to engender trust among employees and other their stakeholders, for example in recruitment or sales.

Leadership

79 per cent agreed that their employer’s leadership met expectations in providing clarity on the impact of COVID-19 on the business.

Figure 17. Agreement that employer’s leadership met expectations



This type of strong and transparent leadership played an important role in shoring up confidence in the financial system as the crisis broke. As FS emerges from the crisis, the role of leadership in maintaining trust will continue to be crucial. In a world where more interaction is carried out online, those factors that sustain trustworthiness, such as brand, customer service and culture, all of which are underpinned by effective leadership, become even more important.

To what extent should employees be trusted to work at home for the right number of hours and on the right activities, or can they be trusted to comply with rules in the office for social distancing or wearing face masks, for example?



Work and life
imbalance?



Work and life imbalance?

Well-being

Employers have a responsibility for the well-being of their staff. Well-being is associated with a person's physical, social and economic circumstances. But it is also influenced by mental attitude, how people feel, and how they view their life as a whole. In a commercial context, well-being is associated with a high level of life satisfaction, good mental health and an ability to manage stress. From an employer's perspective, work-related stress, anxiety and depression can increase sickness absences and staff turnover rates. Conversely, a positive and motivated workforce contributes to business performance.

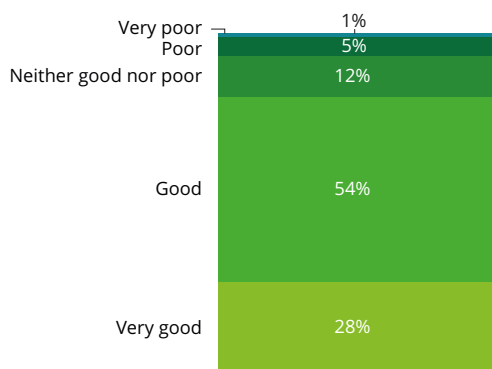
Many employers understand that, for legal, ethical and commercial reasons, they should do what they can to continue to support well-being among staff, and avoid measures that inadvertently make it worse. However, while the general concept of employee well-being is widely understood, the detail is less easily defined. What are the ingredients that make up an individual's sense of well-being and what has changed due to the crisis?

Work-life balance

Well before lockdown, the dividing line between home life and working was becoming increasingly blurred. Smartphones and the internet make it easy for individuals to carry on working after the end of the office day, or to stay in touch with what is happening at work while sitting around a pool on holiday. People can also be contacted at any time by bosses or colleagues. When individuals are working at home for days on end, the office embeds itself deeper into the home, and the work-life balance shifts.

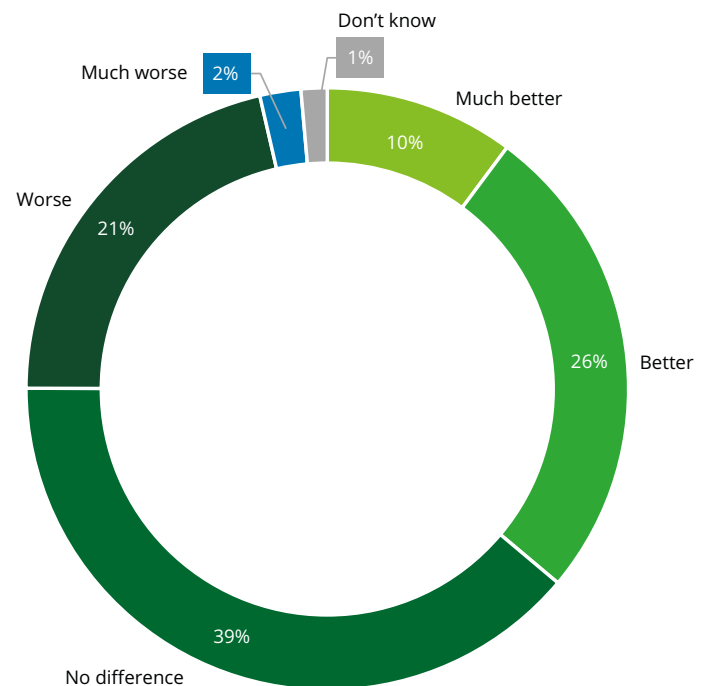
Our survey data suggest grounds for cautious optimism. Prior to lockdown, around 80 per cent of respondents considered their personal well-being to be either good or very good. Given that financial services can be demanding for employees, that hours are often long, and pay and prospects vulnerable to financial market volatility, we regard this as encouragingly high.

Figure 18. Perceptions of well-being before lockdown



On balance, employee well-being among FS employees has improved with WFH, at least up to the time of our survey. 36 per cent of respondents say that their well-being has improved during lockdown, which is 13 percentage points higher than the proportion saying that their well-being had deteriorated.

Figure 19. Impact of WFH in lockdown on well-being



One respondent to our survey commented on the positive benefits of WFH in reducing workplace stress: "Because I'm not commuting it's given me more down time back ... and with no people around, my anxiety is fully under control and I'm better able to cope with work pressures."

The downside is that, although perceptions of well-being have improved for over one-third of respondents, nearly one-quarter (24 per cent) think the opposite. Among those respondents whose experience of WFH is negative, many of whom have seen a deterioration in their well-being during lockdown, the reasons cited most were 'loss of personal interaction with colleagues and other stakeholders' (51 per cent) and 'maintaining work-life balance' (41 per cent). Loneliness was another prominent reason (24 per cent). Virtual meetings have their advantages, but they are not a perfect replacement for face-to-face contact.



Moreover, it is possible that the situation may get worse over time. During lockdown, there may have been a sense among FS employees that they are in exceptional times, and that everyone was pulling together. But the situation may change. A recent report by the Chartered Institute of Personnel and Development (CIPD) predicts that lockdown will have a significant ongoing impact on the mental health of employees.¹¹ Employers need to consider what is dragging down well-being and what countermeasures are available.

Reinventing the HR model

The good news is that employers have a range of tools and techniques at their disposal to continue to support employee well-being as working patterns shift. Nonetheless, they will need to be deployed as part of broader and ongoing programmes to reinvent the HR model. Once the immediate fears about safety at work subside, employees will have a revised set of expectations of their employers; and firms will need to provide and maintain a suitable environment for WFH, and to strike a balance between WFH and office working.

FS employees have differing views and experiences of WFH, and that there will not be a one-answer-fits-all solution. Work fulfils many psychological needs, as well as material objectives. The FS talent model should support work-life balance, help maintain well-being and minimise work-related stress and anxiety. It should also provide ways to connect with others, and allow for career progression and skills development. The productivity gains reported by employees working from home suggest that the potential rewards from reinventing the talent model are potentially significant: the workforce could be both happier and more productive.

One element in the HR framework for working from home may be the provision of well-being software to help individuals adapt to their working environment. These could, for example, remind staff to take a break or exercise or take care with eye health. But among our survey respondents, 65 per cent indicated that they were not provided with, or did not use, well-being tools. Of these, 24 per cent said they would find them useful for improving WFH. Employers have more work to do to drive up use of such tools.

One element in the HR framework for working from home may be the provision of well-being software to help individuals adapt to their working environment.

Well-being can also be addressed by using virtual hangouts (to replace 'meetings by the water cooler' in the office). These will be crucial and should be carefully curated, for example only being open to small and specific groups, and with a specific purpose. Expecting managers to initiate and run these types of sessions entirely under their own initiative is unlikely to succeed. Given the limitations of virtual meetings, whether formal or informal, occasional face-to-face meetings should also be facilitated, public health measures allowing.

Addressing the risks of WFH

The risks must be addressed if WFH is to be widely-established in the long term. In addition to a possible erosion of employee well-being over time, there are elevated risks of financial crime, operational risks, and a general conduct risk of 'bad practices' arising in an environment without the supervision of managers and the positive reinforcement of good behaviour from colleagues.

These risks are not insubstantial. For example, the financial regulators introduced forbearance measures during the lockdown, but these are temporary. FS firms are therefore likely to have to consider the relative effectiveness of regulatory compliance when deciding where people can and should work.

In general, respondents to the survey rated the risks from WFH as low despite evidence of an increase in scams since lockdown started.¹² Among those who indicated that their experience with WFH was negative, only eight per cent gave 'elevated levels of risk' as one of their top reasons, and only two per cent cited 'higher financial risk (cyber risk, fraud)' and two per cent that it was 'harder to comply with regulations'. A reason for this may be that cyber risk and financial crime seem remote concerns when you are working at the kitchen table dressed in shorts or sweatpants. If individuals are, indeed, less risk-aware when working at home than they are in the office, this would clearly have to be managed before FS firms embrace home working wholesale after lockdown ends.

Culture and leadership

There is also a challenge in maintaining a sense of community and a shared corporate culture, in a world of fewer personal interconnections. Corporate culture develops over time, but there is a risk that, with extensive WFH, it may weaken, or change in an undesirable way, so that firms lose their common sense of identity.

Leaders have an important role to play in setting the tone from the top. However, culture is about more than leadership and permeates many aspects of corporate life. FS firms will need to continue working hard to safeguard theirs – for culture is becoming both more important and harder to control.



Conclusion



Conclusion

The pandemic forced a mass experiment in WFH for FS amid very challenging market conditions. The industry coped remarkably well. It now has an important opportunity to dissect and apply the findings of this experiment. Our research suggests that the upsides of doing so include a more efficient operating model, better alignment with stakeholder expectations and a more positive and motivated workforce. The City has adapted to shocks in the past; to thrive, it must do so again.



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