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INNOVATING IN A CRISIS:

HOW COVID-19 CHANGED THE WAY
UK BANKS DELIVER CORE OPERATIONS

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CONTENTS

4 INTRODUCTION

5 KEY FINDINGS

6 BANKING OPERATIONS HAVE NEEDED AGILITY AND INNOVATION

8 NEW BUSINESS HAS BEEN THE BIGGEST CHALLENGE

10 CHANGE HAS BEEN THE ONLY CERTAINTY

12 NEW INITIATIVES DRIVEN BY NECESSITY AND OPPORTUNITY

13 BANKS ARE INCREASING OPERATIONAL EFFICIENCY AND AUTOMATION

14 ONE BANK'S THREAT IS ANOTHER BANK'S OPPORTUNITY

15 ABOUT THE RESEARCH

Introduction

The Covid-19 pandemic has forced a rapid transformation of the UK banking sector.

The crisis has affected almost every aspect of operations, from employee productivity to customer services. Banks have also been forced to move fast to support large-scale government lending schemes, and ensure they are adequately prepared for a potentially lengthy recession.

However, amid the turmoil, some positives have emerged. Banks have shown they can surmount greater obstacles, act faster and be more innovative than was widely perceived prior to the pandemic. Many of the positive changes made in 2020 seem likely to become permanent improvements for employees and customers alike.

These were among the findings from a survey we conducted to better understand how UK banks were affected during the first half of 2020.

We gathered responses from 263 senior executives from retail, commercial and investment banks operating in the UK. Just under half (49%) of these are C-suite leaders, including 27 CEOs.

We also spoke in depth with Ritesh Jain, who, until mid-2020, was COO of Digital Technology Foundation at HSBC. His role involved several strategic and tactical initiatives designed to build an enabling function for "the bank of the future". Most recently, his primary task was to guide the bank through the immense challenges that emerged in the first half of 2020.

"This pandemic has been very different to past crises," says Mr Jain. "The 2008 global financial crisis impacted the capital markets acutely but had a less direct effect on ordinary people and small businesses. This pandemic is completely different in that it affects all areas of the economy and society. In fact, it has had the greatest impact on the most vulnerable people and businesses."

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— RITESH JAIN, COO OF DIGITAL TECHNOLOGY, HSBC

Key findings

- 78% of banks have proven more agile than previously thought, and 72% have grown more innovative in 2020

- Making sales and winning new business are the areas with the biggest additional challenges caused by Covid-19

- Banks are responding with cost-cuts (66%) and increased automation (66%); 60% are expecting to increase technology spending

- Major changes extend beyond immediately necessary measures; long-planned initiatives have been expedited

78%

of banks have proven more agile than previously thought

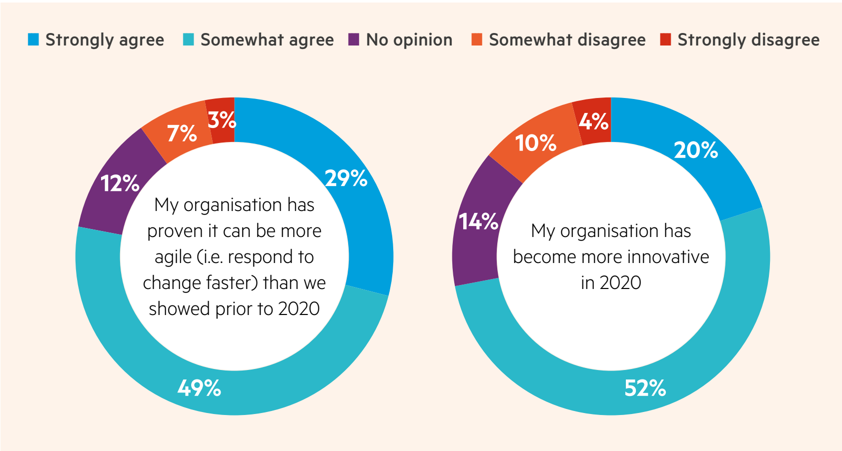
72%

of banks have grown more innovative in 2020

Banking operations have **needed agility and innovation**

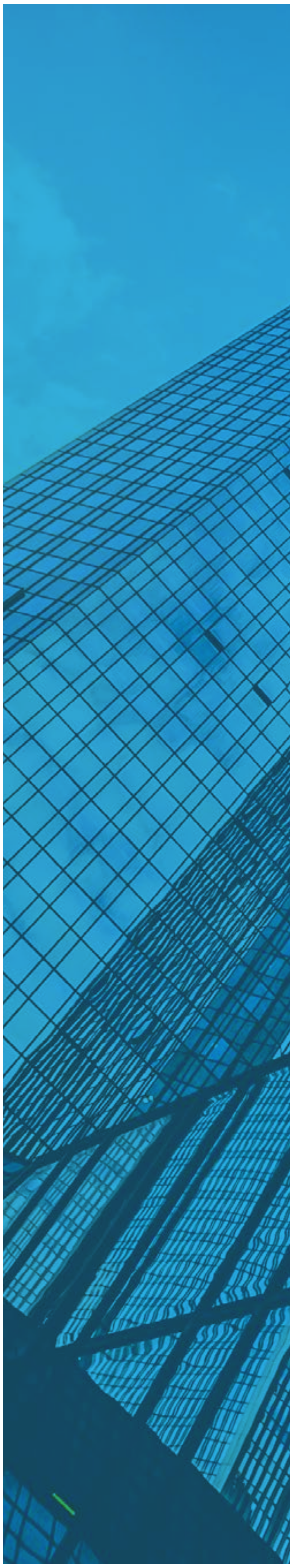
The crisis meant banks needed to adapt rapidly to support customers – especially the most vulnerable – while simultaneously making dramatic changes to internal operations. It is remarkable how quickly many banks have been able to do this; and it could represent the beginning of an era of far greater adaptability and faster innovation cycles.

In our survey, 78% of respondents say their organisations have proven they can be more agile than they had shown prior to 2020, while 72% say this year has seen their organisations become more innovative. “We have never seen such transformation, such a drive for innovation, as we have witnessed in the last four or five months [to July 2020],” says Mr Jain. “We’ve seen many different banks develop innovative solutions to new problems. It has increased the pace of the quest for better customer experience.”



One example of this rapid adaptation came early in the pandemic, when it became clear that more vulnerable people would need help with their shopping from friends and neighbours. However, people would soon run out of cash and could not always get help from those they could trust with their bank cards. “Almost overnight, one of the challenger banks implemented a solution,” says Mr Jain. They enabled customers to control a block on their debit cards, so that only authorised amounts could be spent. Customers could then get help from a wider range of people, without fear of exploitation. “It’s a small change but it would have taken much longer to deliver in normal times,” he says.

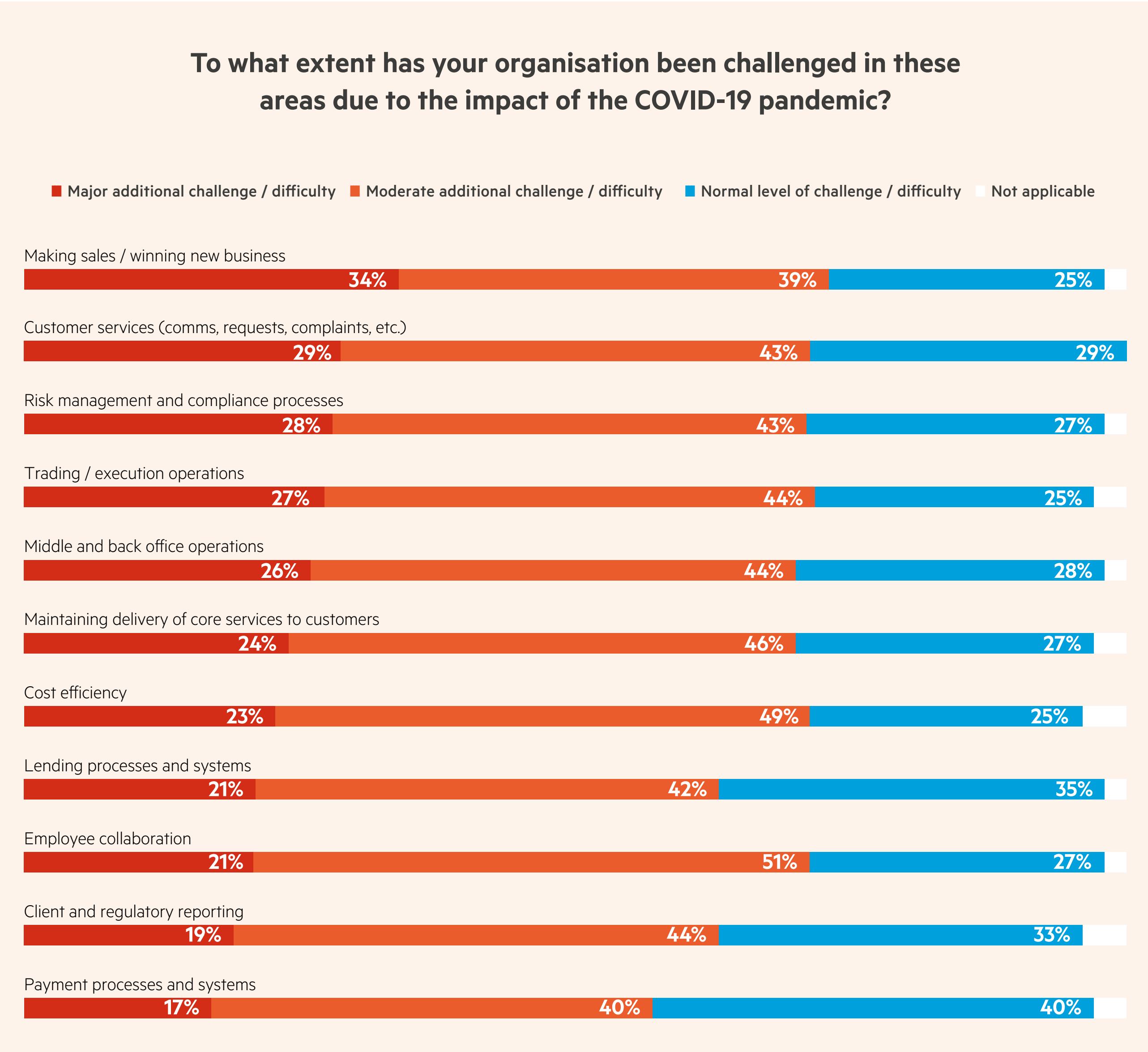
Even regulators have acted faster than ever before. For example, it took just one week to implement the increase in the spending limit on contactless cards from £30 to £45 (a measure enacted to limit transmission of Covid-19). The previous increase took two years to achieve.[1]



1 https://www.ft.com/content/aa525259-5dd0-4e42-a70e-070e8117629e

New business has been the biggest challenge

While the pandemic has created numerous additional challenges, the most acute, according to our respondents, have been in the areas of sales and new business. Just over one-third (34%) said Covid-19 created major additional challenges in these areas, far more than for the obvious challenges of employee collaboration and delivering core services to customers.



Investment banks, in particular, have struggled in this regard. Closer to half (45%) of investment bank respondents cite sales and new business as major challenges, compared to 31% and 28% for retail and commercial banks, respectively. Advisory services are likely to be front of mind for respondents here, with the pandemic slowing merger and acquisition activity to the lowest levels in more than a decade.[2]

At the same time, investment banks have benefited from the rampant market volatility seen in 2020. High volumes have been traded across all asset classes, as investors have sought to mitigate risks and exploit opportunities presented by the chaotic environment. In addition, several large companies employed investment bank services for emergency fundraising,[3] so equity and debt underwriting services have been strong. As that activity calms, the lack of new business may bite – there is always a lag between a slowdown in new business and its effects on revenue and profit. This suggests that the year ahead may see far weaker performance from the sector.[4]

2 https://www.ft.com/content/92c13865-6c67-4f48-b96b-3429194c2ea2
3 https://www.ft.com/content/d42d735a-9aa3-454e-955a-3e0b22eda03d
4 https://www.ft.com/content/2189d552-7892-4c0e-a6c8-1fbe45e0a62c

Change has been the only certainty

UK banks have needed to make a staggering range of major changes to business practice in 2020. These include necessary factors, such as remote-working arrangements, but also wider changes, such as streamlining processes, increasing automation and improving transparency.

Close to one-third of respondents believe changes to remote working and online services are permanent for their organisations, but a roughly equal number believe these changes are temporary. This reflects the uncertainty that pervades the sector and society in general. For example, the Royal Bank of Scotland recently announced that 50,000 staff would continue with current work-from-home arrangements until at least 2021. This certainly indicates that the workforce is maintaining much of its productivity, especially given the move goes against the UK Government's efforts to encourage people back to offices. But it also suggests that, in some areas at least, leaders are not able to plan with certainty much further than six months ahead.[5]

With remote working now enabled and accepted by many, business travel is one area unlikely to return to pre-2020 levels. "I used to see travel bills racking up and always cautioned about this," says Mr Jain, "I believe that, if leadership need to travel to the same location twice in a month, then something is significantly wrong. It was already changing too; we were adopting virtual planning sessions even before Covid-19." In a post-Covid-19 world, with environmental concerns increasing and technology substitutes improving, banking executives will frequently work via digital clouds, but rarely fly over real ones.

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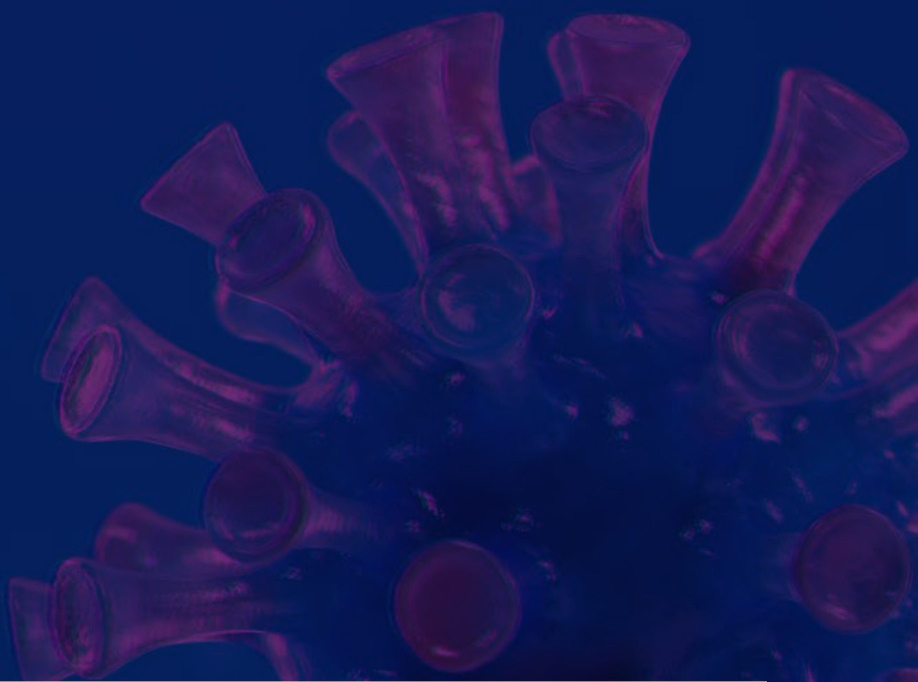
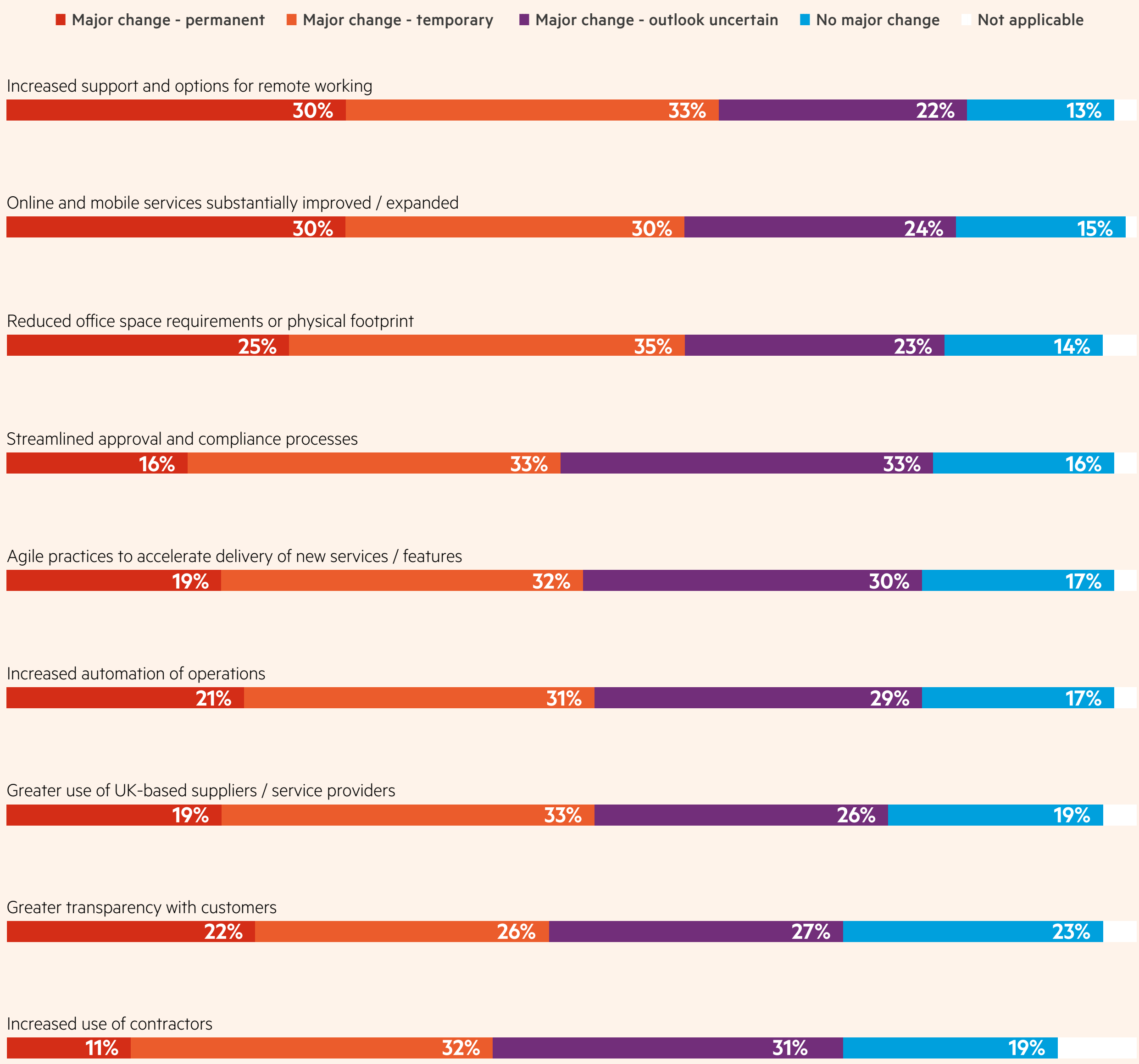


Which of the following were major changes driven by the COVID-19 pandemic, and which are here to stay?



New initiatives driven by necessity and opportunity

So much rapid change has been necessary, but not all of it has been from a standing start. While banks have been forced to rely on technology more than ever during the pandemic, in many cases, this has only accelerated the adoption of systems and processes that have been advocated or planned for years.

“We expedited a significant amount of work that had been pending for a long time,” says Mr Jain, “only because we knew the value that it would deliver. We could see how it would increase efficiency and productivity, and that is what happened.”

An example of this, as alluded to above, is cloud adoption. Banks have been cautious about cloud for years, while other industries have reaped the benefits of on-tap storage and computing power.[6] But several major cloud deals have been announced in 2020, including those by Lloyds,[7] HSBC,[8] and Deutsche Bank.[9] Cloud offers banks the chance to turn capital spending on IT into a variable operating cost, as well as immediate gains in agility and efficiency. However, cloud technology is increasingly also a prerequisite for further digitalisation efforts, including new online services, remote working, automation, and artificial intelligence (AI).

6 https://www.ft.com/content/ac12f5b6-46a1-40fe-b262-27ec505126e5
7 https://www.computerweekly.com/news/252486492/Lloyds-bank-to-investigate-cloud-native-payments
8 https://www.broad-group.com/data/news/documents/b1mm8czmwmkm1g
9 https://www.db.com/newsroom_news/2020/deutsche-bank-and-google-to-form-strategic-global-multi-year-partnership-to-drive-a-fundamental-transformation-o-en-11628.htm

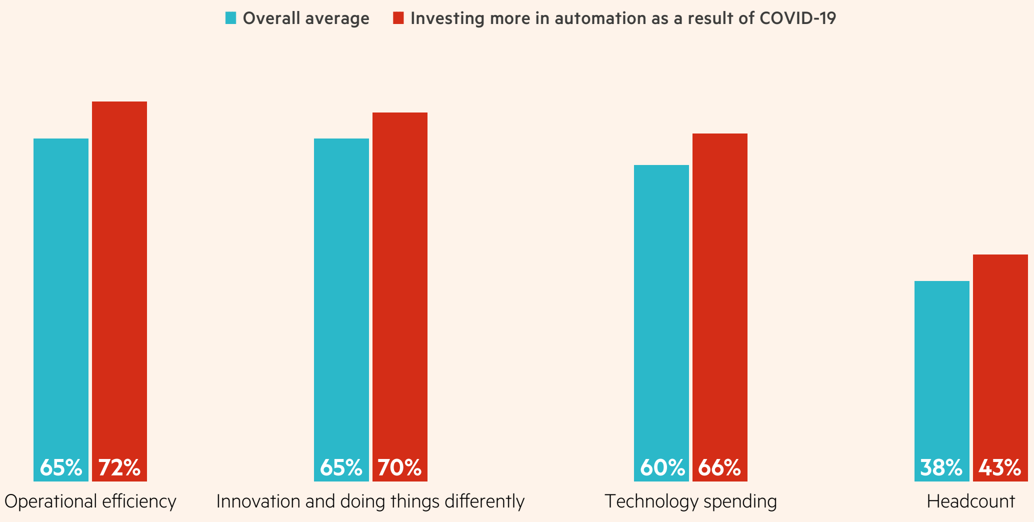
Banks are increasing operational efficiency and automation

Mr Jain says that, at HSBC, automation is growing in importance: “Low value, repetitive work; you just need to automate that,” he says. “I have seen numerous automation projects and they have brought a significant return on investment, in terms of both time and money.” These have included large-scale projects implemented by dedicated technical teams, but also highly specific automation solutions, driven by proactive individuals within their teams. “They are using the tools we have given them to automate a range of processes, such as software development and regulatory compliance,” says Mr Jain.

Two-thirds of our respondents say their banks are responding to the Covid-19 crisis by reducing costs (66%) and increasing automation (66%). This is likely to shape the outlook for banks, with most respondents expecting increases in innovation, technology spending and operational efficiency over the next two years. The outlook for the workforce is a mixed picture, with the same proportion (around 38%) expecting increases and decreases in headcount over the same period.

While many associate investment in automation with lowering headcount, our survey results do not bear that out; those investing in automation have a similar outlook to the average in terms of headcount expectations.

Does your organisation expect the following to increase or decrease over the next two years?



Net increases shown (major + minor)

One bank's threat
is another bank's opportunity

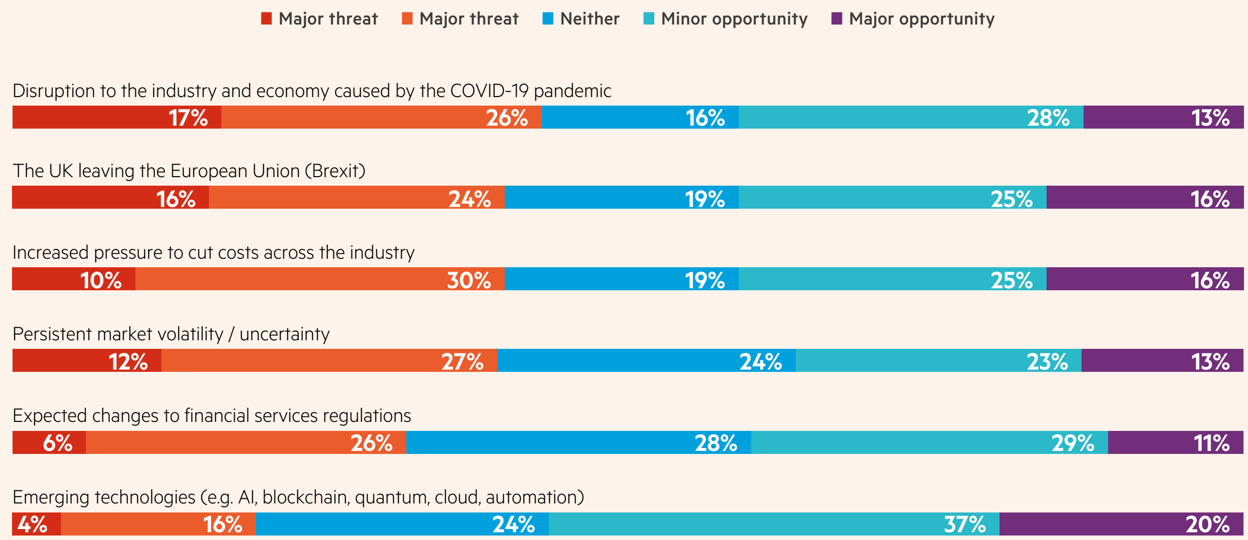
Despite all this change, some things do remain the same. The UK banking sector remains relentlessly competitive. Our survey findings show this in the way roughly equal groups of respondents see opportunity and threat in the same major trends (or changes), including the disruptions caused by Covid-19 and Brexit.

Emerging technologies represented the only factor where respondents showed more of a consensus, with significantly more viewing this as an opportunity for growth.

While technology and digitalisation advancements may be key positives to come from an otherwise dark and disruptive year, another is surely how UK banking workforces have managed to cope with the turmoil and keep serving their customers. Indeed, many have learned that working at home can be more sociable and more efficient than they realised. "Although people are working remotely, many are more productive and more collaborative than they used to be," says Mr Jain.

Curiously, while Covid-19 has distanced us all physically, Mr Jain believes it has brought people together in other ways. "It has brought the human side of business to the centre, which I would definitely like to see continue to influence our innovation path," he says. "This is about solving our customers' problems, starting with their perspectives, and also ensuring our own people are happy, motivated, comfortable and engaged. Beyond the innovation, the technology, digital, I have seen empathy and the human side of decisions taking priority. That has been one of the most pleasing things I've seen in my career."

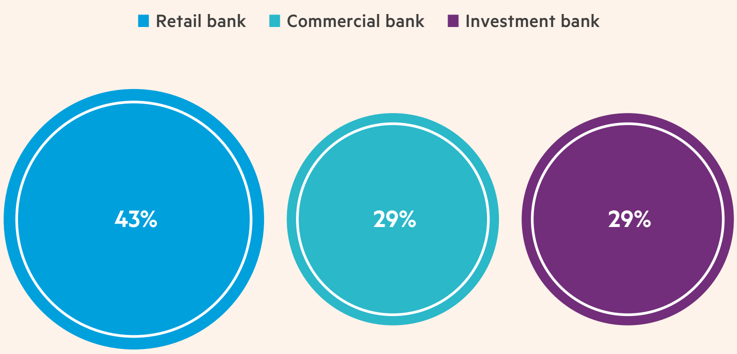
To what extent does your organisation view the following factors as threats to growth vs. opportunities for growth?



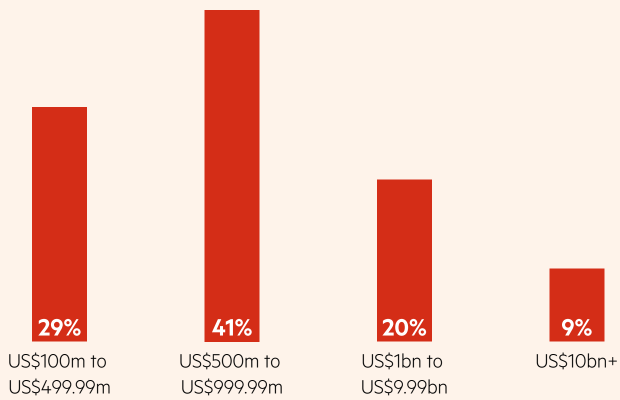
About the research

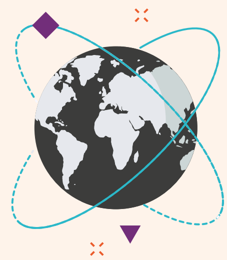
We surveyed 263 senior UK banking executives during July 2020.
Sector, revenue and role breakdowns are shown below:

Banking sector



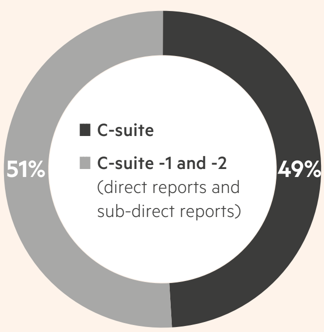
Annual revenue





Role types

Chief executive officer (CEO)
Chief operating officer (COO)
Chief finance officer (CFO)
Chief compliance officer (CCO)
Chief risk officer (CRO)
Chief information officer
Chief technology officer (CTO)
Chief investment officer
Senior operations role
Senior finance role
Senior compliance role
Senior risk management role
Senior it/technology role
Senior investment role / portfolio manager
Senior trading role



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How Covid-19 changed the way UK banks deliver core operations