BOUNCING BACK FROM COVID-19

Financial Services

In consultation with our network of Financial Services clients and senior consultants over the past month[1] we have been noting trends and key focus areas across Financial Services. These themes remain an initial view, but hopefully these recurring observations serve to ratify what you are seeing and hearing across the sector and will act as a prompt to invite further discussion and consideration.

Digitalisation in Insurance

This was already high on the agenda, with much of the industry aware of their lagging adoption of digital. Technology was often seen as back-office processing capability but the separation between technology platform and business front-end is now almost indistinguishable. As business now increasingly originates via online channels the need for simplification, Robotics/Automation, Artificial Intelligence and Machine Learning will play a growing role in underwriting, claims processing and fraud detection.

> *Digitisation is the key area, and accelerated process: we are connecting to clients electronically where our relationship managers have been unable to meet face to face.*
>
> **Wealth Management Division of a Global Bank**

> *We're going to need more restructuring skills in the next 2 years, both Strategic and Transformation/Organisational Change.*
>
> **Global Asset Management Firm**

Decision making in Asset Management

Executive leadership teams across Asset Management have typically relied on economists and investment strategists to shape the direction on the business as market factors had the biggest impact on business performance. However, we are now seeing a significant increase in corporate strategy led decision making as the current crisis has forced changes to the way the industry operates as a whole. Corporate strategy now has a stronger voice at the top table, offering new views for how best to react to the current crisis as an industry.

Financial Services Real Estate

The lockdown has provided an opportunity for companies to assess roles and teams within their workforce, priorities in the business and how and where these roles can be performed effectively. Firms are now able to re-assess their real estate requirements - particularly those with multiple sites across different geographies – to decide how much of it may still be required under a new business model. This in turn is feeding into cultural, organisational and capability reviews as well as the more tangible procurement, cost and technical transformational change opportunities. This change however is only possible as productivity remains high.

1. Qual responses. n=450

> *We're already considering real estate costs - we don't need to have XXX amount of people in downtown NYC if we can have a smaller footprint and more remote working/hot desking in the office where needed, resulting in considerable cost savings.*
>
> **Investment Bank**

Remote working operating models in Banking

With remote working on a sustained basis being proven, even for frontline staff, firms are considering whether or not they can geographically extend this model even further and / or outsource frontline services completely. The remote recruitment and on boarding of talent is no longer a leap of faith, with engaging remotely through technology becoming a crucial and core capability for firms to secure top talent. However, as remote working, out-sourcing and regionalisation become more common, banks will need to think about strategies to define, embed and embrace culture in this new, disbursed environment.

> *We have been tracking productivity metrics to try and understand if WFH is sustainable and found that while there was a dip initially, productivity has now returned to pre-lockdown levels.*
>
> **Global Payments Provider**

Insurance M&A Activity

In recent years there has been a steady flow of M&A activity within the industry, mostly due to ongoing transformation and the need for consolidation within the sector. COVID-19 may serve to accelerate these trends while not seeing a significant surge. The current crisis has increased the spotlight on those businesses that are operationally complex. This could lead to sell offs of older legacy businesses within a company portfolio that doesn't fit with their new business models. The trend in consolidation has generally been bigger market-leading firms looking to strengthen their competitive position. Appetite in this space may depend on how much the crisis affects current market valuations.

Improved client relationships in Wealth Management

The crisis has increased the volatility of markets leading to increased client concern, particularly those nearing retirement. This has invited increased client contact from Wealth Management firms, to educate and address new concerns and thereby deepening relationships due to a greater reliance on Wealth Managers for face-to-face (albeit virtual) advice. These improved client relationships are a key area for Wealth Managers to take advantages of and help secure future investment in the post-crisis world.

Economic, Social & Corporate Governance (ESG) informing Investment Strategy

From an investment perspective ESG has already been a topic of increasing importance of late. With COVID-19 impacting fund values, a number of large asset managers have made it clear that firms with high ESG scores tend to have higher profitability and lower cost bases. Paired with plummeting oil prices, the spotlight on firms that cannot adapt their business model will only increase. The current situation raises further questions beyond investments - if behaviour can be changed to combat a viral pandemic, what about averting climate disasters, redefining a business' corporate purpose, or forsaking profit to give back to communities? Whether these occur beyond the short term remains to be seen, but the current crises has certainly drawn attention to ESG metrics.

Growth in Payments

Customer opinion around payment methods has changed as a result of COVID-19. Data shows that in the US sentiment towards using contactless payment instead of cash has softened recently. In Germany, for example, the number of online purchases has increased by more than 15%. This has further fuelled growth across the expanding payments industry as both established players and newer payments-focused FinTechs have been able to take advantage of increased digital customer trends. However, while this has positively impacted digital payments, the increased scrutiny around cost for major institutions will put pressure on payments providers without economies of scale to offer the best prices.

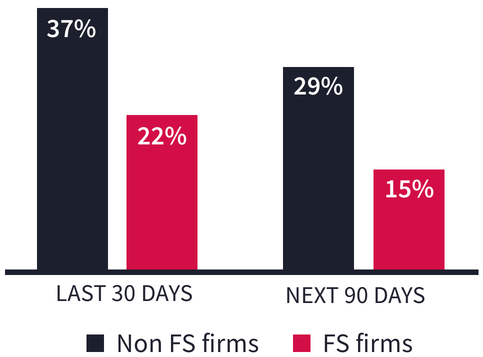
> *We're doing really well. We had our highest daily transactions ever despite some of our biggest partners taking a huge negative hit. And the business has rallied around seizing the opportunity. There's a great level of solidarity in the business - feels better from a cultural perspective than it has for a long time.*
>
> **Global Payments Provider**

> *The travel vertical will come back eventually, but it's a good chance to strike partnerships and do commercial deals with struggling companies to help set them up for long-term growth.*
>
> **Global Payments Provider**

Well prepared, Financial Services firms focus on people and operations to navigate the COVID-19 crisis.

A recent survey run in collaboration with Independent Consultants, Aneil Rakity & Tal Potishman, has shown than as Financial Services firms navigate through the crisis, they are making significantly fewer changes to their business models and strategies than non-FS firms. Over the last 30 days, only 22% of FS firms said they had made major changes (vs 37% of non-FS) and looking forward over the next 90 days, just 15% of FS firms (vs 29%) said they would make significant changes.

Firms Making or Planning Major Changes (%)
(n=269)

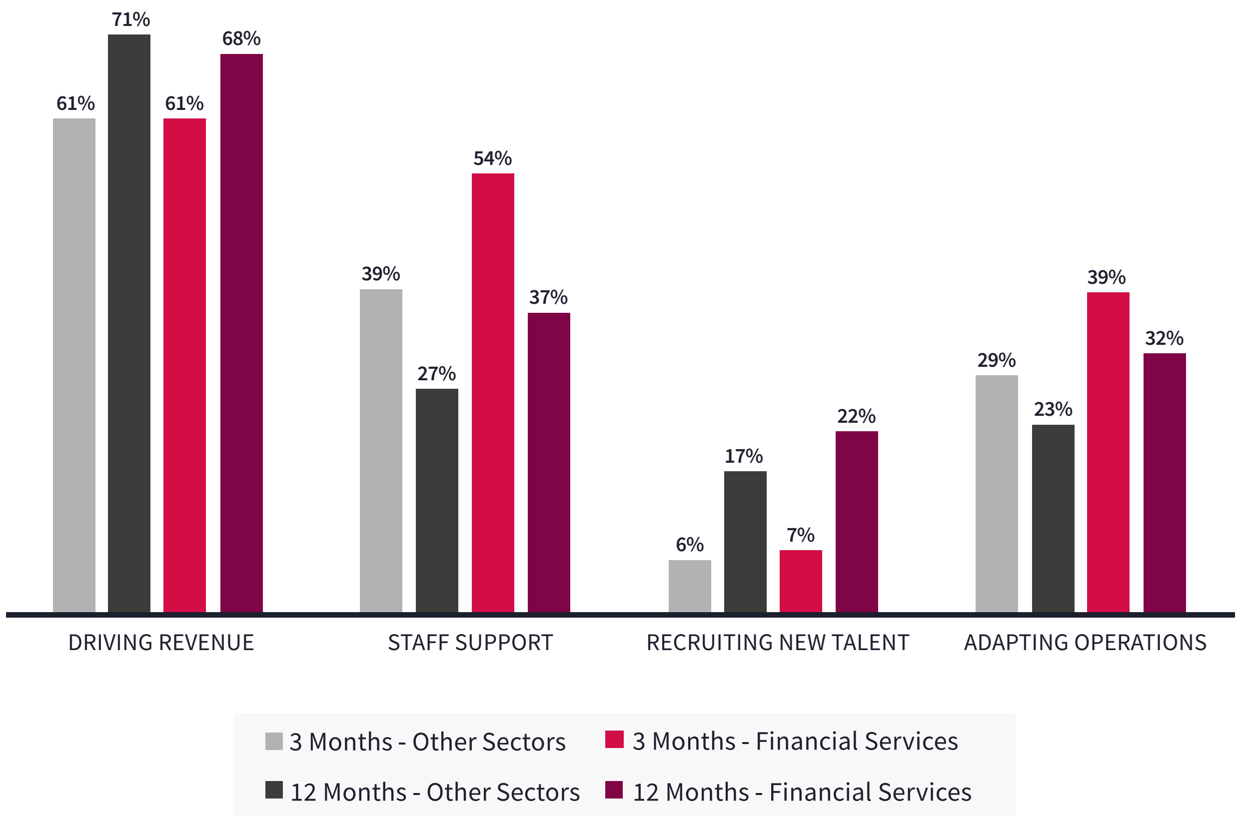


Aneil Rakity commented that “unlike many other sectors, FS firms found themselves in a situation where they had to continue operating in order to keep national economies and international trade flowing. Making big changes at short notice was not a realistic option for many.” Moreover, many FS firms, who have been aggressively digitising their operations over the last decade, were able to deliver services through pre-exisitng contactless channels and migrate in-person operations (trading) to remote distributed environments. With mature risk management functions, tight regulatory control and lessons from the 2008 Financial Crisis, banks appear to have been relatively well positioned to handle the immediate impact.

Looking further forward, FS firms are in line with other sectors in terms of their financial focus over the 3 and 12 months horizon as illustrated by their almost identical emphasis on revenue in the chart below. A finding mirrored when looking at both costs and cash flow.

However, where their approach differs sharply from other sectors is in the emphasis they place on supporting their staff (54% in FS vs 39% in non-FS), adapting their operations for the ‘new normal’ (~10 point differences over the 3 and 12 month periods) and finally in preparing for recruitment in the long-term (22% vs 17% in 12 months).

Importance of top 3 issues over the next 3 and 12 months (n = 269)



Reflecting on these findings, Tal Potishman noted that “as banks entered the crisis, they recognised the wider role that they play in sustaining the economy and the need to ensure their people and processes could continue to operate through challenging times. At the same time, they are proactively preparing their businesses for a new normal by identifying the importance of finding the right talent to both deliver and optimise new target operating models.”

The Barton Partnership

Specialists in permanent search and independent consulting across Strategy, Transformation, M&A and Data & Analytics. From offices in London, New York, Paris and Singapore we support our clients on a global scale.

A combined function and sector focus is the key to our success. Working closely with our clients to understand their unique business and recruitment challenges we are able to consistently deliver with the pace and precision they require. It's why we've been awarded for our commitment to client service, and why 90% of our clients have returned for further support in the last 3 years.

Since 2007 we have supported FTSE listed and Fortune 500 companies across all industries; SMEs, Strategic, Innovation & Management Consulting firms (large & boutique), Global Financial services, Private Equity and Venture Capital organisations.

Financial Services Practice

Callum Small
Managing Principal - UK
callum.small@thebartonpartnership.com

Dickon Cole
Head of Financial Services - Europe
dickon.cole@thebartonpartnership.com

Jason Roofe
Director - Transformation & Change - UK
jason.roofe@thebartonpartnership.com

Adam Leach
Managing Principal - US
adam.leach@thebartonpartnership.com

Benjamin Court
Director - France/Benelux
benjamin.court@thebartonpartnership.com

James Roberts
Associate Director - Asia Pacific
james.roberts@thebartonpartnership.com

About the study

A collaboration between The Barton Partnership & Independent Consultants Tal Potishman and Aneil Rakity, this insight provides analysis on the actions companies are taking to recover from the impact of Coronavirus.

Our insight is based on The Barton Partnership's qualitative research from more than 160 clients, supported by a quantitative cross-industry survey by Tal Potishman and Aneil Rakity of 269 global senior business executives conducted during April and May 2020.

Tal Potishman
Independent Consultant

Aneil Rakity
Independent Consultant

Contact us

LONDON
16 High Holborn
London
WC1V 6BX

+44 (0) 207 138 3691

contact@thebartonpartnership.com

NEW YORK
11th Floor, 12 E 49th St
New York
NY 10017

+1 (347) 400 5567

nyc@thebartonpartnership.com

PARIS
226 Boulevard Voltaire
75011
Paris

+33 7 78 63 22 82

paris@thebartonpartnership.com

SINGAPORE
Suntec Tower 5
5 Temasek Blvd
038985
Singapore
+ 65 8571 6950

asia@thebartonpartnership.com