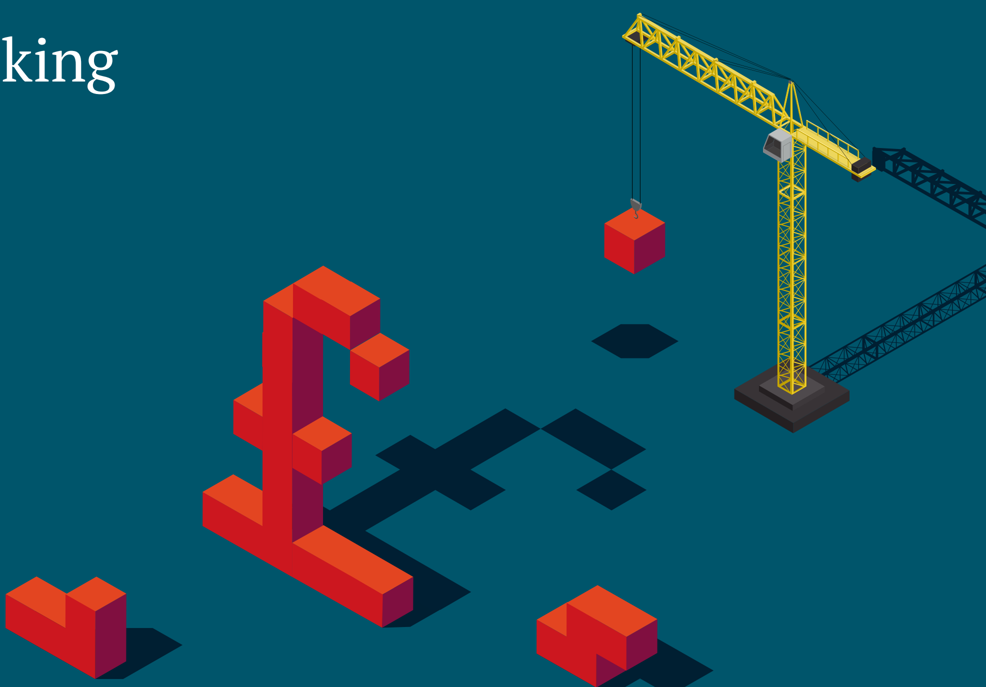
Chartered Banker

The future of banking

Summer 2020

Build back better

Reimagining banking after COVID-19



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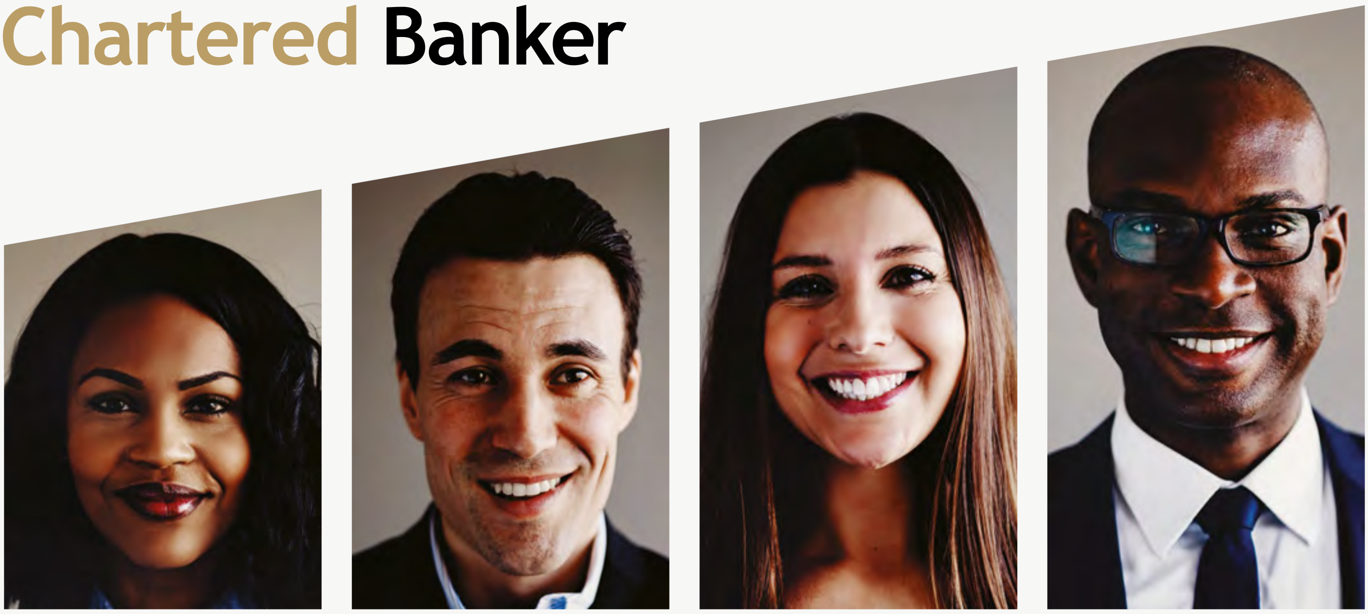

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EDITIONS FINANCIAL

Chartered Banker
The future of banking

The front line

Our healthcare sector should be a source of inspiration for every profession.


Simon Thompson, Chief Executive

Over recent months, we have rightly – and proudly – celebrated the health and social care professionals, and many other key workers, who have been part of the front line response to the COVID-19 health emergency. Their dedication to those needing help, their expertise, and their sense of duty and care have been very vivid reminder of the purpose and selflessness inherent in their professionalism.

The immediate risks from coronavirus may now, thankfully, be diminishing, although we must remain vigilant in case of an autumn second wave. Our focus shifts, therefore, to mitigating and recovering from the economic impacts of the pandemic, which have already been substantial and far-reaching. In turn, the financial stresses on individuals and businesses will themselves impact the health and well-being of many.

Banks and bankers have already played important, positive roles supporting and protecting individuals and businesses from the immediate financial impacts of the pandemic. Despite some reports to the contrary, the banking profession has very rapidly, and very successfully, deployed a wide range of measures to support customers in need of relief. Mortgage holidays, forbearance, the Coronavirus Business Interruption Loan Scheme (CBILS), the Bounce Back Loan Scheme (BBLS) and other measures have helped in the short term, but there will be many who will need our advice, help, care and support for much longer periods, and this will test our expertise and professionalism.

> "We have an opportunity to show how banking has a positive social purpose."

This will undoubtedly be a challenge for our banking profession, but it is also an opportunity to demonstrate how our technical and professional skills, creativity, empathy and judgement can be deployed to support very vulnerable customers and businesses in distress. An opportunity to show how banking has a positive social purpose, and that we bankers care about our customers' financial health no less than a doctor cares about their patients' mental and physical well-being.

It is our turn to be tested (no pun intended). So let us take this opportunity to demonstrate our purposeful professionalism, and our care for our customers, their businesses, and our communities. CB

Contents

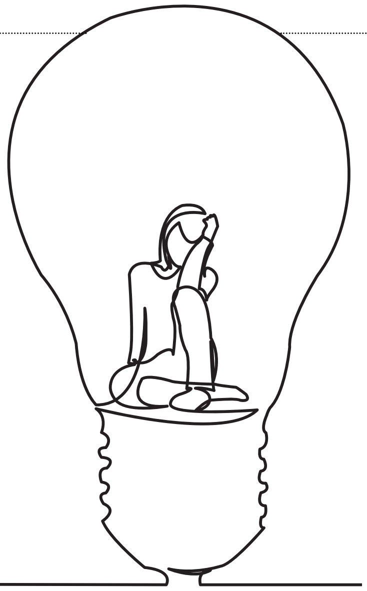
Regulars

Features

Build back better

This issue of *Chartered Banker* departs slightly from the normal magazine structure to enable a greater focus on the COVID-19 pandemic, its impact – and banks' roles. The 'Special Report' feature will appear again as normal in the Autumn issue.

“Every change of this scale provides opportunities to build a much better banking system that puts people and planet first.” p48



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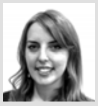
The professionals in this issue

Mike Gamble joined TSB in October 2018 as interim Director of CSD&D and has now taken a permanent role as Director of Analysis and Design. He has more than 30 years' experience. **p13**

Joanna Finlay is Sustainable Banking Manager, Virgin Money. She's shared her passion for financial inclusion as Young Banker of the Year 2017 and as a TEDx speaker. **p16, 28**

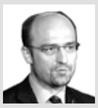


Maxine Pritchard is Head of Financial Inclusion and Vulnerability, HSBC UK. Her role involves making sure that products and services are suitable for vulnerable people – and that no one is excluded from the financial system. **p16**

Alastair Graham is Secretary-General of the Global Banking Education Standards Board and a Fellow of the Chartered Banker Institute. He was Managing Director of the Global Association of Risk Professionals for nearly 10 years. **p18, 28, 32**

Flora Hamilton is CBI Director for Financial Services. She is responsible for leading the organisation's policy work on financial services, both as an enabler of economic growth and as a critical sector in its own right. **p18**

Eric Usher is Head of the UN Environment Programme Finance Initiative (UNEP FI), a global partnership established between the United Nations Environment Programme and the financial sector. **p34**



Professor Richard Werner is Professor of Banking and Finance at De Montfort University, Leicester, and a past member of the European Central Bank (ECB) Shadow Council. **p42, 45**

Trevor Williams is the former Chief Economist at Lloyds Bank Commercial Banking, Visiting Professor at the University of Derby, rotating chair of the IEAs Shadow Monetary Policy Committee and co-author of *Trading Economics*. **p42, 48**

Professor Martin Daunton is Emeritus Professor of Economic History at the University of Cambridge. Since 2012, he has been head of the School of Humanities and Social Sciences. He continues to teach, write and research in modern economic history. **p45**

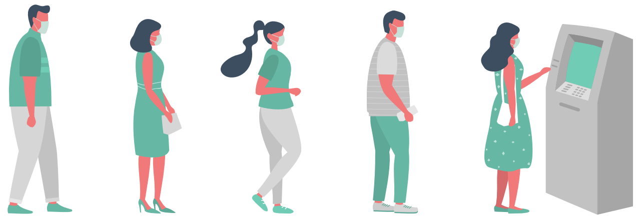
People & numbers

Businesses call for sustainable recovery

The CEOs of major banks including HSBC UK, Lloyds, RBS and Santander UK have joined other business leaders in calling for government financial support to go only to companies which align with the UK's target to be carbon neutral by 2050.

More than 200 senior figures signed a formal letter delivered to Prime Minister Boris Johnson on 1 June. It asks that economic recovery plans be aligned with the UK's wider goals to deliver "a clean, just recovery that creates quality employment and builds a more sustainable, inclusive and resilient UK economy for the future".

The letter, which cites evidence and advice from academic experts and statutory bodies on the advantages of a green recovery, was also signed by asset managers, insurance firms and pension funds, including Aviva, BMO Global, Legal & General, Royal London, Scottish Widows and Standard Life Aberdeen.



Cash in the time of COVID

Online research on behalf of LINK indicates that cash usage dropped 62% during the UK lockdown, with 76% of respondents suggesting the coronavirus will affect their future use of cash.

Meanwhile, UK Finance data shows that 2019 was the first year in which the majority (51%) of payments were made by card. A further 16% were contactless, with cash used for only 23%.

In the LINK survey, which was conducted by YouGov, three-quarters of consumers said they were using less cash, with 58% saying they were using it a lot less. However, 23% said they were using the same amount or more.

LINK Chief Executive John Howells said: "Even if this crisis does lead to less cash use in the longer term, people should be reassured that LINK and its members will continue to ensure good access to all who still rely on it."

Facts & Figures

62%

Drop in cash usage during the UK lockdown

30m

UK bank accounts across which support measures have been put in place

€50-100m

Median spend by European financial institutions on Open Banking in 2020

Nearly 1.5 million payment holidays approved

Customers facing temporary financial difficulties due to the pandemic were granted almost 1.5 million payment holidays across credit cards and personal loans in the first two months of the crisis, according to figures from UK Finance.

As of 21 May, 877,800 credit card accounts had benefited from a payment freeze, while 608,000 personal loans customers had been granted a payment holiday.

"Lenders have now put in place support across over 30 million customer accounts, from the holidays on cards and loans option of interest-free overdrafts to payment holidays for credit cards, personal loans and mortgages," commented UK Finance CEO Stephen Jones.

Over-55s avoid digital banking

Research by Santander reveals over-55s have embraced its secure online chat service during the pandemic but that many continue to avoid digital banking.

Figures for March showed that 27% of all chat users came from the over-55 age group. In contrast, uptake for online and mobile banking among older customers increased only 0.5%, with almost one in five (16%) over-55s continuing to choose not to use the bank's online services. Of those, 64% blame concerns over security, while a similar number admit to simply never having got around to using online services.

Corporate Insolvency and Governance Bill

The UK government has introduced legislation amending insolvency and company law with the aim of supporting businesses to address challenges resulting from the COVID-19 pandemic.

The Corporate Insolvency and Governance Bill consists of six insolvency measures and two corporate governance measures intended to provide businesses with greater flexibility when coping with reduced resources and increased restrictions.

Measures include:

- A moratorium to give breathing space from creditors while seeking rescue
- Prohibiting supplier termination clauses that engage on insolvency
- A new restructuring plan binding to creditors
- Enabling the insolvency regime to flex to meet the demands of an emergency
- Temporary removal of directors' personal liability for wrongful trading
- Temporary prohibition of statutory demands and winding up petitions from creditors
- Permitting closed AGMs, electronic communication with members and extended filing deadlines
- Allowing temporary measures to be retrospective to make them as effective as possible.

Business Secretary Alok Sharma claimed proposals have been widely welcomed by business groups: "The Bill will help companies that were trading successfully before the COVID-19 emergency to protect jobs and put them in the best possible position to bounce back," he said.

HSBC strategy hire

HSBC has appointed Chira Barua as Group Head of Strategy, completing a string of new hires by Noel Quinn since he was appointed Group Chief Executive in March.

Barua will be tasked with advising on the bank's post-COVID-19 strategy, assessing which markets and areas HSBC should focus on over the next five to 10 years. Analysts expect a deeper push into Asia, which generated around 85% of HSBC's profits in 2019.

Barua previously spent seven years as a partner at McKinsey & Company and has also worked for AllianceBernstein, Standard Chartered and Citigroup.

Student perspectives

How have you found studying online during lockdown?

- "Online study through Bangor University's Chartered Banker MBA was excellent." Chester Nziradzemhuka
- "Hard to balance work/life/study. The e-CPD has been useful for that." Faith Elliott
- "I am fine with studying during lockdown, no issues." Scott Sutherland
- "Having obtained other qualifications in the recent past by distance learning/online, I am familiar with this way studying." Stephen Ptohopoulos

What knowledge and skills do you think will be important for professional bankers after COVID-19?

- "Broad understanding of technology, empathy, compassion, listening skills." Angus Taylor
- "Building online propositions that create unique customer experiences." Chester Nziradzemhuka
- "The ability to be agile and act on the customer agenda." Faith Elliott
- "For professional bankers, increased knowledge about the new products available, but also how to communicate effectively with your customers given social distancing rules." Scott Sutherland
- "Ability to adapt, to work with technology and the ability to adopt a new mindset." Stephen Ptohopoulos

People & numbers

Europe bets big on Open Banking

A survey of 270 financial executives across 17 European countries found 63% had ramped up investment in Open Banking from last year, with annual spending at individual firms rising between 20-29%. Median spending on Open Banking is between €50-100m, although 45% of financial institutions exceeded that figure.

Attitudes to Open Banking were largely upbeat, with more than half (55%) of respondents either 'somewhat positive' or 'very positive', while only 15% felt negatively towards the model. Executives recognised Open Banking as an opportunity to develop better digital services (46%), increase customer personalisation (44%) and reduce the cost of customer acquisition (38%).

Some 41% of executives felt regulations encourage innovation. However, there are still obstacles to be overcome, with the main challenges to adoption cited as the need to modernise IT systems, complying with EU regulations and finding the right talent.

COVID-19 retirement delays

The impact of the coronavirus pandemic has caused 15% of people over 50 to plan to postpone their retirement, while 26% anticipate having to work indefinitely, according to research from Legal & General Retail Retirement.

For workers aged over 50 who have been furloughed or suffered a decrease in pay, the figures are even higher: 19% will delay, while 38% expect to work indefinitely. On average, those planning to delay their retirement expect to spend an extra three years in work. However, 10% say they could delay for five years or more.

The survey was based on online interviews with a panel of more than 2,000 people conducted in mid-May.

Libra bolsters senior team

Libra has completed a brace of new hires to bring financial and regulatory muscle to the Facebook-inspired cryptocurrency project. Having already appointed ex-HSBC Chief Legal Officer Stuart Levey as CEO, the Libra Association has taken on Robert Werner as General Counsel. Werner led Policy, Privacy and Regulatory Regulations at HSBC and Goldman Sachs and has also held various public policy roles at the US Treasury.

The appointment of two senior figures with experience in both finance and government (Levey himself served in the Bush and Obama administrations) indicates the seriousness of Libra's ambitions.

Libra search committee leader Katie Haun said: "Stuart shares our vision for using blockchain technology to deliver a more open, inclusive and high-functioning payment system that puts crypto in the hands of billions around the world."

Institute agenda

New e-learning: Supporting Vulnerable Customers

As part of the six-week Lockdown Learning programme, the Institute developed and launched a new, comprehensive e-learning module focusing on vulnerable customers and how to support them. We hope this free, digital resource helps banking professionals interact with and support the vulnerable customers they serve.

"The broad purpose of banking is to support the economic life and prosperity of customers and communities, many of whom are facing uncertain and unsettling financial futures," says Simon Thompson, Chief Executive, Chartered Banker Institute. "Our banking profession comprises thoughtful, purposeful individuals who come to work every day wanting to support customers, their families and their businesses. Let us demonstrate our purposeful professionalism, and care for our customers through our thoughts, actions and words as we help them in their hour of need."

By the end of the module, you will be able to:

- Explain what is meant by the term 'vulnerable customer'
- Identify the key drivers of vulnerability and potentially vulnerable situations
- Identify the impact and consequences of vulnerability
- Describe a range of signs and behaviours that might alert you to the possibility that a customer could be vulnerable
- Describe what your organisation does to support vulnerable customers
- Explain what you could do to communicate well with and support vulnerable customers.

The module is available to both members and non-members and can be found on our website at https://bit.ly/37wWqFW.

Green Finance Essay Competition – last chance

Safe stewardship (of customers' money) has been a fundamental principle of the Chartered Banker Institute since it was established in 1875. Today, we consider stewardship in its broadest sense – beyond finance to encompass the safe stewardship of our environment and resources.

The transition to a sustainable, low-carbon economy is possibly the greatest global challenge for this and future generations, with green finance and green finance professionals playing critical roles.

Building on the success of our 2019 Sustainable Finance Essay series with the Social Market Foundation think tank, we have launched a new Green Finance Essay Competition with the winning entry featuring in the 2020 Sustainable Finance Essay series.

We are asking applicants to answer the following question:
"How can finance professionals actively encourage changes to consumer behaviour to achieve society's goals on climate change?"

Essays should refer to the UN's Sustainable Development Goals and the Paris Climate Agreement, you can find full details of the competition on our website at https://bit.ly/2wwc3iu. The closing date for entries is Friday 31 July 2020.

SUBSCRIPTION REMINDER:

Renew your membership

Don't forget to renew your membership in order to continue with your studies or maintain eligibility to use the professional designations or designatory letters appropriate to your grade.

We operate a rolling membership year, so subscription will generally be due 12 months after your initial enrolment. However, July remains our busiest month for renewals.

You can pay your subscription online by credit/debit card but, to make your renewal even easier, we would encourage you to consider turning on auto-renewal within your account. This enables you to set up a monthly or annual direct debit, meaning all future payments are taken automatically, with no further action required. To do this you will be asked for your bank name, sort code, account number and the name(s) of the account holder(s), so please make sure you have these available.

You may edit your bank details at any time should you decide to use a different account. If you ever wish to cancel your direct debit, please let us know and remember to inform your bank as well.

To make payment or set up a direct debit, please visit: www.charteredbanker.com/subscriptions.

WEBINAR:

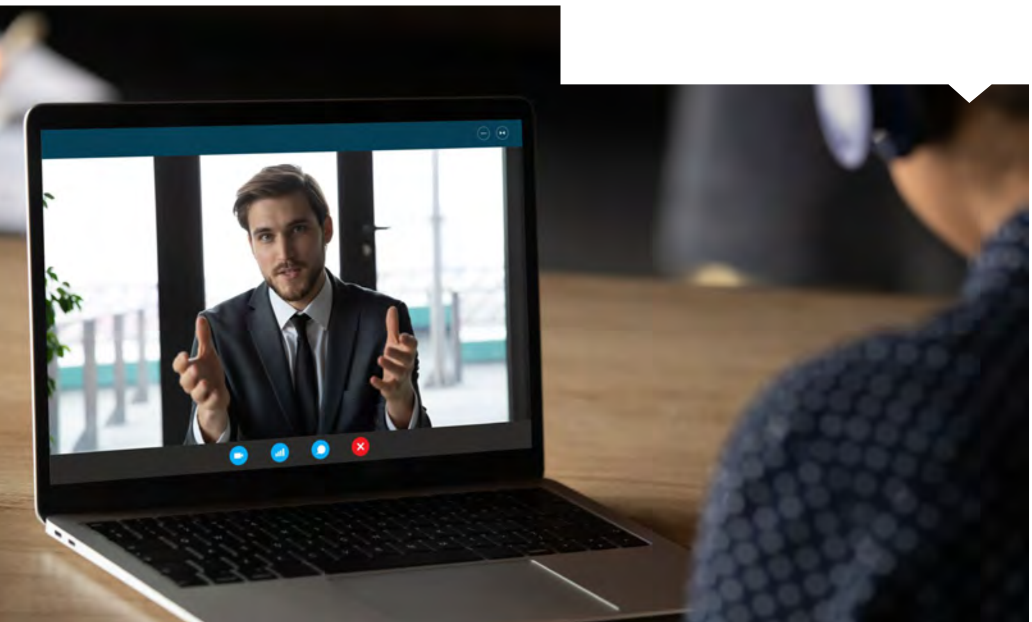
Closing the COVID-19 skills gap

This joint webinar from the Chartered Banker Institute and Chartered Insurance Institute considers the future of skills in financial services. A key area of focus will be on how the Financial Services Skills Commission, working alongside financial services organisations, professional bodies and others, can help to close the skills gap in the UK.

Panel:

- Chair: Simon Thompson, CEO, Chartered Banker Institute
- Sian Fisher, CEO, Chartered Insurance Institute
- Claire Tunley, CEO, Financial Services Skills
- Tanuj Kapilashrami, Group Head of Human Resources, Standard Chartered Bank.

The webinar can now be viewed on demand at www.charteredbanker.com/knowledge/webcasts.html.



UPDATED FOR 2020

Certificate in Green and Sustainable Finance

June 2020 saw the launch of a substantially revised version of the Institute's Green Finance Certificate™. The Certificate in Green and Sustainable Finance now encompasses broader aspects of sustainability, aligned with the UN Sustainable Development Goals, although the focus remains on 'green' elements.

Managing climate-related risks and supporting the transition to a low-carbon world are our most significant global challenges. In order to tackle this collective challenge, finance professionals globally need to develop their knowledge of green and sustainable finance.

This global, benchmark qualification will help individuals to develop their understanding of, and apply, sustainable finance principles and practice in their roles and within their institutions.

For more information go to www.charteredbanker.com/green.

Chartered Banker

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- Have at least 10 years of business experience, including 5 years of relevant banking and financial services experience
- Want recognition for their expertise, experience and contribution to banking
- Aim to meet current and emerging regulatory requirements for the demonstration of high professional standards
- Seek an accelerated, flexible yet rigorous route to Chartered Banker status.

* Enhanced, accelerated routes are offered for holders of the CB:PSB's Advanced Standard for Professional Bankers and graduates of the Certified Bank Director programme.

Upon completion of Chartered Banker by Experience you will:

- Become a Chartered Banker and will be able to use the "Chartered Banker" designation
- Will join the rapidly growing global Chartered Banker Institute of more than 31,000 members and gain industry recognition.

MORE INFORMATION

For further information and guidance about the eligibility criteria please visit: www.charteredbanker.com/CBBE

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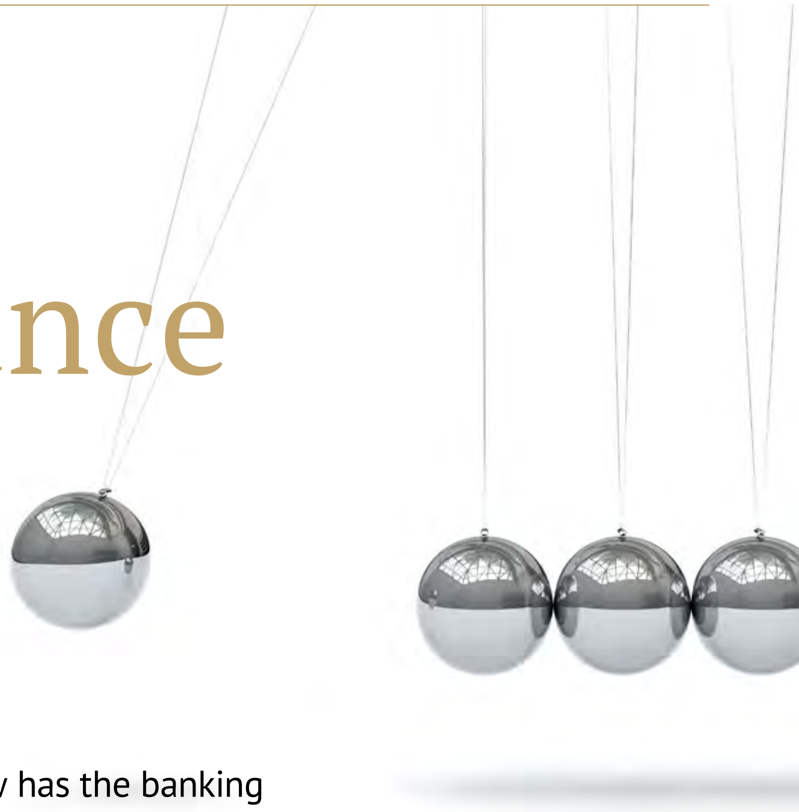
COVID-19 RESPONSE

Banks bounce back for customers



Faced with unprecedented disruption, how has the banking sector reacted to the COVID-19 pandemic and the initial challenges the crisis has presented?

As in almost every walk of life, the coronavirus outbreak has caused previously unimaginable levels of disruption in the banking sector. Almost overnight banks have had to confront profound issues with their day-to-day operations, trying to address increased customer demand while coping with a reduced workforce, often working remotely. Meanwhile, as banks adjusted to these new challenges, the government's hastily instituted Coronavirus Business Interruption Loan Scheme (CBILS) added significantly to workloads.

Coping with increased demand

Having dealt with basic initial actions such as establishing centralised task forces, curtailing travel and suspending large-scale meetings, banks were quickly confronted with a scenario unlike any in living memory.

The first challenge was an explosion in customer demand caused by the financial fallout from COVID-19. With both personal and business customers facing a sudden and unexpected drop in income, demand for payment holidays on mortgages, loans and credit cards rose sharply, as well as the cancellation of direct debits for non-essential expenditure.

Eric Leenders, Managing Director, Personal Finance at industry body UK Finance, feels the speed and scope of support banks made available to customers was impressive.

"The industry put in place a series of measures to help borrowers in financial difficulty including a mortgage payment holiday of up to three months, a moratorium on repossessions, discounted overdrafts and a repayment holiday for credit cards and personal loans," he points out.

Operational challenges

Dealing with the additional administrative workload would have been challenging at the best of times but was made doubly difficult by the fact that banks also found themselves suddenly under-resourced.

Mike Gamble, Director of Analysis and Design, TSB, says: "Having disaster recovery plans and being prepared for any eventuality is a key element of any bank's strategy, as I'm sure it is for many other organisations. "I think what was different about this one was we had a high volume of partners actually not in branch, telephony, or operational centres because they themselves were in 14-day quarantine, unwell or were vulnerable."

Dealing with these issues head on meant confronting a further challenge common to many businesses across sectors as the lockdown came into force: that of adapting to a level of remote working that would have been unthinkable only a few weeks earlier.

"For the first time in my 30 years in retail banking, we're in a position now where we have a really dynamic workforce."

Mike Gamble,
Director of Analysis and Design at TSB

COVID-19 RESPONSE

Leenders adds: "For staff, the transition to mass working-from-home has been possible thanks to robust remote-working capabilities and the quick roll-out of supporting infrastructure such as screens and high-spec computers."

However, speaking during a Chartered Banker Institute webinar in late April, Alex Fraser, Senior Executive, London Institute of Business & Finance, suggested that while banks have invested heavily in the digital customer experience in recent years, in most cases less resource has been invested in back-office systems. He cited Jes Staley's comments in an article in the *Evening Standard*, in which the Barclays Chief Executive partially blamed staff fearing to turn up to work at call centres and compliance issues with working from home for the delay in processing applications. Fraser suggested that the real problem was a failure to tackle the difficult issue of antiquated back-office IT, which created huge challenges in adapting to a new operating environment.

"The ability of an industry of this size to mobilise so effectively has paved the way for very different working practices in future."

Eric Leenders, UK Finance

"You could argue that should have been done a long time ago because for as long as I've been around, we've been talking about banks needing to sort out legacy systems," continued Fraser. "But I think most of the problem is driven by the fact that this is not digitised."

According to Gamble, having previously bitten the bullet and migrated onto a modern, flexible core system made TSB better placed than many to use technology to adapt their operations quickly. He says the bank rapidly leveraged existing partnerships with both IBM and LivePerson, a tech company specialising in 'conversational commerce' (i.e. chatbots). Having already completed some background work on digital and automated communication, Gamble and his team were quickly called on to deliver an AI-assisted solution to the demand-resource issue. Moving at speed, they adapted technology that had been planned to be integrated into the bank's mobile app later in the year and repurposed it for their public website. The result, christened TSB Smart Agent, was operationally live and being used with customers a week later.

Gamble admits there was an unexpected benefit in normal business being impacted and a whole range of staff being forced to work from home.

"As well as staff in telephony being on lockdown I also had people from Risk and Finance and Compliance and Legal all in the same position," says Gamble. "So, it actually made it quite easy to get those guys involved in working on something that had the common goal to help our customers."

Despite the difficulties, Leenders emphasises the scale of UK banks' achievement in adapting almost overnight to an entirely new operational model while delivering support to as many as 30 million customers across personal and commercial finance.

"It's been astonishing to see the pace and agility of the industry, relocating to home-working and standing up new payment holiday products and support loans in days and weeks," he adds.

Showing good form

With most branches closed and demand for telephony causing long waiting times, another key element of the solution for many banks was through providing electronic forms via their websites.

Here again, TSB's existing partnerships meant the bank was able to react quickly and efficiently, according to Gamble.

"We already use Adobe within our digital world, but we were exploring the possibility of partnering with them for Adobe Forms, which is an intelligent form system, so you can do government ID checks, you can do digital signatures, for example."

The bank already had a test and learn under way, so they decided to exploit the relationship and create what Gamble describes as a 'factory' to produce new forms in reaction to specific customer demand very quickly. Through this approach his team was able to create forms for requests including payment holidays and overdraft applications and amendments, as well as for CBILS applications and the Bounce Back Loan Scheme (BBLS) introduced later.

This freed up bandwidth within branch and telephony channels, which were better able to deal with those customers who were either unwilling or unable to use other solutions, including making outbound calls to thousands of vulnerable customers.

"We've had over 140,000 customers complete forms since the start of COVID-19," says Gamble. Every one of those would have been a visit to branch or a call to telephony."

Virtually a call centre

The third challenge for most banks was the fact that many call centre staff, though able and willing to work, were not in a position to attend their usual place of employment. This meant also implementing systems of remote working for telephony where possible.

In partnership with BT, TSB was able to set up members of staff working from home to act on calls as well as on

TSB Smart Agent, while internal systems, including a full suite of Microsoft products, were used to provide them with support.

TSB Smart Agent enables partners to virtually 'put their hand up' for help, while an active Yammer group (Microsoft's enterprise social networking app) provides expert answers to questions that can then be passed on to the customer.

"On any one day we have up to 150 partners supporting on LivePerson, talking to customers in real time," says Gamble.

Unexpected advantages

Gamble points out that while tech solutions and vulnerable audiences are often seen as incompatible, a system like TSB Smart Agent can play well to the needs of customers made temporarily vulnerable by the current crisis.

"It enables customers to talk about things that are sensitive, rather than ringing or going into branch and having that awkward conversation about struggling financially," he explains.

For high street banks with a varied customer base, many of whom will shy away from fully digital banking, chatbots and AI-assisted customer service can be an effective halfway house: it offers the efficiency of digital without the need to download apps or sign up to a self-service model, while more traditionally minded customers are happier knowing there is a human on hand if they need them.

Positive side effects

While the huge negative social and economic impact of the COVID-19 pandemic is undeniable, there is some evidence of positive side effects in the banking sector.

The first publication in early May of a 'pulse' survey by Boston Consulting Group, which collated data from 5,000 responses in 15 markets, found that a mere 5% of respondents were critical of their banks' reaction to the crisis, while 25% had actively recommended their bank to others. This can only be good news for an industry that has spent more than a decade struggling to recover from negative perceptions created by the 2008 financial crisis.

Meanwhile, the same survey highlighted changing customer behaviour that could drive rapid digital transformation in retail banking, with 44% of participants in the millennial and Gen-Z cohort (ages 18-34) enrolling in mobile or online banking for the first time during the crisis.

At the same time, the operational demands created by the crisis have thrown into sharp relief the need for digital transformation in the back end of banks' systems. For many banks, including TSB, the effect of the pandemic has been to accelerate the transition to a far more agile way of working. This will be a driver of digital transformation and has the potential to permanently alter their operating model.

Gamble continues: "For the first time in my 30 years in retail banking, we're in a position now where we have a really dynamic workforce. Regardless of where you are, we can either get partners on the phone supporting customers, on chat supporting customers or doing back-office tasks."

Leenders sees the same spirit of innovation across the sector and thinks many of the changes initiated in response to the crisis are here to stay.

"The ability of an industry of this size to mobilise so effectively has paved the way for very different working practices in future," he says.

In an increasingly complex and unpredictable world, that kind of flexibility can only be a good thing, both for customers and for the banks themselves. CB

Since the time of writing, the Financial Conduct Authority has announced a further extension to mortgage holidays, as well as new unsecured debt proposals.

VULNERABLE CUSTOMERS

Stepping up for society

Increasing numbers of customers have been pushed into the emotionally or financially vulnerable category by COVID-19. Can the banking industry build on its response to create a better future for the financially disenfranchised?

"**COVID-19** has shone a spotlight on vulnerability and, in effect, placed a great many of us on the vulnerability spectrum," says Jonathan Warren, Consultant at Altus. "Whether that's due to reduced resilience or even lack of physical access to branches, the industry has had to adapt very quickly."

Most financial institutions have long-held policies aimed at supporting vulnerable customers and facilitating access. For those perhaps behind the curve, Financial Conduct Authority (FCA) guidance published in 2019 highlighted the 'fair treatment of vulnerable customers' as a key priority. Its Financial Lives Survey results showed that '50% of UK adults display one or more characteristics of being potentially vulnerable'.

> **"COVID-19 has shone a spotlight on vulnerability and, in effect, placed a great many of us on the vulnerability spectrum."**
> Jonathan Warren, Altus

Taking a broader view of vulnerability

The FCA definition of a vulnerable customer is fairly broad ('someone who, due to their personal circumstances, is especially susceptible to detriment'). "Traditionally, however, vulnerable customers were considered primarily as those with a disability or financial difficulties," says Joanna Finlay, Sustainable Banking Manager, Virgin Money, and Young Banker of the Year 2017. "Now, though, it's recognised that it's much wider in scope, and that those in strained relationships, with mental health difficulties, issues of emotional resilience or even those lacking digital confidence, can be just as vulnerable."

COVID-19 has moved the policies and processes around vulnerability and inclusion very much into the mainstream. Or, as Finlay puts it, it's creating "an awakening of vulnerability". Suddenly, financial inclusion teams are themselves in the spotlight and their responses very much in focus.

Adapting quickly to increased demand

"Our team was created on the premise that no one should be left behind," says Maxine Pritchard, Head of Financial Inclusion and Vulnerability, HSBC UK. "We work closely with charities and regulators and in collaboration with other financial institutions to find solutions to the barriers that prevent access.

"COVID-19 has had a profound effect and has created challenges for many of our customers, highlighting vulnerabilities they weren't even aware of. We've seen extraordinary levels of demand, which we've had to adapt to, and we've seen fast-paced activity right across the business to provide the support people need."

That the industry has been able to step up to provide that support, particularly when banks themselves are facing extraordinary operational challenges, is testimony to the conviction of the dedicated teams already working with vulnerable customers.

Finlay adds: "I think this has been a huge wake-up call that anyone can be vulnerable, and that financial difficulty is not a choice. In response, all banks are upping their game. There has been an explosion of support, and some good examples of collaboration, such as the industry, through UK Finance, working with the Post Office to support access to cash for the most vulnerable."

Technological solutions to enhance availability

Technology has helped to broaden accessibility and availability of support to the increasing numbers of customers requiring it. Warren points to chatbots that can recognise forms of vulnerability and redirect where necessary, and digital triage services that can reduce the load on call handlers and enable them to focus on those most in need.

One example of that working in practice is Virgin Money's 'Money on your mind' service. Although not exclusively targeting those identified as vulnerable, Finlay explains that the idea was a response customers' anxieties about money during COVID-19. "It's giving people a way to seek solutions for their money worries in a safe, scalable and very human way," she explains. "Our Red Team colleagues

answer questions in one-minute YouTube videos, which is far more accessible than wading through text. Questions can be anything, from 'how do I arrange a payment holiday?' to 'how do I get a refund on my summer holiday?'. It enables customers to self-triage before deciding if they need to contact us for more help. The videos have already been viewed two million times, so there's a real need being met – it's exciting to think where this could go."

Balancing technology and humanity

Technology has also enabled banks to continue to serve their most vulnerable customers despite the challenges of the current crisis, as Pritchard points out. "We've been able to create no-contact digital processes for registering power of attorney, removing the need for these customers to visit branch and we've put social distancing measures in place for account opening in our branches for those without a fixed address, which means we can continue to offer the most vulnerable in society access to banking and support those self-isolating.

"There's no doubt that technology has a really important role in terms of empowering people to access products and services on their terms. However, there is a definite balance and digital is just one of many available channels."

Finlay agrees: "That's where customer choice is important. Vulnerable customers need to be given the same choice as anyone else and receive the same experience via whatever channel they prefer."

Identifying and delivering support

With operations so tightly stretched and demand exceptionally high, providing the right support can prove challenging. "Traditionally, frontline roles in financial services have been held by those starting out in their career," says Warren. "They are now at the cutting edge of customer need and they have to develop the skills to really listen, recognise that need and provide support to those facing difficulty."

It's an issue the banks have been quick to address. "We've mobilised very quickly," says Pritchard. "Speeding up training and responses we were already doing and using our existing insight to adapt. It has been amazing how much work everyone across the organisation has put into quickly finding the best and safest solutions for our customers.

"There have been numerous examples, such as enhancing the training of our live chat teams so they can have in-depth conversations with customers. We've put in special measures for keyworkers and those vulnerable to immediate financial difficulty so they can access priority queues – and we've seen around 25% of our customers using that service. We've also created special support teams to handle referrals for customers needing both emotional and practical support. And our branch teams have proactively reached out and are offering support to 300,000 customers deemed at risk because they are not signed up to digital, online or telephone banking channels."

> **"If we, as an industry, can follow through on the short-term support we've provided through the crisis, we have a real opportunity to make a difference in the long term."**
> Joanna Finlay, Virgin Money

An opportunity for the future?

Without a doubt, some of the steps taken by banks to deliver the support vulnerable customers need during these unprecedented times has been extraordinary. The challenge is to make them 'ordinary'; to ensure that the reactive measures taken now form more proactive steps to embed strategies to recognise, identify and support vulnerable customers in the future.

"Addressing vulnerability requires a cultural change and that takes time," says Warren. "There's no doubt that COVID-19 has moved the industry ahead much more quickly, but the challenge is whether risk barriers move us backwards once this is over. Altus, in conjunction with The Investing and Savings Alliance (TISA), launched a free assessment tool in February to enable firms to test their policies and processes and to benchmark their progress against others in the industry. Taking a measure now could help firms ensure that when 'normality' resumes, they're left with a net gain in their vulnerable customer strategies."

And that, says Finlay, would be a huge step forward for the industry. "I think COVID-19 will drive systemic change," she says. "If we, as an industry, can follow through on the short-term support we've provided through the crisis, we have a real opportunity to make a difference in the long term." CB

Find out about our free, comprehensive e-learning module on vulnerable customers and how to support them: www.charteredbanker.com/knowledge/vulnerable-customers-e-learning.html

SUPPORTING BUSINESS

Bridge to recovery

With the global economy forecast to contract sharply, 2020 is proving challenging for businesses around the world. We consider the global response from banks to support recovery.

The global COVID-19 pandemic has paused economic activity, with the International Monetary Fund (IMF) forecasting a 3% contraction in 2020. At the sharp end of that contraction are businesses and livelihoods. They face unprecedented challenges as markets disappear overnight, demand dries up and working practices change. Recovery also presents further issues, as markets open at different rates, supply chains continue to deal with disruption and demand patterns remain uncertain.

Efforts to prop up economies have been co-ordinated by governments, central banks and partnerships, with a raft of assistance programmes launched and banks on the front line of delivery – not always an easy task in the circumstances, says Flora Hamilton, CBI Director, Financial Services. "Here in the UK, we've seen numerous lending mechanisms launched by the government, and banks have made a Herculean effort to meet these demands during unprecedented times when they themselves are facing huge operational challenges," she says.

A global, long-term challenge

With banks around the world facing similar challenges, sharing ideas, information and experience is incredibly valuable. The United Nations Environment Programme Finance Initiative (UNEP FI), a partnership between the UN and the global financial sector, has created a platform to enable member banks to achieve that. It notes that "member banks and signatories around the world are playing a crucial role in supporting our societies through the current crisis". Some examples of that support can be seen in the panel opposite.

The nature of the crisis means that businesses need support across the short, medium, and long term. While so-called 'life support' was crucial in the early days, the key to ensuring that businesses and economies emerge from the crisis stronger and more resilient, is how this evolves.

"In the short term, the focus needs to be on delivery and focus, so quickly getting cash to businesses in need remains urgent," says Hamilton. "In the medium term, we can see opportunities for banks to drive conversations with businesses. For example, to harness the more innovative ways of working that have emerged in response to the crisis to create productivity improvements.

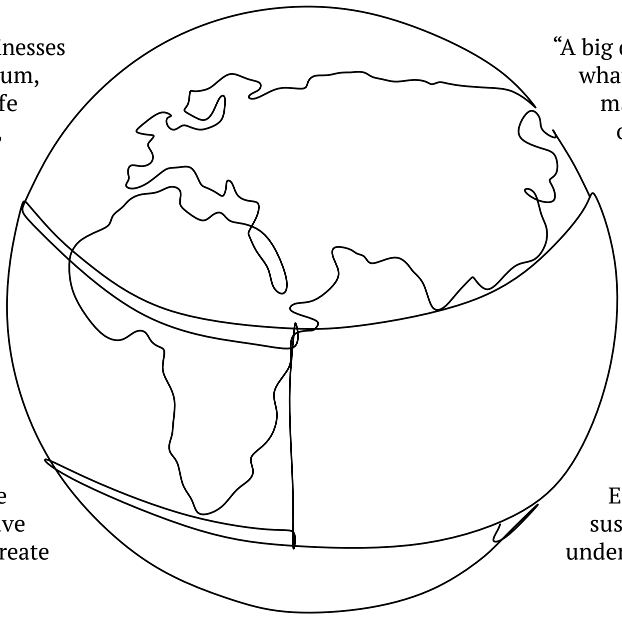
"Banks have made a Herculean effort to meet these demands during unprecedented times when they themselves are facing huge operational challenges."

Flora Hamilton,
CBI Director, Financial Services

"It's also an opportunity to review responses to the pandemic, allowing future business continuity plans to be informed by experience and made more robust. In the longer term, both businesses and banks will play an important role in discussions around the recapitalisation of the economy and how to manage massive debt levels without constraining growth."

Protecting viability

In the midst of the demand for support and the need for banks to be seen to deliver that support, it's important not to overlook the general principles of lending to businesses, says Alastair Graham, Institute Fellow and Secretary-General of the Global Banking Education Standards Board, which can be difficult to assess in these circumstances.



"A big question facing the banks is, simply, what's a viable business in the current market?" He points to the danger of lending large percentages to businesses that were perhaps already failing. "By deferring the risk, there's a danger of storing up problems for the future – for businesses, banks and the economy," he says. "The good thing is that the banks are relatively well capitalised and we're already seeing provision for non-performing loans being built into their results."

Even those businesses that were sustainable before the crisis could be undermined if support is withdrawn too quickly, as Hamilton points out: "As economic activity slowly speeds up, support schemes must act in parallel. The path of the virus is unpredictable, and much change lies ahead. The government should keep a watchful eye on those industries and employees most at risk and keep the schemes providing support under review. The greater the number of good businesses saved now, the easier it will be for the economy to recover."

Applying the lessons of crisis

Despite the challenges, recovery could present opportunities for businesses to reassess their operating models and ensure they are more resilient to future shocks. The support of banks, providing an objective opinion and drawing insight from within and across sectors, as well as sharing their own experience, will be instrumental in that.

"Sectors operating in a just-in-time manner have been affected much more," continues Hamilton. "The crisis has demonstrated the fragility of complex, interconnected supply chains and that, combined with cashflow constraints, has had a huge impact on overall resilience." She points to the banking industry's experience of emerging from the 2008 global financial crisis as an example of the positives other sectors can take from the COVID-19 situation. "The resilience of the banking sector following post-crisis reforms offers big lessons for other businesses and industries." CB

Banks around the world have been delivering support to businesses and individuals affected by COVID-19. Here are a few examples.

AIB GROUP (IRELAND)

- AIB, EBS and Haven have introduced an online process enabling impacted customers to access a three-month payment break (moratorium) on home mortgage, personal and small and medium-sized enterprise (SME) loans with an option to extend to a six-month payment break for those who need more time
- Provided working capital support and enabled the rescheduling of loan repayments for impacted SME customers along with the postponement of transaction and maintenance charges for impacted customers
- Waived contactless payment fees and increased the contactless threshold to €50 per transaction
- Refunded all unpaid charges for customers in March and April
- Suspended the planned introduction of maintenance and transaction fees for customers
- Allocated priority banking time for older and more vulnerable customers between 10am and 11am.

BANKIA (SPAIN)

To support self-employed, SME and large business customers:

- Extended its working capital financing instruments before the liquidity of the financing under credit facilities guaranteed by Spain's Official Credit Institute (ICO) is implemented
- Offers bridge financing solutions and long-term financing solution to businesses that need such support to help pay off their long-term borrowing
- Has extended to six months the moratorium on interest and capital in the payment of the mortgage payment, announced by the Executive, and also until six months the moratorium on consumer capital for private customers affected by COVID-19.

To preserve employment of its suppliers:

- Bankia is considering maintaining the remuneration for services that are not being provided. In exchange, the suppliers will be required to maintain the working conditions of the personnel who provide services at Bankia during said period.

KB FINANCIAL GROUP (SOUTH KOREA)

For clients:

- New loans, extended deadlines, delayed repayment, discounted fees related to trade finance, and discounted exchange rates offered to clients affected by COVID-19
- Favourable interest rates and exemption of late-payment interests provided to affected clients upon renewal of existing loans
- Consulting services offered by KB SOHO Consulting Center to self-employed business clients affected by COVID-19
- Tailored recommendations provided by the KB Bridge application to small business owners and SMEs regarding various financial support programmes offered by the government
- Six-month grace period in payment of insurance premium provided to clients affected by COVID-19
- Financial support provided to card merchants with less than 0.5bn won in annual revenue which have been confirmed to have been affected by COVID-19 as below
- Financial support includes delay in card repayment, as well as discounted rates on card loans and late fees
- Exemption of fees related to internet and mobile banking and ATM services, as well as financial support to customers who are subscribed to Liiv M telecommunication services in Daegu and Gyeongbuk region.

Source: UNEP FI, https://www.unepfi.org/banking/bankingprinciples/responsible-banking-in-the-covid-19-crisis/

PROFESSIONAL FINANCIAL ADVICE

Steadying the ship

This year is proving to be an eventful one for investors and those advising them. Simon Harrington, Senior Policy Adviser at the Personal Investment Management and Financial Advice Association (PIMFA) explains how professional financial advisers have risen to the challenge and are supporting clients through this uncertain and complicated period.

It's been interesting to see the way that COVID-19 has affected demand for financial advice. On the one hand, as a result of social distancing measures and in line with almost every other industry, many advisers have seen a reduction in new business. However, when it comes to existing clients, that picture changes. Feedback from our members suggests they're still picking up the phone.

What's also interesting is that many advisers aren't affected by changes to the way we work. Working from home and using technology to connect with clients is something we're used to as an industry, so service levels are pretty much unchanged, which undoubtedly offers reassurance in a world where everything else is changing quickly.

Building on existing relationships

In these types of situations – albeit this one is unprecedented – a financial adviser becomes more of a financial life coach. They need to use their experience, skills and professionalism to sift through a client's behavioural bias or irrationality and talk them out of any knee-jerk decisions. In the immediacy of the crisis and lockdown, that type of response was only natural.

> **"Advisers need to use their experience, skills and professionalism to sift through a client's behavioural bias or irrationality."**

For most advisers, existing client relationships have been built up over time, based fundamentally on trust and the support they receive. So, although there will always be those clients with a higher risk appetite who see opportunities in the downturn, most of the business has remained the same. Whether that will change is hard to predict, although behavioural prompts do tend to follow big life events. What is uncertain is how that will marry up with the significant hit to peoples' incomes. That may create a desire but not the means to engage.

The pension effect

The income effect could have a huge impact on the government's pension strategy. For example, lower wages either as a result of participation in the furlough scheme, job losses or lack of opportunity means lower pension contributions. From what we're seeing so far, young people are disproportionately affected by the economic impact of the crisis. The job market for new entrants will become much tighter. Living costs will continue to rise but real incomes may decline – so many people may opt out of saving in the short term. For many whose pension contributions were already nowhere near enough to provide the kind of retirement they desire, that's now moving even further away. Typically, these are also the people least likely to access financial advice, so addressing that is a real issue for the industry.

At the other end of the spectrum, those at or near retirement may have concerns about the impact of the pandemic on their plans. Obviously, the short-term market response was huge and, if you were unfortunate enough to have all of your investable wealth invested in a Defined Contribution (DC) pension in the middle of February/beginning of March and also decided to buy an annuity at the same time, you will probably be facing a significantly worse retirement (financially speaking) than you would have been. The truth is that we won't know the long-term impact until we know, but our experience shows that the cycle generally plays out.

"In the current circumstances, where client's support networks have been stripped away by social distancing and people are scared and vulnerable, the professional financial adviser can act as a check and balance in decision-making."

Realising the value of long-term strategies

However, the vast majority of the current retirees are still retiring with an element of Defined Benefit (DB) scheme provision, so the pressure shifts to the employer or scheme and the impact on the individual's financial future is reduced. It will be interesting to see the effect on DC schemes and, for many of us in the industry, it is a test case for 30 years' time when DC pensions are the norm.

Regardless of the scheme you're retiring under, retirement is one of those significant life events I referred to earlier, which prompts someone to review their financial situation and reach for advice. And that's even more likely when there's so much uncertainty around. The important message that advisers will be reiterating is that investments are long-term in nature. While you can't plan for this type of event, you can ensure that clients have a long-term view or strategy, which allows any adverse events to be played out – as long as clients don't make the wrong decisions.

Acting as a check and balance

That's where professional financial advisers can really add value – by ensuring their clients don't make rash decisions in uncertain times. In the current circumstances, where clients' support networks have been stripped away by social distancing and people are scared and vulnerable, the professional financial adviser can act as a check and balance in decision-making. And there's no doubt that people may feel that they have to make hard decisions – perhaps reconsidering the trade-off between high yield and low risk, or putting off retirement for a year or two, or even transferring their DB pension to release value. It's in these circumstances that the true value of the professional financial adviser to their clients emerges.

Yes, the role of the professional financial adviser is to invest money and make it grow, but it is also to provide clients with a plan and reassurance. In these difficult times, when finances and emotions are stretched, the value of objective advice cannot be underestimated. Advisers are steadying the ship, encouraging a focus on a client's ultimate goal beyond short-term volatility, and encouraging patience above all. CB

"Advisers are steadying the ship, encouraging a focus on a client's ultimate goal beyond short-term volatility, and encouraging patience above all."

Reduce risk and invest in resilience

This issue's Open Mic poses two questions: how far banks should go in supporting businesses and whether the coronavirus might bring about some good by accelerating digital transformation.

CONTRIBUTORS

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Official Spokesperson for the Spanish Banking Association (AEB)

1. Where should bank support stop?

TREVOR WILLIAMS, University of Derby
It's in no one's interest that people today take on debt they can't pay back. I think this is the struggle for some businesses, particularly in sectors that are most exposed to the shutdown and to the implications of social distancing when we resume activities. How on earth will they be able to get back and make money, even if they get over this hump by borrowing?

Social distancing for perhaps a year as we find a vaccine may mean bars and restaurants will have something like a third of their customers if you have social distancing of a metre and a half in place, or two-thirds if one metre. Does that mean that if they borrow too much they'll never be able to pay it back and they'll just bankrupt people, rather than at least giving them the opportunity to walk away with less debt than they would otherwise and start again with some of their assets intact?

I think you have to be really careful that you don't create a cascade of failures when we open up because we've overly indebted people who have no working capital available to operate these businesses.

PROFESSOR RICHARD WERNER, De Montfort University
Banks in the UK should finally do their job of lending to the main employer in the UK – and that is the small and medium-sized enterprise (SME) sector, accounting for two-thirds of jobs. The trouble is that we cannot expect the mega-banks to lend to micro-firms. It does not make economic sense for the big banks. For that we need small banks. The leading small-bank system is the template we should emulate, which is the one consisting of 1,500 local community banks behind 200 years of solid growth in Germany. We at Local First Community Interest Company have been fine-tuning this model for the UK, where the budding Hampshire Community Bank is progressing with its bank authorisation application and its SME lending.

Once we have community banks in place, we shall see just how much banks can support businesses and individuals in reality – which is much more than they have done in the past century in the UK. The asset stripping of viable small firms to maximise big bank profits will become a horror story of the past.

> **"Ultimately how fast we decarbonise our economies is determined by what is funded and what is not."**
>
> Clare Healy, E3G

CLAIRE HEALY, E3G
If we have to halve emissions in a decade, we must stop funding activities that spew greenhouse gases into the atmosphere and wind down those we already have – or help those businesses transition to a future which is low carbon.

Ultimately how fast we decarbonise our economies is determined by what is funded and what is not. Recovery starts with infrastructure, so we must stop financing infrastructure that keeps putting emissions into the atmosphere and start financing the infrastructure that does not and builds resilience to shocks.

Stop building more risk into the system, instead invest in clean solutions to stimulate the recovery and enhance resilience to future shocks.

SANTIAGO CARBÓ-VALVERDE, Bangor University
Institutions including the World Bank have acknowledged the fact that a number of troubled or even 'zombie' firms have been able to survive in the post-crisis environment by obtaining funds to refinance their debt. This is not, however, something to blame only the banks for.

A much bigger problem is that low interest rates are lasting too long and this is making debt restructuring relatively easy for inefficient firms. Banks cannot stop providing support to firms and individuals now. Actually, they are facing pressure from the European Central Bank to provide loans, but lending demand remains very low.

PROFESSOR EMILIOS AVGOULEAS, University of Edinburgh
My prediction is that finance will be democratised through a new generation of investment platforms. Access will become much easier, transaction costs will be cut to the bare minimum because blockchain platforms are a true revolution.

I suspect most of these platforms will no longer be open access, they will be gated. But that doesn't mean it will be hard to operate them or complex to access them. I think this new generation of blockchain platforms will totally eliminate back office and conciliation expenses. And they will cut margins from investment advice and investment management services to the bare minimum. And perhaps they will give us the chance to much better gauge the actual preferences of the mass of investors, especially when it comes to green investments versus high returns. And regulators have a duty to simplify the rulebooks and make these products happen.

PROFESSOR RICHARD WERNER, De Montfort University
The government-imposed lockdown and hence the shutting down of much of the SME sector of the economy is indeed accelerating the transformation of society towards digital services and concentration in the hands of a few big players. This is, however, not a trend demanded by the public. It has been imposed, and this is nowhere more obvious than in the COVID-19 lockdown rules. What people presently miss is face-to-face human interaction, and they can get this if they focus on supporting small local firms. The same applies to banking, where I believe traditional face-to-face local banking will be greatly welcomed by everyone, instead of being fobbed off by 'AI' automation systems. What people do not want is more

2. Could COVID-19 help accelerate and shape digital transformation in banking?

MIKE GAMBLE, TSB
There's an interesting meme going around on social media. It asks the question: 'What has changed the face of digital transformation more? Your COO? Or is it COVID- 19?' I think it's accelerated our digital transformation, but it's also made us think about doing things in a different way. I think it's made a lot of organisations feel braver as well because there is this element of you're going to get forgiven for trying, but you're not going to get forgiveness for not trying.

I also think about the number of customers who have registered now and are using our mobile app for the first time in the past few weeks out of necessity. Hopefully that's helped them realise there is another way of doing banking, but we're still there in 500-plus branches nationwide and via telephony as well.

> **"I think you have to be really careful that you don't create a cascade of failures when we open up because we've indebted people who have no working capital available to operate these businesses."**
>
> Trevor Williams

digital solutions, like a monolithic Soviet-Union style one-bank system with digital currency, which is what Central Bank Digital Currency may lead to, according to a new study by the Federal Reserve Bank of Philadelphia.

JESSE GRIFFITHS, Finance Innovation Lab
COVID-19 looks set to dramatically accelerate the digital transformation in banking. We are all getting used to banking online rather than visiting a branch, using e-payments, going fully contactless and many are opting to share financial information using Open Banking to apply for urgent loans.

Our team has repeatedly heard how lockdown has meant that banks can undertake in a matter of months a 'digital transformation' that they had thought would take years. But the fundamental question is not whether banks are going digital, but for what purpose? Data-driven finance will contribute to a positive change in our lives only if we put social and environmental purpose first, ensure wide participation, including of the third sector, in its development, and if policy makers take care to evaluate this major new experiment and make sure the policy framework helps to rebalance power in the market.

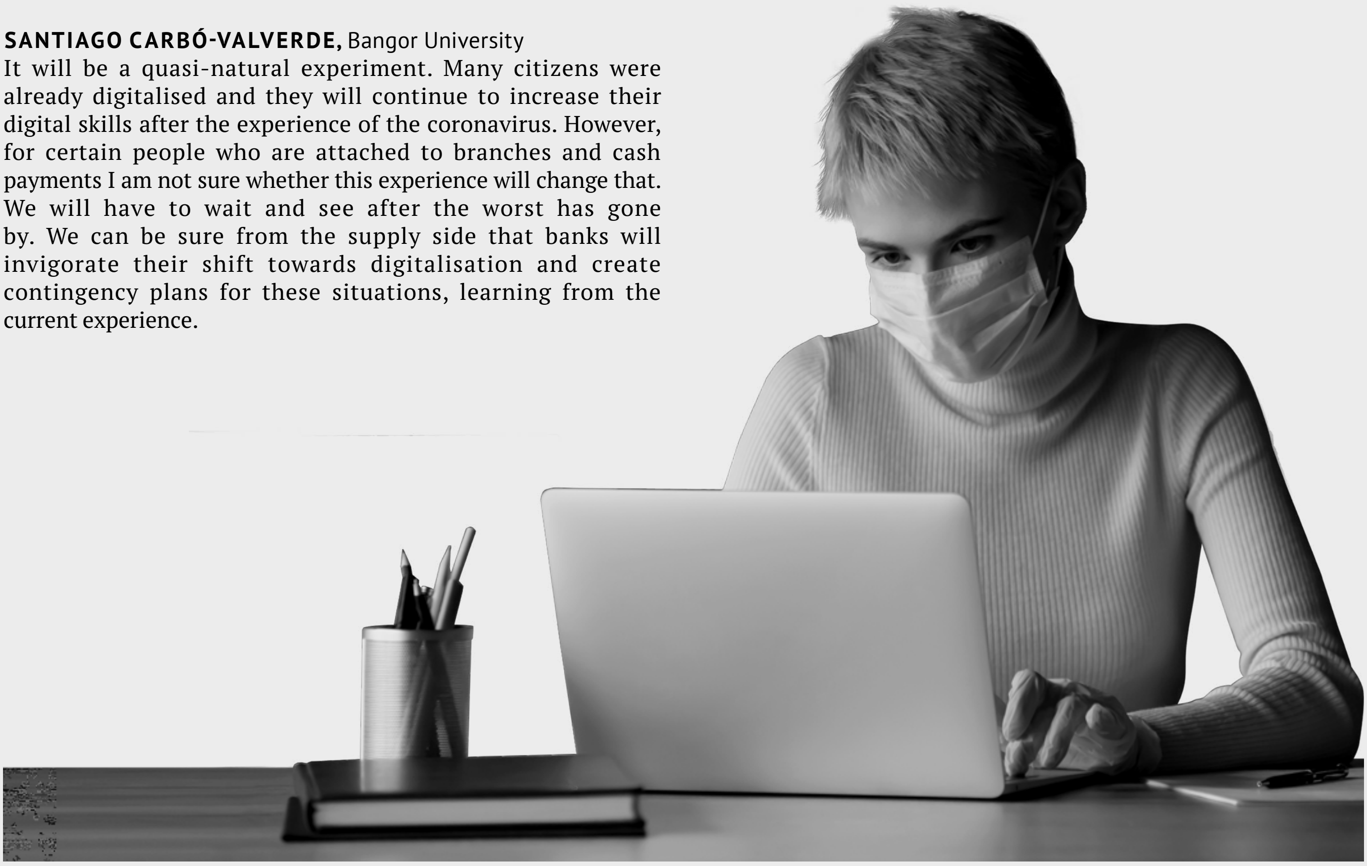
DR KEIVAN ZOKAEI, SA Partners LLP
I say definitely, yes, it will accelerate, and the force of technology is going to continue to impose itself upon us. Now unfortunately that could also mean some job losses, because that's what technology does. We'll see more automation, and the real fact is that technology will take away more jobs than it will create, so my fear is that at the end of this the net number of jobs available will be lower. OK, there will be higher-quality jobs, but the total number will be smaller at the end of this. That's my fear, and unfortunately that will have its own economic consequences.

SANTIAGO CARBÓ-VALVERDE, Bangor University
It will be a quasi-natural experiment. Many citizens were already digitalised and they will continue to increase their digital skills after the experience of the coronavirus. However, for certain people who are attached to branches and cash payments I am not sure whether this experience will change that. We will have to wait and see after the worst has gone by. We can be sure from the supply side that banks will invigorate their shift towards digitalisation and create contingency plans for these situations, learning from the current experience.

"There's an interesting meme going around on social media. It asks the question: 'What has changed the face of digital transformation more? Your COO? Or is it COVID-19?'"

Mike Gamble, TSB

JOSÉ LUIS MARTÍNEZ, AEB
The health crisis has led to a real examination of the degree of digitilisation of Spanish society. Digital connectivity has been key to overcoming loneliness during the state of emergency, to keeping us informed and also to enabling teleworking for numerous activities. The banking sector is working perfectly in this crisis, thanks to past efforts to lead the digital financial transformation in Europe. Customers increasingly demand greater financial digitilisation to access banking products and services from their devices at the time that suits them best. A trend that will only intensify in the future. CB



INSTITUTE ADVOCATES

There is no pandemic playbook

As a leading voice of responsible and sustainable professionalism, the Institute has a vital role to play in connecting its members to new perspectives and insights, says Institute Vice-President Steve Pateman.

Lending facilities are structured through covenants and amortisation to reflect the business plan in front of you. But, as in most aspects of our lives, the coronavirus changed the rules overnight, effectively turning off revenues. That's not something that has ever happened, even in wartime, stresses Steve Pateman, Vice-President, Chartered Banker Institute.

"If banks with a very clear and robust structure applied the same criteria that has served them well for many years, they quite simply would not be lending," he says. "Because, at the time of speaking, nobody can provide reasonable assurance that their business will recover."

A return to tradition?

Whichever way you turn, businesses and individuals are dealing with an unprecedented situation, he notes. "I think the best thing you can do as a bank is to try to find a way to ask: 'In my judgement, will this business be able to survive this type of impact – and at what level will it survive?' And therefore, what is a sensible level of gearing, what flexibility does the covenant structure need to give in order to allow the company to adapt to a very fast-moving situation, while giving the bank the controls it needs to step in when it needs to?

"A lot of the traditional skills that one would have accumulated in banking over the years, in terms of lending to businesses and individuals, are very valuable in this context," he believes. "But they're going to have to be applied to a different prism to the traditional one." Professionalism and the need for qualifications in banking will be more important than ever, adds Pateman.

New perspectives

Customer or business, we all face new challenges – and there is no existing plan or blueprint to turn to. "But when there is no playbook, leaders instinctively look elsewhere for the information, guidance and perspectives they need to build their own," he says.

Pateman, a CEO himself, notes the value of a virtual event he attended, during which attendees heard from an economist, debt strategist and other experts.

"As I navigate the company through the next few months, access to insights on predicted economic output, equity market and investor sentiment and other companies' thinking on the new landscape will continue to be incredibly important."

Connecting you

He hopes a recent COVID-19 Institute webinar, among the most well-attended it has ever run, served a similar purpose. Hosted by President Bill McCall, the virtual event asked: "How are UK banks and bankers responding to the Coronavirus crisis?" and, due in part to demand, has now been followed by "What is the 'new normal' for UK banks and bankers post COVID-19?"

Pateman believes the Institute has an important role to play for its members in this respect, as part of its broad remit to enhance and sustain professional standards in banking. "Remaining relevant is an ongoing challenge for professional bodies, not just a result of where we are today. We do not impose relevance in banking by making professional membership mandatory, instead it must be earned." One of the ways in which this can be achieved, he believes, is by being a thought leader. CB

The two webinars mentioned in this article – and more – are available on the Institute's BrightTALK channel.

If you would like to contribute your views as an Institute Advocate, please contact Matthew Ball, Head of Public Affairs, Policy & Communications, Chartered Banker Institute, at matthew.ball@charteredbanker.com

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THE DAVIDSON COLUMN

A new social contract

No two crises are alike, but the 2008 financial collapse holds lessons for the current day that banks and bankers should study carefully, says James Kirkup, Director of the Social Market Foundation.

Even before the coronavirus pandemic, business had a trust problem in Britain. Numerous surveys show that voters doubt whether business is good for them and their country. Fairly or not, much of this feeling is down to banks. The financial services industry is still paying for the bailout of the banks – paying a price measured in public distrust and resultant political challenge. Voters just don't think the banks repaid the favour of that rescue.

Today, taxpayers are spending tens of billions of pounds supporting British business of all sorts, through wages for furloughed workers, emergency loans and other means. The vital lesson that businesses must draw from the financial crisis is that the public must have reciprocity. Business must find ways to return the favours of recent months, upholding their part of a new social contract with Britain.

After the crisis, many of the political challenges that existed before it will persist and only be amplified by economic turmoil. Places that felt 'left behind' and thus in need of 'levelling up' may well be in even greater need. Many workers will find themselves short of work, opportunities and the skills needed to start earning again. The generational challenge of climate change will still need to be addressed, by a government and households both short of money.

All of these challenges present an opportunity for banks and banking. Those banks which have national and regional operations should consider what more they can do for the towns and communities they serve. They should pay especially close attention to high streets. MPs of all parties know well that half-empty parades of shops are a powerful force in politics. Even relatively affluent voters can be persuaded that the country is on the wrong track when their local high street starts to feel empty and look shabby. To prove its worth to post-crisis Britain, banking should find new ways to answer those concerns.

> **"The vital lesson that businesses must draw from the last crisis is that the public must have reciprocity."**

As large employers, banks will have a role in supporting, paying and training workers. They should look beyond their own workforce to ask what more they can do to support others, in and out of work. Youth unemployment will be a major issue, as policymakers scramble to see how they can shield a generation of school-leavers from the lifelong scarring of early unemployment. Banks could do more to take on apprentices, to offer training and skills to all, and to help workers finance their own development.

The linkage between the virus and the climate is less obvious, but COVID-19 may well mean an even greater role for banking in mitigating the planet's warming. Green finance is well-established at the level of infrastructure and major projects: banks have seized the opportunity to help finance clean power, for instance. But what about smaller-scale interventions?

Hitting the net zero carbon emissions target by 2050 (now set in law through an amendment to the Climate Change Act) will mean several major changes in the way we live: homes will need to be fitted with new heating systems; millions of charging points will need to be installed to charge millions of electric vehicles that have not yet been purchased. All of these things will, in time, deliver savings. Banks will have a role in helping to finance them.

These are difficult times for us all, and there will be many challenges ahead. Companies which are seen not to return the favour to taxpayers will pay a heavy price in lost trust. But those businesses that demonstrate that they understand the new context in which they operate – and act accordingly – will be rewarded by customers, investors and wider society. CB

THE ROLE OF THE PROFESSIONAL BANKER

An opportunity to reset?

COVID-19 has thrown many roles into the spotlight, and that of the professional banker is no exception. Taking the perspectives of an industry veteran and a former Young Banker of the Year, we examine the skills professional bankers need today.

As the economy shifted overnight into lockdown, output and demand across many sectors dried up and social distancing and remote working changed the UK's employment landscape. Uncertainty around the timeline of any recovery has exacerbated an already strained situation. The announcement of government support and directives of financial help to be delivered by UK banks threw the spotlight onto the industry.

"Adopting a blended approach, combining judgement and an understanding of behaviour alongside quantitative tools, could be the future."

Alastair Graham,
Institute Fellow and Secretary-General of the Global Banking Education Standards Board

"I've been through a few crises over the last 30 years, but this is like nothing that's ever happened before to the banks," says Alastair Graham, Chartered Banker Institute Fellow and Secretary-General of the Global Banking Education Standards Board. "One of the most immediate problems has been capacity. A bank that normally would see perhaps 100 credit applications in a week, is suddenly seeing 2,000. And that at a time when the banks themselves may be under-resourced with staff off ill or self-isolating, and systems strained due to the volume of people working from home."

The value of good communication

The pressure of processes perhaps not working as smoothly as normal, of systems being overwhelmed and of being physically separated from members of their product or service team, has placed significant pressure on the individual professional banker and those on the front line.

"We've all had to adapt the way we work," says Joanna Finlay, Sustainable Banking Manager, Virgin Money, and Young Banker of the Year 2017. "Leading a team has become much more about engaging and empowering colleagues by flexing how and when we're talking to each other, for example. As managers we need to recreate the 'water-cooler' chats and the debriefs we used to have when walking between meetings. Communication skills, although always important, are now absolutely essential."

The ability to communicate with customers, and to encourage them to disclose any difficulties, is also crucial. Overcoming ingrained perceptions of the industry's willingness to provide support during tough times is a challenge that frontline staff, banks and the industry overall are working hard to overcome.

Graham adds: "The view of banks as fair-weather friends prevails, which can mean that clients are afraid to give too much information away. Now is the time for redemption. The industry, and individual banks, must take this opportunity to be supportive and to restore confidence."

Understanding customer need

Gathering the information is just one step in understanding customer need, of course. Being able to analyse and contextualise that information, see the bigger picture and empathise with the minutiae that matters to each customer, is where support really counts.

"Very good technical skills are required to fully understand the business drivers in each individual case, but the professional banker must also be able to listen and assimilate the detail provided by the customers with their own experience to try to find a solution," says Graham. "And while those skills are, generally speaking, still present in most banks, the problem once again is one of capacity.

"Banks have increasingly moved to a situation where the relationship manager role has been removed to a certain extent. They've been replaced with credit-scoring applications and various portals that allow the client to self-service. It's been driven both by cost savings on the part of the banks, but also by customer demand for quick decisions and low-cost banking. But, while credit scoring is a great tool, it isn't an answer, and financial models just can't compute the current situation. The problem is that banks simply don't have the number of people with the experience to talk to clients and understand whether they're a viable proposition in the current circumstances."

A place for technology

That's not to say there isn't a place for technology or digital solutions. In fact, as Finlay points out: "There's been an explosion of digital support. The challenge we face is being able to use our skills to target that support appropriately, ensure that the information we provide is accessible and that we prioritise customer choice in how we offer support."

Technology is also helping to send funds to those who need them much more quickly, both in personal and commercial terms, despite the capacity issues. Being able to process thousands of applications automatically has been vital to delivering financial aid and enabling banks to continue to provide customer support remotely.

"There's been an explosion of digital support. The challenge we face is being able to use our skills to target that support appropriately."

Joanna Finlay,
Sustainable Banking Manager, Virgin Money, and Young Banker of the Year 2017

What the crisis has shown is that banking perhaps works best when you combine technology with the personal touch, when the absolute rule of machine learning can be adapted by human empathy and understanding that situations aren't necessarily black and white. And that applies as much internally as externally.

"Understanding and applying behavioural psychology is as important as technical skills during a crisis," continues Finlay. "In my team, we use agile working as a way of maintaining focus and overcoming frustrations. We use setbacks as an opportunity to find a different way, which may turn out to be a better way. For example, I host monthly meetings where we gain insights from colleagues with live experience of vulnerabilities. When we started working from home, I adapted these meetings for teleconference and it's meant we can include colleagues across multiple locations. One colleague faced barriers to joining our calls, so we engage them one-to-one on Teams instead. As such, we're modelling our vulnerable customer approach – understanding and enabling people to work with us; being digitally led but always customer-centric."

Adopting a blended approach

Graham admits: "It often takes a catastrophic event to effect change. I think that both bankers and clients will want to use this as an opportunity to reduce the distance between them. Adopting a blended approach, combining judgement and an understanding of behaviour alongside quantitative tools, could be the future. That will take time.

"A lot of the banks lost their experienced people – those who were around for the property crashes of the Eighties and Nineties and the financial crisis of 2008, and could deal with administrations, say no to clients wanting to over-extend themselves or share an MD's passion for his business. You simply can't make a young banker into an experienced banker overnight, or even in a year.

"Those core skills that being a Chartered Banker provides through its rigorous examination process are going to become much more important. Returning to basic banking skills – a 'back to the future' move – where professional bankers go out and 'kick the tyres' of a business, but also use technology to support their decisions, will help bankers think a little bit differently and that is something that will stand them in good stead. Being professional, a good listener, flexible and consultative are the key skills that will see bankers through this crisis and beyond." CB

OUR RESPONSE

How the Institute has adapted

With a few adjustments, it's business as usual at the Institute. Here, Chief Operating Officer Joanne Murphy explains how we have responded to COVID-19 – and how the pandemic is reshaping banking skills and education.

Even during 'normal' times, anticipating and meeting members' evolving needs is an essential part of the Institute's role as a professional body, explains Joanne Murphy, Chief Operating Officer, Chartered Banker Institute.

"The safety and well-being of our members, students, staff and partners remains our primary concern and, since the COVID-19 outbreak began, we have been very focused on identifying the areas in which bankers might need our support – both personally and professionally.

"Now, more than ever, it is critical that we find ways to facilitate these important dialogues with our membership."
Joanne Murphy

Lockdown Learning

To support the membership and wider banking community in responding to the immediate skills and knowledge gaps, the Institute has released microlearning and thought leadership resources, says Murphy. She gives the example of the Institute's Lockdown Learning campaign, which has been very well received.

"In consultation with our members and corporate clients, we identified priority areas in which we could help our bank colleagues as they respond to the coronavirus crisis: maintaining well-being, building resilience, leading through change and challenge, online learning and supporting vulnerable customers.

"From April to June, we have shared resources to help individuals refresh their knowledge of these important subjects – and even develop new skills. Tips, webcasts and other online tools are available on the Lockdown Learning page on the Chartered Banker Institute website.

"In addition, we have sent out what we hope are useful tips on well-being and learning while homeworking, and created a coronavirus hub including guidance and resources for members."

A virtual world

To minimise disruption for members, the Institute has also been able to adapt its existing programme of live events to new virtual formats. By making use of video-conferencing tools, we've kept important events such as our Young Banker of the Year semi-finals and Annual General Meeting (see pages 54 and 58 respectively) in the diary.

Murphy continues: "At our recent Membership Forum meeting, for example, we used Zoom to support breakout activity, which provided us with great insight and feedback on members' current and future requirements. Now, more than ever, it is critical that we find ways to facilitate these important dialogues with our membership."

The Institute has also enhanced its existing webinar programme (see page 36) to include a special series of COVID-19-focused panel discussions to help attendees understand and navigate the new environment.

"As well as providing tips for those who are new to working remotely, we have introduced daily check-in meetings between individual teams, managers and the leadership team."
Joanne Murphy

Study and exams

Those pursuing more formal education programmes with the Institute have also been able to continue to study for their qualifications as usual – and take exams, says Murphy. In fact, the Institute was well placed to support its members, students, employers and partners to continue with their studies and ongoing development at this difficult time, says Murphy.

"Unlike traditional, campus-and classroom-based educational providers, our banking education programmes are delivered online or by distance learning," she explains. "Assessment is typically either through individual, work-based assignments, or online exams with a remote invigilation option. So even when our assessment partner, Pearson VUE, closed its exam centres in line with government advice, students were able to sit their exams securely and conveniently at home."

"The pandemic has reinforced the Institute's view that the broad purpose of banking is to support the economic life and prosperity of customers and communities in a responsible and sustainable manner."
Joanne Murphy

Some exam centres are now open, both in the UK and internationally, but throughout the pandemic it has been 'business as usual' for students and members, she says. With a little adaptation of the face-to-face presentations, which are normally part of Chartered Banker by Experience and End Point Assessment, individuals have been able to progress without interruption.

"As a champion of remote invigilation, we have also been proud to support our peers in their own transformation as they expand their offering to support students," she adds.

A smooth transition

The Institute has been able to adapt well to working more remotely too. Although most employees are normally based at either the Edinburgh or London office, the policies and practices were already in place to enable effective remote working, says Murphy.

"Overall, our transition to remote working has been a remarkably smooth one. Like many people across the world, those of us who aren't usually home-based have had to adapt and learn to focus in a different environment. The disruption to our professional and social lives has brought unexpected challenges, but because we had already adopted digital working practices the systems to facilitate this were in place and we could instead focus on ensuring that colleagues had the support they needed.

"As well as providing tips for those who are new to working remotely, and monthly digital townhall events for colleagues, we have introduced daily check-in meetings between individual teams, managers and the leadership team. Daily well-being meetings have also been scheduled specifically for colleagues across teams to keep in touch with each other and facilitate social interaction across the Institute."

Looking after our colleagues is the right thing to do, but it also ensures that they are in turn able to provide the support our members need, stresses Murphy.

The future of skills and education

The pandemic has reinforced the Institute's view that the broad purpose of banking is to support the economic life and prosperity of customers and communities in a responsible and sustainable manner, says Murphy.

"We believe that high levels of technical banking knowledge, combined with empathy, emotional intelligence and good communication skills will be even more important than before in these difficult and uncertain times. This means bank colleagues will need to develop and apply professional judgement to support individuals and businesses during and beyond the current crisis. Our qualifications, use of CPD to support upskilling and thought leadership resources will continue to lead the way in these areas." CB

Our Member Engagement Team is available via our webchat service or by email at info@charteredbanker.com, between 9am and 5pm BST. If you have a query or would like to share your feedback on our COVID-19 resources, then please do not hesitate to get in touch.

LIFE AFTER COVID

How will banks help build a new normal?

As the initial shock waves recede and emergency measures come to an end, how is the industry preparing to support individuals and businesses post-crisis in the medium to long term?

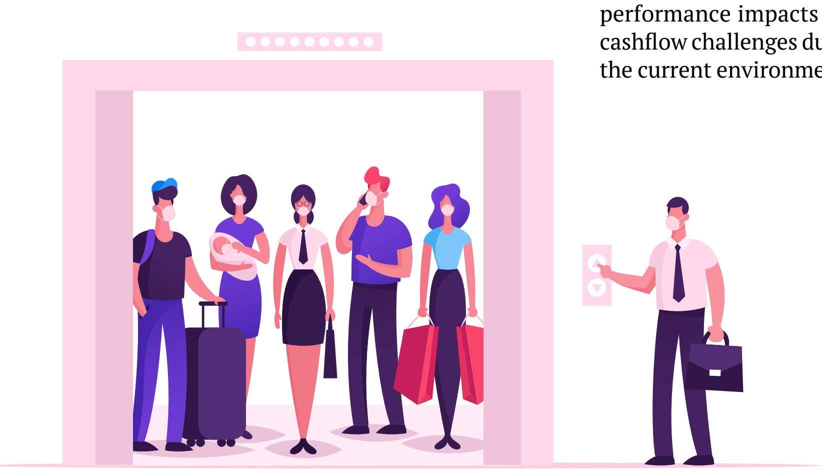
Banks moved swiftly to offer a range of interim support for UK businesses and households at the beginning of the coronavirus pandemic. Measures such as payment holidays on mortgages and unsecured debt, as well as extended or automatic overdrafts, helped cushion the blow of a sudden and dramatic loss of income. However, with much of this support temporary in nature, what will be the situation for customers once it is withdrawn?

CBILS: Not just a quick fix

Although many solutions put in place are short-term in nature, Stephen Pegge, Managing Director, Commercial Finance at trade body UK Finance, points out that money lent through the UK government's Coronavirus Business Interruption Loan Scheme (CBILS) is not necessarily a short-term solution, with lending possible over up to six years.

"The sector has provided support to businesses through CBILS with a consideration of the affordability of lending extended notwithstanding the short-term disruption to cashflow during the current crisis," he explains.

Pegge is confident that the financial sector is well-prepared to offer support to businesses that are fundamentally healthy but face short- to medium-term performance impacts and cashflow challenges due to the current environment.



"The industry has the capacity to assist viable businesses with their cashflow and investment needs and stands ready to provide finance to viable businesses as they restart and invest for growth."

However, speaking as part of an Institute webinar at the end of April, Steve Pateman, Chartered Banker Institute Vice-President, highlighted the fact that in many cases both banks and businesses are in unknown territory when it comes to assessing creditworthiness, since many of the traditional anchor points in terms of data are simply not available.

"People cannot say, 'Well, in September I'll open my hotel and it will be 50% full and the room rate will be x, and in November I'll be running x conference and so forth'," he said.

"We can all reproduce our accounts on 28 February and say, 'It was great, we had a really good year', but we all know in our heart of hearts that the next year's going to be a complete disaster compared with the last year, and actually we will have cashflow shortages, and the value of our assets is open to interpretation."

While it may be mitigated as measures put in place to contain the pandemic are lifted and society adjusts to a 'new normal', the severe impact on sectors such as travel and tourism is undeniable. However, banks also need to address the risk of contagion, which may result from factors such as geographic location as well as from more obvious commercial links with afflicted industries. Alastair Graham, Director, Banking Risk Training and Secretary-General, the Global Banking Education Standards Board, cites air travel as an example.

"If you were a banker in somewhere like Crawley, which is the town closest to Gatwick, it's not about the airline industry, it's about all the other industries. Basically, Gatwick is Crawley. And Crawley will suffer dramatically. So bankers have got to think about the contagion risk from situations like that."

Deferring the risk

Few would argue that interventions such as CBILS and the UK government's furlough scheme were an understandable reaction to the dire economic implications of lockdown. However, Graham is of the view that in some cases support will inevitably have masked underlying issues with already weak or struggling businesses, which will only come to light some way down the line.

"With the money available from the banks under these schemes, it might see them struggle on for another six to 12 months. But ultimately if they're not a viable business they will fold. I don't want to sound too pessimistic, but this is going to be a massive shakeout of businesses."

The same issue is true for personal customers, but may come to light more quickly as deferral periods end. While payment holidays have been available on everything from mortgages to car finance, customers will find themselves essentially no better off in the long run.

"That's still got to be paid back. You're not solving the problem, you're just deferring the risk," comments Graham.

With nearly nine out of 10 cars bought on personal contract purchase (PCP) deals in the UK, the effect of widespread defaults on the second-hand car market and on the motor industry as a whole could be particularly severe.

"Some £65bn is out there on personal loans for cars and PCPs and so forth," says Graham. "That is a serious problem."

Further down the line, Graham points to equity release as another potentially serious side effect of the crisis, with homeowners turning to their houses as a source of liquidity to replace lost income.

Eric Leenders, Managing Director, Personal Finance, at industry body UK Finance, accepts that COVID-19 is likely to have a long-term impact on the financial well-being of some customers, and that in such a situation there is a limit as to how much banks can do to help.

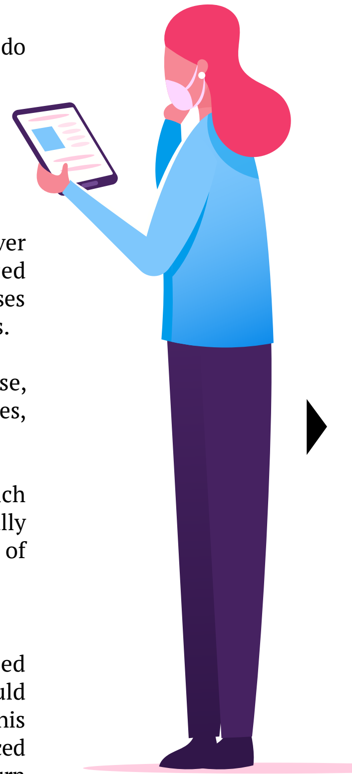
> **"I don't want to sound too pessimistic, but this is going to be a massive shakeout of businesses."**
> Alastair Graham, Director, Banking Risk Training

"Lenders are carefully considering options for those who may need further support at the end of the three-month payment holiday period to help to minimise risk of defaults," he says. "Ultimately bad debt is in no one's best interests."

Effective monitoring

Even as they provide support for relatively healthy businesses, banks face challenges in managing the quantity of lending being made available.

"It's not just the capacity to lend the money, but how do you then monitor all this money?" asks Graham.



As he points out, while banks would normally review a client's situation once or twice a year, closer support is likely to be necessary in what may be a volatile and ever-evolving environment, which makes accurate projections of cashflow and turnover difficult. This need for a more holistic and nuanced approach to assessing the financial health of businesses they lend to may present some banks with problems.

"Now, not only are they going to have more of those, but they're probably going to have more with exposures, bigger risks," Graham emphasises.

In this situation relying on data and modelling, which has enabled banks to move away from the traditionally close manager-client relationship of old in search of greater efficiency, may not be sufficient.

A potential skills gap?

Graham feels a return to a more relationship-led model may be necessary, but that some banks could lack sufficient staff with the experience to deliver this effectively. He points out that a number of experienced former banking professionals might be prepared to return to the sector, but approval is currently an issue.

"I asked the question of one bank, could they not be rehired on a temporary basis, a bit like doctors for the NHS, and the answer to that was regulations stopped it," he explains.

However Pegge is of the view that the right approach to supporting customers will combine the best of professional expertise with the agility and efficiency that technology provides, pointing out that organisations such as the Institute are well placed to help staff retrain for a new operating environment.

"It is less a case of losing skills that have been the mainstay of the industry for hundreds of years, but more about adapting them to unique circumstances with new tools and technology," he concluded. CB

Since the time of writing, the Financial Conduct Authority has announced a further extension to mortgage holidays, as well as new unsecured debt proposals.

SUSTAINABLE BANKING

A fork in the road – retribution or recovery?

We examine how, in the wake of COVID-19, governments, banks and society can work together to build more sustainable and inclusive economies that are more resilient in the face of pandemics, climate change and other global challenges.

Given our current circumstances, it is easy to forget that less than a year ago a very different global crisis was finally beginning to gain the attention it deserved. While the headlines were mainly devoted to Greta Thunberg and to the activists of Extinction Rebellion, beyond the 24-hour news cycle acceptance of the wider sustainability agenda seemed to be reaching a tipping point. With the COVID-19 pandemic understandably dominating our thoughts in 2020, what can be done to ensure sustainability remains high on the agenda as part of the solution to the current crisis?

Change is possible – and desirable

One of the key lessons already being learned from the pandemic is that with the right motivation, dramatic change is possible. Eric Usher, Head of the United Nations Environment Programme Finance Initiative (UNEP FI), points to the example of a major insurance company the Initiative works with.

"For two years the board was discussing a 15% reduction in travel and that was seen as very, very difficult. Then overnight with the pandemic they went to zero travel and yet business has continued," says Usher. "They've realised that radical change can happen quickly and sometimes we just need to open our eyes to what's possible."

Usher emphasises the need to recognise COVID-19 as a health crisis first, particularly in the early stages of emergency stabilisation. However, as we move into more strategic stimulus and potentially to structural reform it will be vital to ensure sustainability is high on the agenda.

> **"Every way you look at it, shifting to low carbon creates jobs and economic development."**
> Eric Usher

Claire Healy is Director of the Programme for Climate Diplomacy, Risk and Security at independent environmental think tank E3G. Like Usher, she is keen to avoid charges of 'ambulance chasing' but feels that the Overton Window (essentially the range of policies considered politically acceptable to the mainstream population at any given time) could be shifting. As a result, the kind of radical and rapid change potentially required to ensure a sustainable future may finally be on the cards.

"I think the unconventional and the unorthodox are now in play," Healy comments. "Looking at all the contextual elements, I do think we've got more space so the onus is on people to be ready for that."

Why a green recovery?

In late 2019, Healy chaired a multi-day roundtable entitled 'The Next Global Financial Crisis and Climate Change: A Policy Agenda to Align with the Paris Agreement'. The aim was to 'prepare the climate community to jump into action and use the next financial crisis, whenever it hit, for a shift in paradigm'. Little could she have known at the time that only a few months later that crisis would be upon us, yet the package of recommended demands, policies and rules that resulted could hardly feel more relevant.

Healy is clear that the pandemic, though shocking, marks an opportunity: "There's a lot of data to show that green recovery is better, it's faster – you'll employ more people, getting cash to people, who will spend the cash so you'll recover faster."

Usher agrees: "Every way you look at it, shifting to low carbon creates jobs and economic development."

Demand creation is key

Both Usher and Healy see demand creation as the main long-term problem for pandemic recovery, to which the transition to a more sustainable future is the solution.

"Investing in low-carbon infrastructure is just such an easy, obvious thing to do," comments Usher. "It's a good news story in good times, and that's before needing stimulus."

The solution would therefore come in the form of Keynesian-style stimulus specifically targeted at transitioning to a low-carbon economy – what's increasingly referred to as a 'Green New Deal'. Essentially, the aim will be to recreate the post-war reconstruction boom that drove the world's economy in the wake of the Second World War, at the same time 'locking in' sustainable infrastructure and approaches at a structural level. Conversely, if we fail to prioritise the green agenda now, the danger is that we could lock ourselves into continuing a high-carbon model, which is unsustainable in the long term.

Usher admits initial analysis of the stimulus committed so far suggests not much of it is sustainability focused, but believes that is partly because we are still at the stage of emergency response.

"The hope is that as the details of policy come out we see a blending of policy position with financial response that will give a stronger policy signal," he says.

Building resilience

Of course, sustainability is not just about 'going green'. Another recurrent theme that has emerged from the current crisis is that of resilience.

"Countries like Germany have been shown to be more resilient because of a higher investment in the health system and other key sectors," says Usher.

He argues that the same applies to corporates, with businesses which have ensured a defensive capital allocation looking in reasonably good shape while other apparently strong firms have quickly floundered.

"Companies which have held cash as a buffer are in much better shape today than those which have paid most of it out for buybacks or dividends," he remarks. "It's a stress test for companies."

Tying support to a green agenda

As Usher highlights, one consequence of the economic crisis arising from the pandemic has the potential to be significant from the point of view of advancing political agendas. "The public sector is going to become the owner of much of the private sector at least in the short term," he comments.

This provides the opportunity to use conditionality to enforce genuine progress towards sustainability goals from firms which the general public are essentially bailing out. Usher gives the example of Air France, which under the terms of its bailout has agreed to shut down short-haul flights where evidence shows train travel is more efficient.

"Investing in low-carbon infrastructure is just such an easy, obvious thing to do."
Claire Healy

Healy points out that there is precedent for tying financial support to a political agenda – for example, the US government's bailout of the auto industry during the 2008 financial crisis was tied to a raising of standards – and that rules can be imposed so as not to impact short-term recovery.

"They can be crafted in such a way that the conditions apply only when those companies return to health," she argues. "But I think they would send a very important signal to the markets and to the street that we're serious about this."

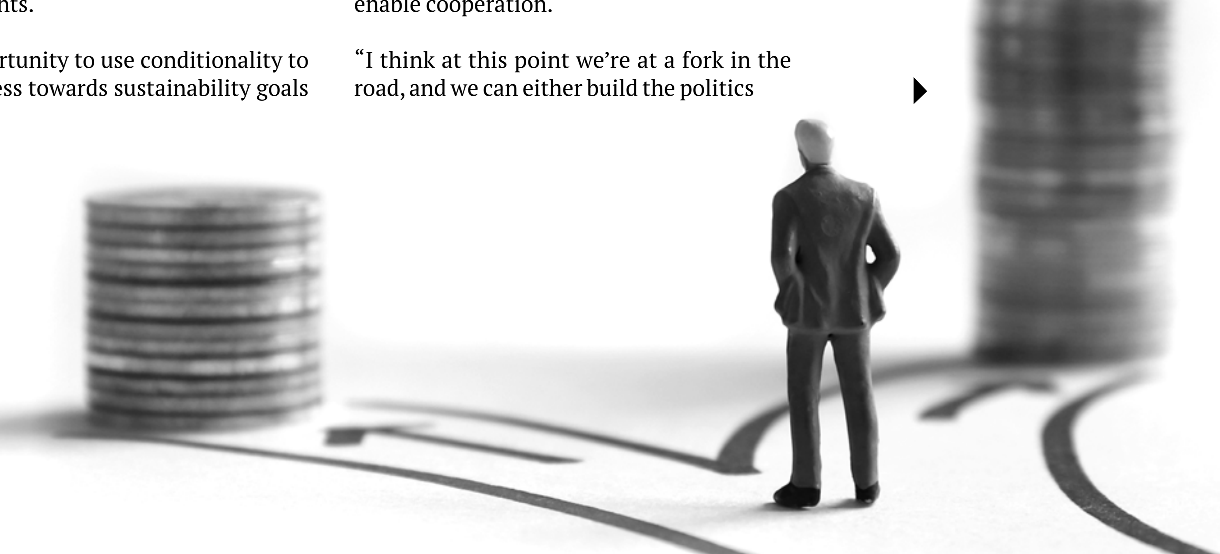
The need for cooperation

Given the rise of populism as a political force over the past few years, one concern is that the level of international cooperation necessary for a green recovery may be lacking.

"In the 2008 crisis, thanks to Gordon Brown, the G20 was formed; people came together to stop the bleeding and stimulate the economy," says Healy. "However, when it came to the structural reforms they ran out of steam."

This time around global cooperation has been limited even in the early stages, not helped by a fractured, if not fractious, Europe, along with Trump administration's stance against both China and the World Health Organization (WHO). Healy insists that we need international organisations such as the WHO and World Trade Organization (WTO) to enable cooperation.

"I think at this point we're at a fork in the road, and we can either build the politics



SUSTAINABLE BANKING

“It is bankers and investors, the people who control financial capital, who will ultimately determine the rate at which we decarbonise.”

Claire Healy

of retribution and isolationism or the politics of solidarity, cooperation and recovery,” she comments.

The role of government

The main focus, in Healy’s view, needs to be on structural reform that incentivises sustainability while enabling the winding down of high-carbon assets. Among other things, that requires a clear and widely recognised taxonomy to define those activities that are sustainable and those that are not.

“There are things we can do, like the taxonomy, like mandatory disclosure of climate-related financial risk, like imposing stress tests,” says Healy.

She points out that members of the Coalition of Finance Ministers for Climate Action (established in April 2019 and already boasting more than 50 members) has signed up to six ‘Helsinki Principles’ aimed at promoting climate action through fiscal policy and the use of public finance.

Usher, meanwhile, highlights several recent examples of sustainability advocates being promoted to key roles. One is the new Governor of the Bank of Canada, Tiff Macklem, who for the previous 18 months had chaired the country’s Expert Panel on Sustainable Finance. A second is the new Malaysian finance minister, Zafrul Aziz, who was previously CEO of CIMB, one of the founding signatories of the Principles of Responsible Banking.

“Now you have sustainability leadership in the financial industry being matched by leadership on the regulatory side,” comments Usher. “So the potential to change the whole system, rather than just greening the edges, is much more significant.”

As Usher sees it, the big difference this time around is that key decision-makers, from Christine Lagarde at the European Central Bank (ECB) to Kristalina Georgieva at the International Monetary Fund (IMF), are not only speaking about the need but are ready to act.

“Twelve years ago, there was not a single central bank or financial regulator which felt it had any mandate related to sustainability. And that’s totally changed this time around,” he comments.

The role of the financial sector

Healy, meanwhile, is keen to emphasise the key role the wider financial sector will play in securing a sustainable future.

“I think it is bankers and investors, the people who control financial capital, who will ultimately determine the rate at which we decarbonise,” she says. “We can set up a diplomatic process, we can help devise a policy, but they decide where that money goes, what it builds.”

She argues that financial firms which act decisively on sustainability now will get ahead of the curve, gain more social licence and ultimately attract customers, talent and capital. “It can be putting out statements, talking to shareholders, employees, customers and just reassuring people that the momentum we built before COVID is not going away,” she says. “And then looking at internal structures and policy-making processes.”

A reckoning

Both Usher and Healy recognise that transitioning away from established industries such as oil and gas will not be without pain. However, the argument is that big problems require big solutions and a global ‘Green New Deal’ will create jobs, indeed whole new industries, which are ultimately of far more value to society.

Healy suggests none of us will want to look back on this moment in the future and feel we were on the wrong side of the argument (or even sitting on the fence). From that viewpoint, what does and does not get funded becomes a truly vital decision.

“People want action on climate change, so it gives legitimacy,” she says. “I think the other side of that is if we squander the opportunity there will be a reckoning.”

“I’m not a scientist, but if scientists tell me we need to halve emissions in a decade to reduce this risk I’ll take their word for it, even out of precautionary principle. If this pandemic has taught us anything, it’s that bad things can actually happen.” CB

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COUNTRY SPOTLIGHT

Viva España? Spain steels itself for recovery

Spain's banking sector has undergone a genuine and much-needed transformation since the 2008 financial crisis. Does this mean banks will be a source of support and resilience to businesses and individuals this time around?

In May 2007, with the tentacles of the US subprime scandal already beginning to spread, the then Spanish Finance Minister Pedro Solbes made a statement which, with hindsight, is easy to deride.

"I do not see the [Spanish] construction sector affected at all, it is just a small deceleration which will allow it to adjust to a new reality that will logically result in lower demand."

Five years later, exposure to the country's domestic housing market and construction industry had driven large numbers of Spanish banks close to collapse, provoking a process of bailouts, mergers and nationalisation that left the sector changed forever.

Today, Spain, like almost every country on the planet, faces a very different crisis. Can a rejuvenated banking sector be a source of stability and resilience as the post-pandemic story unfolds?

An economy on the edge

Speaking to the Spanish Parliament in mid-May, Bank of Spain Governor Pablo Hernández de Cos predicted the country's economy would contract somewhere between 9.5% and 12.4% in 2020. Hernández de Cos hopes the economy will eventually bounce back in 2021 with growth of up to 8.5%. However, that will depend on a variety of factors not directly under his control.

"Spanish government debt has soared since 2008 and now there is little leeway for fiscal action."
Santiago Carbó-Valverde,
Professor of Economics and Finance,
Bangor University

He called for an extension of the €100bn in state-backed credit lines to small and medium-sized enterprises (SMEs) and the self-employed.

Perhaps more significantly in a country which has seen four elections in as many years, he pleaded for political consensus to make possible a long-term strategy of fiscal consolidation and structural reforms.

Spain's economy is particularly vulnerable to the economic consequences of social distancing, with tourism, hospitality, transport and retail sectors making up a combined 25% of Spanish GDP. The impact of the pandemic on tourism, which alone counts for around 10% of GDP, is a particular concern.

With a predicted debt-to-GDP ratio of more than 120% and a potential budget deficit of up to 11%, Hernández de Cos warned that the way forward would not be an easy one.

"It is possible that we are going to have to tackle both public spending – eliminating superfluous spending, inefficiencies – and also amend the tax system," he said.

Valencia-born Santiago Carbó-Valverde, a Professor of Economics and Finance at Bangor University, says that given the need for public expenditure, the country's fiscal and sovereign debt situation is certainly cause for concern.

"Spanish government debt has soared since 2008 and now there is little leeway for fiscal action," he comments, blaming the long-term consequences of the last crisis and insufficient effort from successive governments at fiscal consolidation.

Basic income: Salve or complication?

One much-publicised move by the ruling coalition during the pandemic has been the introduction of a basic income. Contrary to some reports, the government's plans do not fit the definition of *universal* basic income as only those who have no means to support themselves as a consequence of the crisis, and who are not eligible for unemployment benefit, can claim it. Spanish unemployment benefit is more generous than in the UK, but is available only to those who have made social security contributions for at least 12 months in the previous six years.

The scheme initially aims to reach 100,000 households, scaling up later to reach a million homes, with eligible adults receiving a payment of at least €462 a month.

In an interview published in the *New Statesman*, Spain's Deputy Prime Minister Pablo Iglesias said the scheme was intended to be a permanent measure rather than a temporary solution, claiming that the initial cost, estimated at between €3.5bn and €5bn, would be paid for through sovereign debt which the European Central Bank (ECB) had already committed to buy.

"By guaranteeing this basic income for households that lose their earnings, we will facilitate the recovery and, with that, the return to economic growth. The best way to reduce debt is to restore growth as soon as possible," he claimed.

Once the current crisis is over, Iglesias says, the scheme would not need to be financed by public debt.

"The best way to reduce debt is to restore growth as soon as possible."

Pablo Iglesias,
Spanish Deputy Prime Minister

"Spain has an income-to-GDP ratio seven points lower than the Eurozone average. We can reduce part of this difference with a well-designed wealth tax," he said.

However, even leaving aside the cost, Carbó-Valverde points out that not everyone is convinced implementing such a scheme is desirable.

"Many economists doubt whether it can be efficiently implemented in a country with a large shadow economy," he notes. "I am not in favour of it because there will be less incentive to work hard and to get training and education. The Spanish labour market is already one of the most dysfunctional in the world and a measure like this will not help."

ECB intervention

Spain's response to the crisis has to some extent been conditioned by its membership of the EU and its currency being the euro. After some initial issues, in early April EU finance ministers agreed a €540bn package to support member states, companies and workers, with loans to Eurozone countries coming from the European Stability Mechanism, for companies through the European Investment Bank, and for workers via the European Commission's new instrument SURE. However, at the time of writing the divisive issue of joint debt issue, or so-called 'coronabonds', was still unresolved, despite efforts by German Chancellor Angela Merkel and French President Emmanuel Macron to drive the plan forward.

Carbó-Valverde considers the ECB's actions, including measures to ensure continuing liquidity and moderation of potential escalation of sovereign risk, to have been beneficial. However, he is not convinced they go far enough.

"In my opinion, the ECB can still do more by creating vehicles to securitise the debt of a lot of small firms in Europe that need to transform short-term debt into long-term debt," he says.

2020 versus 2008

Along with Greece and Italy, Spain was one of the EU countries worst hit by the after-effects of the 2008 financial crisis. Exposure to a huge real estate bubble caused major bank solvency issues. Rescuing the banks was a major factor in a sovereign debt crisis from which Spain has yet to fully emerge.

COUNTRY SPOTLIGHT

At 14%, Spain's jobless rate was already one of the highest in the developed world before the pandemic hit, having never properly recovered from the last crisis. What's more, Spanish employers' heavy reliance on precarious temporary contracts makes the country particularly vulnerable to a surge in unemployment – by early April the Bank of Spain's own predictions saw it potentially rising as high as 21.7% . This figure, while huge, still falls a fair way short of the record 27.2% figure hit in April 2013 .

> **"The close relationship between banking risk and sovereign risk is always a weakness in countries like Spain."**
>
> Santiago Carbó-Valverde,
> Professor of Economics and Finance, Bangor University

Spain started the financial crisis with a surplus of nearly 2% of GDP and public debt at a historic low of 38% of GDP. This time around, the latter statistic stood close to 100% even before economic contagion from the current crisis had started to have a significant impact.

However, there are some reasons to be more optimistic this time around: the country's export sector has grown from around 24% of GDP to 35%, while inflation is under control, helping to maintain purchasing power and improve competitiveness.

A short history of modern Spanish banking

It is easy to forget that Spain was still a dictatorship until the mid-1970s, arguably only fully transitioning to the status of a stable democracy following the failed coup in 1981. Under Franco the Bank of Spain had been formally nationalised and its operations tightly controlled. Democracy led to the gradual modernisation of the central bank, which was ultimately granted autonomy in 1994, the same year in which Spain entered the Economic and Monetary Union of the EU.

Liberalisation of the Spanish financial sector began in the 1980s, with the Bank of Spain supporting mergers with the aim of creating large corporations capable of entering international markets. At the same time territorial restrictions on savings banks and credit cooperatives, which had previously been limited to operating in the provinces in which they were based, were lifted.

In the 1990s the larger banks began to expand internationally, initially into Latin America. The decade between 1996 and 2006 saw the sector's strongest period of growth, fuelled partly by international expansion and also by a booming property sector. A third factor was the low interest rate policy set by the ECB, which led to a decoupling of the borrowing and saving rates: at the end of the 1990s credit granted by the banking system grew at an annual rate between 7% and 10%, while the saving rate actually declined.

Even as the 2007 US financial crisis started to spread to other developed countries, a budget surplus and healthy GDP growth made Spain look superficially robust. However, that impression proved to be misleading.

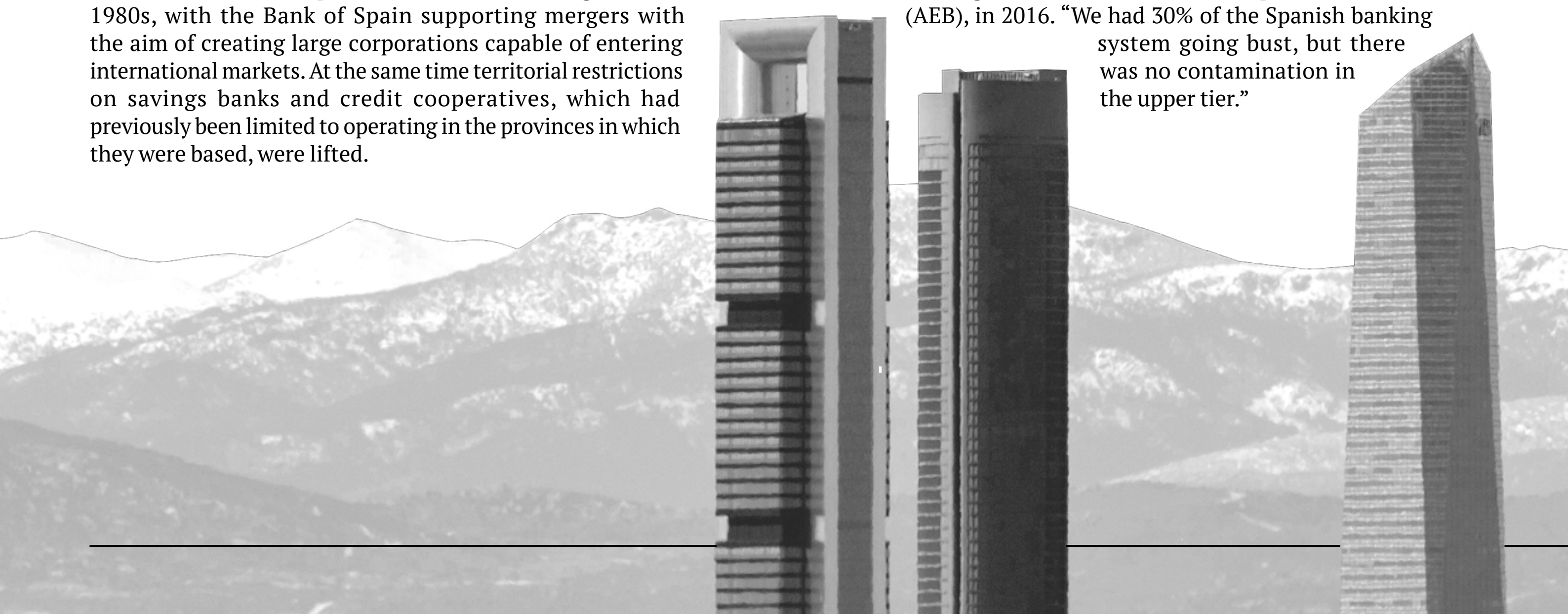
As Hernández de Cos himself pointed out in a speech at a seminar on sustainable finance in June 2019, Spanish banks were very much part of the problem.

"Spain's banking system was clearly excessively large at the time, over-concentrated on lending funds to real estate and residential construction activities and highly dependent on international wholesale financing," he stated.

In June 2009 the Spanish government initiated a bailout and reconstruction programme for the Spanish banking sector, the Fondo de Reestructuración Ordenada Bancaria (FROB). FROB was funded with €99bn and tasked with incentivising and facilitating mergers between the nation's savings banks or 'cajas', with the ultimate aim of stabilising the sector. By the end of 2012 dozens of banks had been merged, then bailed out and nationalised, in a process that ultimately cost taxpayers more than €42bn . One legacy of the process is Bankia, the result of the merger of seven different cajas and now the fourth largest bank in Spain.

Spain's two biggest banks, Santander and the BBVA (Banco Bilbao Vizcaya Argentaria) had been more prudent than some other lenders. Perhaps more significantly their international exposure, particularly to emerging markets in Latin America, which were less affected by the crash, meant they were able to absorb what losses they suffered through their domestic mortgage and loan portfolios and continue to report a profit.

"International diversification is what saved the Spanish banking system," said José María Roldán, president and CEO of Spain's banking association Asociación Española de Banca (AEB), in 2016. "We had 30% of the Spanish banking system going bust, but there was no contamination in the upper tier."



Current strengths and weaknesses

Current AEB spokesperson José Luis Martínez is confident that the intense process of consolidation undertaken over the past 10 years has made the Spanish banking sector far more resilient.

"There were 45 entities before the crisis and we have reduced that number to 13," he points out. "The result of this process is banks with a commercial structure. These banks have capital ratios and levels of liquidity that exceed the objectives set out by the authorities, with efficiency ratios that exceed the European average."

Carbó-Valverde agrees that Spanish banks' relative efficiency compared with the EU average is a key strength, as are the diversification benefits of internationalisation – according to Martínez, Spanish banks now carry out more than half their activity beyond Spain's borders. However, Carbó-Valverde expresses some concerns:

"The close relationship between banking risk and sovereign risk is always a weakness in countries like Spain, Italy or Portugal," he comments. "Although the minimum capital requirements are comfortably met, Spain exhibits a relatively lower level of capitalisation than the EU average."

Martínez is keen to emphasise that the banking sector serves Spanish society well and that the 3% weight of banking activity in terms of GDP undervalues its importance to the economy.

"In Spain almost 70% of financing for SMEs is provided by banks," he points out. "Spanish banks offer more financial services than their European counterparts, both via physical branches and digitally, and at a lower price, given that three-quarters of banking services are free, something which is not true in the rest of Europe, according to a recent survey by Deloitte."

According to Carbó-Valverde, a strong tradition of relationship-based retail banking has been carried through from the old savings banks into the new post-merger banks and their competitors. This should be an advantage in dealing with the consequences of the current crisis.

"Spanish banks are active in reducing the problems of deprived households in difficulties in order to avoid foreclosures or other debt-related problems," he says. "Spanish firms are also highly dependent on bank funding and banks are now specialising even more in SME lending, trying to extend their relationship abilities to the corporate market segment."

Embracing technology

The search for efficiency and different ways to conduct business driven by a significant post-merger slimming down of branch networks has seen Spanish banks rapidly embrace technology in recent years.

In 2019 the BBVA's mobile banking app was recognised as the best worldwide by Forrester Research for the third year in a row, achieving a near-perfect score. Meanwhile, CaixaBank became the world's first bank to use facial recognition for cash withdrawals at ATMs without the need to use a PIN number.

Other innovations from the BBVA include Commerce 360, which allows SMEs to access data on customers' usage and habits for commercial purposes, as well as the first syndicated loan negotiated and completed using blockchain. Not to be outdone, in September 2019 Santander launched a $20m end-to-end blockchain bond.

Sustainability pioneers

Another area in which Spanish banks can claim to be setting the pace is in sustainability. As well as making a clear commitment to the pledges in the Paris Accord, the sector used the occasion of the 25th annual United Nations Summit on climate change, held in Madrid in December 2019, to launch an industry-wide sustainable finance initiative. The Centro de Finanzas Responsables y Sostenibles de España (Finresp), aims to help companies, especially SMEs, to adapt to the demands of a low-carbon future.

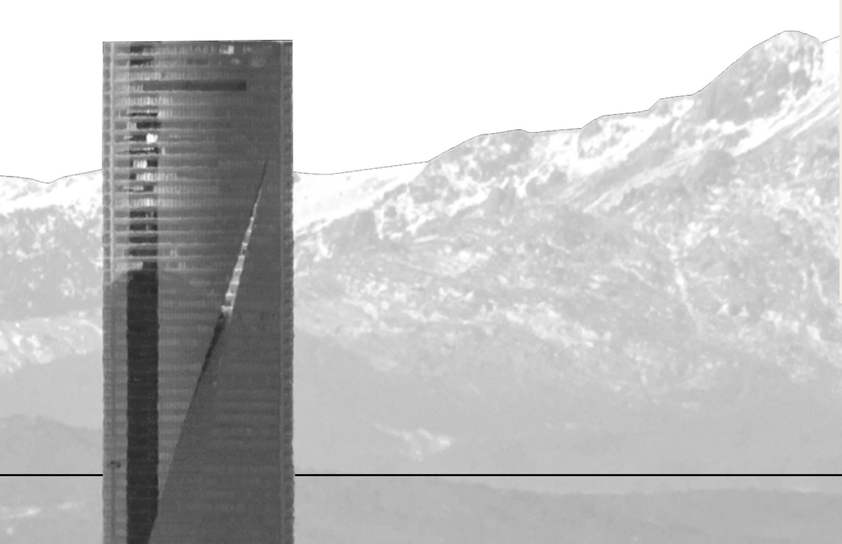
"Spanish banks consider sustainability in its widest sense as the medium- and long-term strategy to continue to support society," states Martínez.

The evidence backs him up, with four Spanish banks among the Top 25 in the global Dow Jones Sustainability Indices (DJSI), which takes into account economic, social and environmental impact, including Santander in the top spot. CB

SPAIN – KEY BANKING FACTS

- Number of banks: **12 banking groups make up 90% of the industry, with 52 private banks, two savings banks and 62 cooperative banks**
- People employed in the banking sector (2017): **192,600**
- Contribution to GDP: **approximately 3%**
- Credit to SMEs and households (2018): **€293bn**
- Deposits held (2018): **€1,061bn**
- Return on equity: (EBA data, December 2018): **8.37%**
- Non-performing loan ratio (2018): **3.74%**
- Green, social and sustainable bond issuance (2018): **€5.8bn (fourth largest by volume globally.)**

Sources: European Banking Federation, Statista, AEB spokesperson



CENTRAL BANK STIMULUS

How central banks reacted

With the global economy in shock, central banks were quick to act. Here we examine the possible consequences of their actions, both in the short and longer term.

As the shock waves from the COVID-19 pandemic sent asset prices into free fall and many industries effectively shut down, central banks acted swiftly with an aim to securing global financial stability. With few exceptions, central banks employed every measure available to them to keep markets afloat and banks lending, from providing liquidity to easing interest rates and engaging in currency swaps.

"There's a sort of rulebook, a book of instructions that is being followed, and pretty much every country is sticking to those rules where they can," comments Trevor Williams, former Chief Economist at Lloyds Bank Commercial Banking and Visiting Professor at the University of Derby.

Maintaining liquidity

The most urgent task was to ensure liquidity, both through open market operations and by spoken tally acting as a backstop should specific banks require it.

"Obviously there have been no cases yet of banks needing lender of last resort assistance, but central banks are standing ready to do that at a global level," says Professor Emilios Avgouleas, Chair of International Banking Law and Finance at the University of Edinburgh.

Avgouleas points out that the nature of the crisis meant central banks were freer to intervene and therefore did so more decisively than at the start of the 2008 financial crisis.

> **"Central banks acted very early, disregarded any cost, because simply put, in a pandemic there is no moral hazard."**
> Professor Emilios Avgouleas

"Central banks acted very early, disregarded any cost, disregarded any concerns about moral hazards, because simply put, in a pandemic there is no moral hazard," he explains.

In addition, says Avgouleas, regulatory reform over the past decade has helped put the financial sector in general in a much healthier position, preventing the sort of liquidity crunch and the solvency issues seen 12 years ago.

Interest rate cuts

Like many of its sister institutions worldwide, the Bank of England (BoE) was quick to cut its base rate, dropping it from 0.75% to 0.25% as the crisis loomed in early March and again, to 0.1%, after an unscheduled meeting just weeks later. However, as Williams points out, the BoE was in a similar position to most central banks in that with rates having been kept low ever since the 2008 crisis, the headroom to cut them was limited.

"The historic average for our bank rate is between 4.5 to 5%, so, clearly rates were already at historically low levels when they were cut," he adds.

In addition to dropping its base rate, the BoE made moves to ensure this actually translated to lower rates for real-world customers by offering increased funding to banks which upped their lending. Through its Term Funding Scheme with additional incentives for SMEs (TFSME) it began offering 'four-year funding of at least 10% of participant banks' stock of real economy lending at interest rates at, or very close to, Bank Rate', while providing additional funding to banks offering increased lending to SMEs, which it says are more likely to need the extra support.

QE

Quantitative easing (QE) may still often be described as an unconventional monetary policy, but given its widespread use in this crisis there can be little argument that it is becoming an established and important part of the central bank toolkit.

"There's a wall of money that has been thrown at this, just as was done in 2008-9," comments Williams.

"So another £200bn, adding to the £345bn stock of debt which the Bank of England already held. That equates to about 27.5% of GDP."

Central banks worldwide are following a similar approach, with ratings agency Fitch estimating global QE asset purchase could hit an eye-watering $6tn in 2020.

Richard Werner is Professor of Banking and Finance at De Montfort University, Leicester, and a past member of the European Central Bank (ECB) Shadow Council. Werner actually coined the term quantitative easing in an article in the Japanese newspaper *The Nikkei* in 1995, although he was referring to credit creation for GDP transactions as the solution, rather than mere asset purchases boosting financial markets without helping the economy – the kind of policies with which the term has become widely associated. He is concerned that observers and markets appear to be assuming that, as in 2008, the quantitative easing being enacted by central banks will not lead to inflation.

"It is too early to tell, but my initial assessment is that this time there are substantial differences such that inflation is indeed a serious concern, in contrast to post-2008," he comments.

His reasoning is that in the wake of the last crisis, bank credit creation, which is the bulk of the money supply, had come to a halt, and central bank money injections were directed at asset market transactions. This resulted in asset inflation but not in general inflation or currency weakening. Werner believes many experts lack a good understanding of why inflation was not an issue post-2008, thus they could be easily surprised at how events pan out this time around.

Reduced capital requirements

Capital requirements, which were raised in many jurisdictions as a key element of regulatory reforms enacted after the 2008 crisis, have been temporarily reduced by the BoE to ensure the flow of money from banks to businesses and households which need it. The Bank hopes this will support up to £190bn of bank lending to businesses in 2020, more than 13 times the net amount they lent in 2019.

Other central banks have taken a similar approach – in late April the ECB enacted what it called a 'targeted' easing of regulations. Meanwhile, the deferral of new international rules governing banks' capital requirements and disclosures under the Basel III standards was explicitly designed to 'provide additional operational capacity for banks and supervisors to respond to…the impact of the coronavirus disease on the global banking system', according to the Basel Committee.

Monetary financing

While not yet an explicit policy, with the US Fed buying treasury bonds, the BoE purchasing gilts and the ECB buying Eurozone bonds, arguably central banks have already enacted the even more controversial measure of monetary financing: purchasing sovereign debt to provide governments with money without the need to increase the tax burden on households and businesses. Avgouleas sees this is an inherently risky exercise.

"Granted this is not the 1930s and the pandemic is not the Weimar Republic, central banks are well capitalised," he admits. "But if they pursue monetary financing for a substantial amount of time, obviously there are going to be devaluations."

Avgouleas does not see excessive inflation as a serious risk and says some of these devaluations will be intentional in order to make national economies more competitive. However, he flags the danger of confidence in some national currencies dissipating and leaving the door open to alternatives, including digital currencies such as Bitcoin and Libra or some other new means of payment.

"It is obviously not the prevailing or the most likely scenario now, but if monetary financing goes on for two years and we have a spate of currency devaluations, especially in emerging markets, then the danger will become present and real, however remote and unlikely it looks right now," he suggests.

"Monetary policy by itself does not increase productivity, raise living standards or increase wealth."

Trevor Williams

CENTRAL BANK STIMULUS

Help for help's sake?

Williams suggests in some cases central banks have taken a blanket approach that has failed to target support appropriately and may inadvertently exacerbate existing problems by directing taxpayers' money into the pockets of businesses which should have been allowed to fail. He questions whether central banks should be purchasing junk bonds from companies which have grown fat on cheap debt over the past decade but are fundamentally weak.

"Effectively subsidising these businesses with taxpayers' money creates moral hazard issues and the potential for a backlash when it becomes clear that maybe some have gained more than others from the actions that have been taken by the central bank," he warns.

The need to constrain central bank power

While fully accepting the important and productive role central banks can potentially play in solving most economic problems facing us, Werner has concerns about the level of autonomy and power most central banks now enjoy.

"Central banks have the special privilege of being creators of money and also the supervisors of the banking system, which creates an even larger part of the money supply," he points out.

He suggests this can lead to 'regulatory moral hazard', since central banks are effectively rewarded after each successive crisis with more power and hence only benefit if they allow crises to occur.

"To end such problems, it will become necessary to end the independence of central banks," he argues. "They need to be made accountable to democratically elected assemblies, and in a meaningful way."

A different approach

Asked to highlight any notable differences in approach from central banks, Werner agrees with Williams that for most the only variable has been the speed of intervention, with the Fed leading the pack in both pace and aggression while the ECB has lagged behind.

The one central bank he suggests has stood out in recent years in terms of innovative measures is the central bank of Hungary, the Magyar Nemzeti Bank (MNB). "It has succeeded in improving fund flows to small and micro businesses and thus boosted GDP growth without inflation. I expect it do very well in this crisis also," he comments.

Werner believes SMEs are the key to the UK's recovery from the crisis and that ensuring ample and reliable funding for small businesses to invest in technology should be a priority. In his view the BoE's attempts to channel lending to SMEs through the high street banks will not be enough. Instead, a more radical solution is required.

"Since large banks want to deal with large customers, it is clear that only the establishment of not-for-profit community banks will solve this problem," he says.

Werner cites the example of Germany, where not-for-profit community banks form a significant element of the banking sector, accounting for 70% of all deposits and 80% of all banks, as evidence that such a model can sustain a strong economy and effective innovation. Their presence explains why the banking crisis of 2008 did not create a recession or higher unemployment in Germany. Now, stimulus measures can be channelled via these 1,500 small local banks to reach small firms faster.

Towards a new normal

While central banks have been quick and decisive in their intervention, how soon they will be able to withdraw that intervention is far from clear. Williams believes measures to ensure liquidity, such as the loosening of capital requirements and the provision of QE, will be the first steps towards a 'new normal'. However, he sees other measures such as near-zero interest rates potentially being around for much longer.

"Some countries haven't reversed them, 11 years on. Who's to argue that doesn't go on for another decade?"

Ultimately, says Williams, central bank measures have bought time for real reform of the way the global economy operates. However, such reform will need the intervention of politicians rather than of central bankers.

He concludes: "Monetary policy by itself does not increase productivity, raise living standards or increase wealth. We must know that before we begin to imagine that those outcomes are in the gift of central banks. They are not." CB

OUT OF CRISIS COMES CHANGE

Looking back to move forward

As we confront a pivotal moment in the evolution of the global economy, what can we learn from past crises about likely structural, regulatory and long-term economic effects?

When we talk about the last financial crisis we tend to refer to 2008, as if everything happened in the period of that one year. In reality, of course, the roots of the crisis go back much further (arguably to the turn of the Millennium and the repeal of the Glass-Steagall Act in the US), while some countries' economies still hadn't fully recovered more than a decade later.

This time, the onset of the crisis has been swift and decisive, yet it looks likely that the full consequences will take years to play out. So, what can we learn from past crises about what to expect for the financial sector and the wider economy in the coming months and years?

An exogenous shock

Professor Emilios Avgouleas, Chair in International Banking Law and Finance at the University of Edinburgh, points out that the scenario today is very different from 2008: "This time we have a different type of crisis because it's the real economy that is suffering and will probably transfer the pain to the financial sector, rather than the financial sector ailing and transmitting the ailment to the real economy in terms of drop in output."

"According to the Bank of England's own estimates, the pandemic has caused the fastest and deepest recession since the Great Frost in 1709."

That drop in output derives from a shutting down of many parts of the economy that has parallels only in other pandemics like the 1918 Spanish flu, which infected a third of the world's population, killing somewhere between 20 million and 50 million people.

In fact, by some standards the situation we find ourselves in is almost without precedent. According to the Bank of England's own estimates, output will have dropped by nearly 30% in the first half of 2020, causing the fastest and deepest recession since the Great Frost in 1709.

So, while it may be of some comfort to banks to feel part of the potential solution rather than, as in 2008, part of the problem, the scale of the issues we face cannot be underestimated.

A tale of two wars

Professor Martin Daunton, Emeritus Professor of Economic History at the University of Cambridge, draws parallels with major wars in terms of the level of national debt being generated.

"Obviously, wars are different in that you have an awful lot of destruction of capital and the economy's running at full tilt. Whereas now, we don't have loss of capital but the economy's not running at full tilt."

However, what the world wars did have in common with the current crisis is huge levels of debt.

"Thinking about the end of the First World War, we had a debt to GDP ratio of over 200," he comments. "Debt wasn't paid off because you had low growth, high interest rates. So that debt continued to overhang through to the Thirties."

Infamously, in Germany that debt was partly addressed through simply printing money, leading to hyperinflation, middle-class resentment and the rise of the Nazis.

OUT OF CRISIS COMES CHANGE

In contrast, at the end of the Second World War interest rates were low, inflation was modest, and there was a rapid increase in economic growth. As a result, the burden of the national debt was not a serious issue. The crucial point now is to ensure that inflation remains modest, and above all that growth is stimulated.

"I think that has to be an active government policy and it has to be a new form of growth that will deal with some of the issues such as climate change, but also the growing inequality that was created in part by the reaction to the 2008 crisis. The result was a savings glut by the rich, which encouraged over-reliance on leverage for corporate finance, and debt-financed consumption by the rest."

A new New Deal

Although he accepts that quantitative easing was necessary in the wake of 2008, Daunton believes it ultimately led to asset appreciation and growing inequality. This time around, he says, QE needs to be combined with fiscal stimulus to encourage the restructuring of the economy around a form of growth that is more inclusive.

"The relative strength and resilience of the US and German economies over the past 200 years has been based on their decentralised banking systems."

Professor Richard Werner

Daunton sees growing levels of concentration in banking and other industries over the past decade as an issue, citing Jonathan Tepper and Denise Hearn's book *The Myth of Capitalism*, which questions the renewed cartelisation that has occurred in many sectors.

"That comes back to the Great Depression," he says. "The reaction by Roosevelt was to say we need to break down the great cartels and trusts, we need to have a proper policy of competition, and we need greater equality to boost consumption and investment."

He points out that although the New Deal, along with Keynesian policies in the UK and increased international cooperation, eventually paved the way for a prolonged period of growth after the Second World War, the immediate reaction to the Great Depression was economic nationalism.

"That's what I see as one of the big dangers now," says Daunton. "There's nothing like the G20 response in London in 2009 under Gordon Brown because we've got the problem of Trump."

Smaller is better?

Professor Richard Werner, Professor of Banking and Finance at De Montfort University, Leicester, and a past member of the European Central Bank (ECB) Shadow Council, agrees with Daunton that the trend towards fewer, bigger banks in many markets is a concern. He says it is the large banks which receive government bailouts, while small banks are forced out of business, including via low interest rate policies and overbearing regulatory burdens.

"The relative strength and resilience of the US and German economies over the past 200 years, despite wars and crises, has been based on their decentralised banking systems consisting of thousands of small banks," says Werner.

He points to China as a country which has successfully switched from the highly centralised Soviet banking model to the establishment of thousands of small banks over the past 40 years, resulting in double-digit growth and propelling China to the position of global economic power.

Werner advocates the use of public funds through the British Business Bank to rapidly build a network of not-for-profit community banks. These would act as a means to efficiently inject capital into the small businesses which account for most jobs and form the backbone of successful economies, while at the same time helping to create a more resilient financial sector.

Trouble brewing in the Eurozone

"This current crisis, which is obviously an exogenous shock, has come at a time where you might have imagined there could have been an endogenous shock," comments Daunton. "I think that's what makes it so dangerous."

He sees the current crisis as a significant threat for the Eurozone.

"The Eurozone was never an optimal currency area," he says. "And you needed to have a banking union and a fiscal union that was going to work, neither of which was going to be particularly feasible. And we're seeing that now, at the time of writing, with the 'coronabond' discussion."

Daunton highlights the intervention of the so-called 'frugal four' – Austria, Denmark, Sweden and the Netherlands – which advocated retaining an EU budget of no more than 1% of GDP (equivalent to a national versus budget ratio of between 45 and 50 to 1) prior to the onset of the crisis.

"I think that really has come home to roost with the 'coronabond'," remarks Daunton. "And I think the European Union is in existential crisis now."

Further reform needed

While recognising the important changes enacted since 2008, Avgouleas believes the banking sector is still vulnerable.

"Banks are much better capitalised now, they are much better regulated, they operate under stricter frameworks, their lending is much more conservative. But whether they have provided for an economic crisis of this magnitude, I think probably not," he says.

He views the actual causes of debt in the current crisis as structural and systemic, in that reforms did not go far enough and central banks' policies created a surplus of liquidity that was ultimately unhealthy in divorcing some market valuations from the real economy.

"The reforms this time cannot just be more regulation. They have to be structural. Capital would have to be incentivised to take long-term risks," he says.

At the same time, he would like to see measures put in place to control leverage in order to make the system as a whole more stable.

"This debt-fuelled growth is a strategy that is unsustainable in the long run," he states.

A fresh model for markets

Another area where Avgouleas sees the need for structural change is in democratising markets: how they operate, what they do, who runs them and who can access them.

"That means, to some extent, cutting out the middleman and giving more control over investment and capital to the end investor," he says.

He sees an opportunity for a new technological paradigm, using AI-powered platforms to remove what he sees as the current over-reliance on financial intermediaries, particularly large and powerful investment houses.

"That of course means fragmentation and smaller stakes but also lots of opportunities for the emergence of social market and green economy products," he points out.

Problems lurking in the shadows?

Most of the issues confronting us are highly visible, however, one of Avgouleas' key concerns is a problem that is more hidden: the unprecedented levels of leverage in terms of private debt in the unregulated corporate loans sector, or what he calls 'the shadow of shadow banking'.

"We have this very worrying phenomenon of big corporate lending to corporate, and one wonders what's going to happen when the music stops," he remarks.

While this activity currently lies outside their remit, Avgouleas believes central banks and regulators should be paying close attention to what is essentially a form of credit expansion.

"Obviously it's outside the regulatory perimeter, but they cannot totally absolve themselves of responsibility because it will have an impact eventually," he says.

The risk is that, should a corporate entity default on a short-term loan to another corporate, the second business could default on its own longer-term loans to a bank. According to Avgouleas, a spate of such defaults could threaten the stability of the financial system itself.

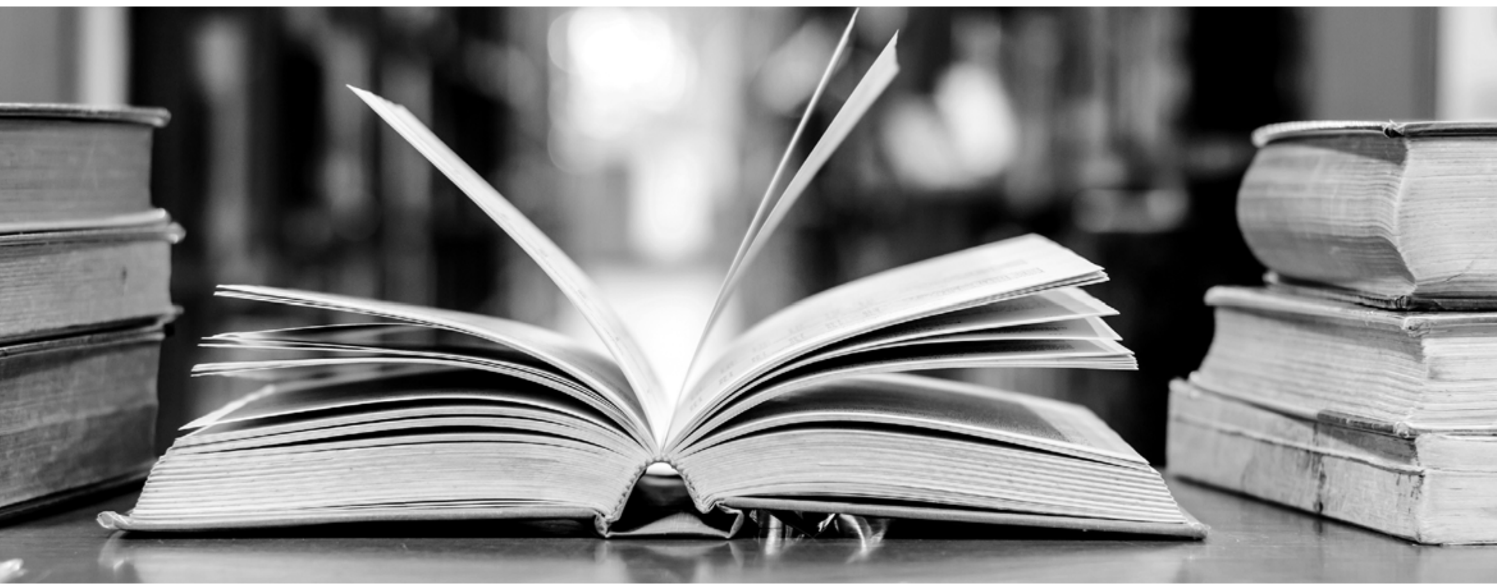
"Right now, the threat doesn't show because we are still in a phase where there is a surplus of liquidity, but if all the liquidity enhancement programmes central banks have in place are withdrawn one day, one wonders what's going to happen. So the sooner regulators move and put controls on that activity, the better."

From crisis comes opportunity

While there are plenty of causes for concern, there is also a sense that such a decisive turn of events, occurring at a time when uncertainty was becoming a buzzword, presents the opportunity for more radical change than happened in the wake of the last financial crisis.

Daunton sees this as an opportunity to redress a structural change in the economy that has actually been exacerbated since 2008: the growing gap between those who wield, and profit from, 'intangible' capital and the increasing precariousness of the rest of society.

He concludes: "I think what this crisis has exposed is that precarity. And how do we try to create something that is more socially resilient? Because we're bound to have more of these pandemics, we've got to think about what sort of growth we want." CB



CATALYST FOR CHANGE

Reimagining banking

How can the financial sector, from traditional banks to FinTechs and challenger brands, use the pandemic as an opportunity to reinvent banking?

Before COVID-19, most banks and credit unions were stronger than at any period since the 2008 crash, yet the reputation of the financial sector with the general public remained in the doldrums. While the economic crisis precipitated by the pandemic is clearly a threat, it could also act as an opportunity to revitalise the sector, both by building a new 'social contract' between banks and society and by accelerating the trend towards digitalisation.

An inflection point for radical change?

Jesse Griffiths is CEO of the Finance Innovation Lab. It works with entrepreneurs, campaigners and mainstream professionals to pursue a financial system that is 'democratic, responsible and fair'. He sees the pandemic as an inflection point that will mark a radical shift.

> **"Innovation is occurring faster. Ideas are coming to market quicker. And we should expect this to be the case and welcome it."**
> Trevor Williams

"The scale of the economic changes the current crisis will cause will inevitably dramatically reshape the financial sector," he says. "A much greater involvement for the state, a rapid acceleration of the shift to digitalisation, and a reliance on the banking sector to keep many businesses afloat is already showing how major this change is likely to be."

Griffiths quotes the 'Build Back Better' mantra first defined and used officially in the UN's Sendai Framework for Disaster Risk Reduction in 2015.

"Every change of this scale provides opportunities to build a much better banking system that puts people and planet first," he says.

A new social contract between banks and society

Trevor Williams, former Chief Economist at Lloyds Bank Commercial Banking and Visiting Professor at the University of Derby, believes banks would do well to go back to first principles.

"Banking is essentially an intermediation between those with capital and those without who want to borrow," he says. "You will affect the lives of everyone and society as a whole just by facilitating the process in which this is done."

He points out that the 2008 financial crash largely resulted from banks forgetting that this was their role.

"They started to think they could act independently outside of this process and magic money up by the creation of fancy financial assets. And the harsh lesson was they couldn't. They were an intermediary and that's what they should focus on."

Griffiths, meanwhile, points out that the reputation of banks was laid low among the general public by the global financial crisis. In order to keep their reputation intact this time, banks need to work hard to ensure their response to the economic fallout does not further erode trust.

"One critical way to do that is to get serious about putting purpose at their core, beyond business models and strategy, to reach the deeper levels of culture, incentives and power dynamics."

He cites banks' ability to rapidly shift out of financing fossil fuels as a litmus test for this commitment to purpose.

Delivering smarter

Griffiths points out that the transition to a data-driven future was already getting under way in finance. He cited examples including the Bank of England's consulting on the introduction of a central bank digital currency, along with the Financial Conduct Authority's (FCA) consulting on the extension of the Open Banking model into Open Finance by applying it to savings, mortgages, lending and investments. He sees the pandemic as a catalyst for this change.

Williams highlights the issue of legacy IT, which has long been a barrier to innovation in the financial sector. The need to stay operational makes the wholesale replacement of infrastructure impractical, with the result that technology is often employed simply to enable a patchwork of old and new systems to communicate. However, with disruption already coming from external forces, many banks have seized the opportunity to innovate.

"At points of inflection it's always an opportunity to trial new things and get them to market quicker and I think we've already seen that," says Williams. "Innovation is occurring faster. Ideas are coming to market quicker. And we should expect this to be the case and welcome it."

Griffiths agrees: "Our team has repeatedly heard how lockdown has meant that banks can undertake in a matter of months a 'digital transformation' that they had thought would take years."

Where FinTech can win

Much innovation has certainly taken place in a very short space of time, particularly in terms of digital interaction with the end customer. However, as Williams points out, there is still a huge space for technology to create efficiencies in the intermediation process itself, thereby reducing transaction costs and providing the potential for increased profit.

"It's all about data. About how you mine it and how you use it. So the tech in this space has a long way to go and there's lots of potential to continue to increase efficiency and reduce cost."

Williams sees this as where FinTech will have a key role, both in competition with traditional financial institutions and in partnership with them.

"The relationship between these FinTech firms and the traditional players will overlap. Sometimes they'll be competitors, sometimes they'll actually be helping the banks to be a bit smarter, sometimes they'll cooperate and collaborate," he comments.

Griffiths recognises that data is the key to the future of the financial sector. However, he emphasises that the fundamental question is not whether banks are going digital, but for what purpose?

"Data-driven finance will only contribute to a positive change in our lives if we put social and environmental purpose first, ensure wide participation, including the third sector, in its development, and if policy makers take care to evaluate this major new experiment and make sure the policy framework helps to rebalance power in the market," he says.

Computer says 'no', bank says 'yes'?

Williams agrees that banks have an important social role to play. He feels that an over-reliance on technology, particularly in assessing creditworthiness, can sometimes get in the way, leaving no discretionary power to bankers themselves.

"I like AI in terms of understanding markets, but I don't think it should be used without recourse to human intervention," he comments. "You still need to understand the customers. Who they are. What they are. What their motivations are."

He cites the banker's adage that you're not lending to the business, you're lending to the person running the business as being more important than ever in such uncertain times.

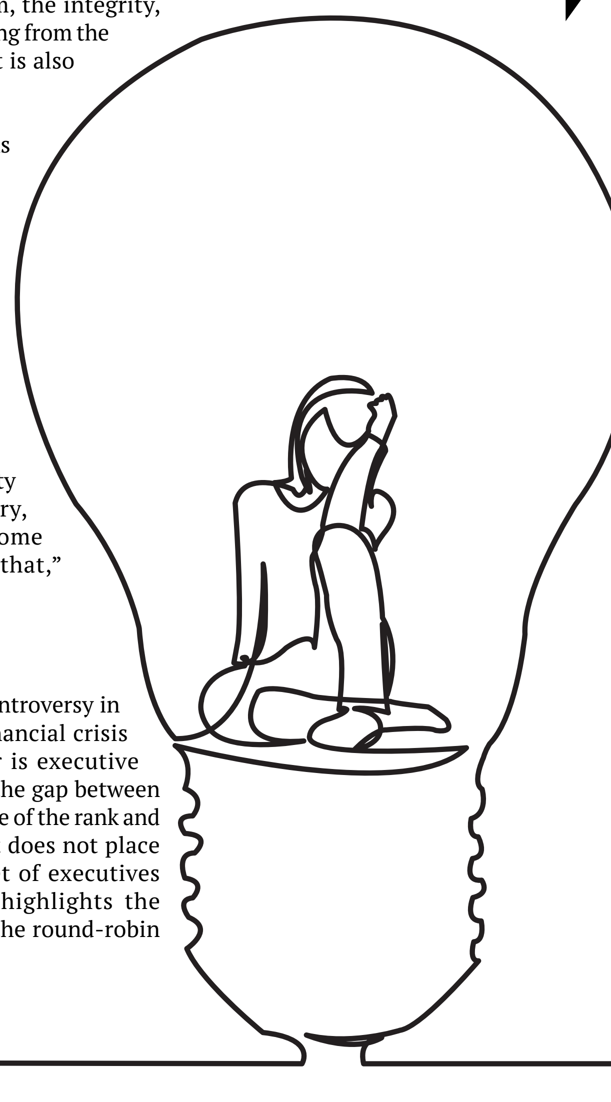
"What is the enthusiasm, the integrity, the vision, the drive coming from the people that own it? That is also important," he explains.

Williams feels that banks should throw away the rulebook that prescribes decision-making via fixed thresholds, where necessary taking a hit on their balance sheet to support those needing short-term help in order to thrive in the long run.

"We need that community touch. And, if necessary, banks should forego some profits in order to do that," he says.

Closing the earnings gap

One issue that caused controversy in the wake of the 2008 financial crisis and continues to linger is executive pay. Williams feels that the gap between C-suite earnings and those of the rank and file is a real concern but does not place all the blame at the feet of executives themselves. While he highlights the issues of what he calls 'the round-robin



CATALYST FOR CHANGE

of remuneration committees' he also contends that the flooding of the market with cheap credit over the past decade has had unintended consequences in this respect.

"I think it's a result of having too many assets thrown at the organisation by central banks," he comments. "It's not the fault of executives that they earn so much, it's the fault of the system that allows them to be able to grab on to the gains of other businesses."

A bankless future?

Williams makes the point that technology potentially presents an existential threat to traditional banking.

"I don't think banks will necessarily survive forever. I think this intermediation between borrowers and savers will end when trust is not dependent on familiarity and relationships and links to governments and institutions that say they're safe," he comments.

He sees blockchain and quantum computing being put to use to create a 100% verifiable, unhackable, unbreakable system that enables the safe and portable flow of financial data.

"What I mean practically by that is a system whereby you can easily change your bank account from holder to holder. Every transaction you've ever done. All your credit ratings, it's just transferred."

Williams says inertia is a key reason why customers stick with a bank long term and that with barriers to changing removed, customers would switch banks as easily as they switch energy providers. He accepts that such a scenario would require regulatory change and is still probably a long way off but believes that once it arrives, the traditional banking model will be completely undermined.

Reimagining management and culture

Dr Keivan Zokaei is a partner at International Lean & Business Transformation Consultancy SA Partners LLP. He believes categorically that we are confronting a moment of major change.

"I think this is a defining moment in the history of business and therefore it's going to have a big impact on management and management practices," he says.

Zokaei sees the crisis as a trial by fire for businesses, with those still structured around a traditional 'command and control' style struggling to adapt as enforced remote working kicked in almost overnight.

"If you always had a culture of controlling, even if it's subtly, through KPIs, through targets, through measures, it's very top down," he says. "Now that is pretty much out of the window."

In contrast, businesses which already have an established culture of devolved decision-making and problem-solving are thriving, because they are able to adapt organically to the demands of the new environment.

While the impact of the pandemic on the working environment of most financial institutions has been dramatic, Zokaei insists long-term solutions will not come from large-scale transformation.

"Change is often seen as discontinuous improvement projects. But we know those top-down implemented projects often don't really stick in reality, because they're not 100% aligned with the day-to-day operation of the organisation at the coalface."

Instead, change needs to happen incrementally. However, he has no doubt that the pandemic will ultimately trigger significant change in the industry. Some will benefit, while others will be left behind.

"Change needs a catalyst or a burning platform, or a defining moment like this. When things like COVID-19 happen, they separate the wheat from the chaff," he says. "The stakes are very high at the moment, this is the time when if you didn't do it, a natural selection will occur." CB

CATALYST FOR CHANGE

Adapt to thrive

Could a culture of continuous improvement provide financial institutions with a more robust defence mechanism to adjust to an uncertain future?

Dr Keivan Zokaei, partner at International Lean & Business Transformation Consultancy SA Partners LLP, believes a properly embedded culture of continuous improvement (CI) is fundamental for businesses to survive and thrive.

"I am talking about companies where a CI system is the way they work, rather than a standalone tool for reducing waste or solving an immediate failure," he emphasises.

Zokaei claims that when companies put effort into engaging staff and aligning culture with organisational challenges it creates a robust defence mechanism, which effectively acts like a vaccine against unexpected events. Countermeasures are identified and applied by frontline teams who are best placed to understand the issues and adapt existing capabilities.

"It requires investment in people's problem-solving capability and systematic weekly time and resources to resolve the issues," says Zokaei. "More importantly, it means giving frontline and middle management the licence to experiment and operate."

This becomes an important currency for the organisation to adapt effectively to change. All-encompassing, high-risk projects are avoided. Instead, leaders encourage and coach an incremental mindset where small change is valued and failure, normally of low risk, is seen as a chance to learn and improve.

Zokaei highlights the example of a company for which the threat of Brexit motivated detailed scenario planning for potential disruption to its supply chain. When the COVID-19 crisis hit, the firm was able to enact protocols originally intended for the event of a hard Brexit to ensure continuity.

"They had already worked with their suppliers in case of disruption, so they put those plans into action," he says. "They didn't need to see or to tell them what to do, everybody was already geared up to act."

The result has been not only the ability to continue business as usual but the opportunity to gain market share as other companies struggle to cope with the crisis.

"They have grown around 30%, 17-18% of which is a direct result of opportunistic business resulting from COVID-19," says Zokaei.

A key issue during the crisis has been the sudden need to adapt to remote working. Zokaei cites a leading financial services organisation which made the decision even pre-lockdown to close their offices worldwide and shift to remote working.

With the whole workforce now operating remotely, the business used its established CI management system, including robust, virtual, visual management boards, cascaded KPIs and regular problem-solving huddles, to help everyone remain focused on what mattered most to their customers.

"A lot of companies have visual management boards that have been implemented by consultants on behalf of senior executives," says Zokaei. "The difference here was that it was done by people for people. That creates a very engaged workforce that pulls together in times of crisis."

> **"This is going to be the new normal, and traditional companies that do not adapt will fade away quickly."**
>
> Dr Kevin Zokaei,
> SA Partners LLP

Years of investing in people meant that the 'doers' knew exactly what needed to be done and were trusted to adapt operations to customers' rapidly changing needs at pace.

"The frontline analysts and customer-facing agents did not need to wait for the top to first understand the change and then design the right recipe for the customer," points out Zokaei.

The role of senior management was instead to protect and enable the middle and front line by supporting team management and problem-solving.

"This may be the biggest lesson coronavirus has to teach us," says Zokaei. "To let go and be prepared to live with our vulnerability, embracing change as the only constant. This is going to be the new normal, and traditional companies that do not adapt will fade away quickly." CB

BANGOR BUSINESS SCHOOL

Bank lending, land and inequality

The peculiar dispersion of land values seen in the UK is rooted in the relationship between valuation and bank lending, argues Dr Rhys ap Gwilym.

Over recent decades, a massive increase in banks' mortgage lending has re-established land as the primary store of wealth in the UK and many other developed economies. At the same time, wealth inequality within these economies has increased to levels not seen since the Second World War.

Recent work completed by Bangor University[1] on behalf of the Welsh government (ap Gwilym et al 2020) sheds light on the significance of land as a store of wealth and on the links between land and inequality. The work concludes that residential land values in Wales account for 48% of total property values – with the remaining 52% accounted for by the buildings located on the land. This is significantly lower than the equivalent figure of 70% for the UK (ONS 2019), providing evidence that land wealth is disproportionately concentrated in more affluent areas of the UK.

The methodology of the Bangor study allows for a granular assessment of land values, which is not available in the normally used Office for National Statistics (ONS) data. This intricate appraisal shows a vast variability of land values even within small geographical areas. The study estimates that the average value of residential land in the most affluent neighbourhood in Wales is £2,589 per square metre. At the other extreme, 0.9% of all neighbourhoods have negative land values. That is, the market price of a house built on an average piece of land in one of these locations would be less than the construction cost of the house.

Unsurprisingly, the most expensive land in Wales is found in concentrated pockets in affluent suburbs of the capital, Cardiff, and in holiday home hotspots such as Tenby, Abersoch and Newport (Pembs.). The cheapest land is found almost exclusively in the swathe of de-industrialised communities in the South Wales coalfield, as can be seen in Figure 1.

Why has this peculiar dispersion of land values developed? We argue this lies with the relationship between land valuation and bank lending. The traditional economics textbook explanation of the role of banks is to gather funds from households with excess liquidity and channel that money into productive investments, usually in the business sector. Since the 2008 financial crisis, many have suggested this view of the banking sector as highly contrived and divorced from reality. The crisis highlighted the growing importance of lending within the financial sector, but also the growing importance of mortgage lending to banks. Mortgage lending has come to dominate bank lending across developed countries over recent decades. For example, in 2016, mortgage loans represented 67% of all loans to non-financial private sector in the UK, and 63% in the USA (see Jordà-Schularick-Taylor Macrohistory Database).

> **"The proportion of UK net worth accounted for by land swelled from 38% in 1995 to 58% in 2018."**

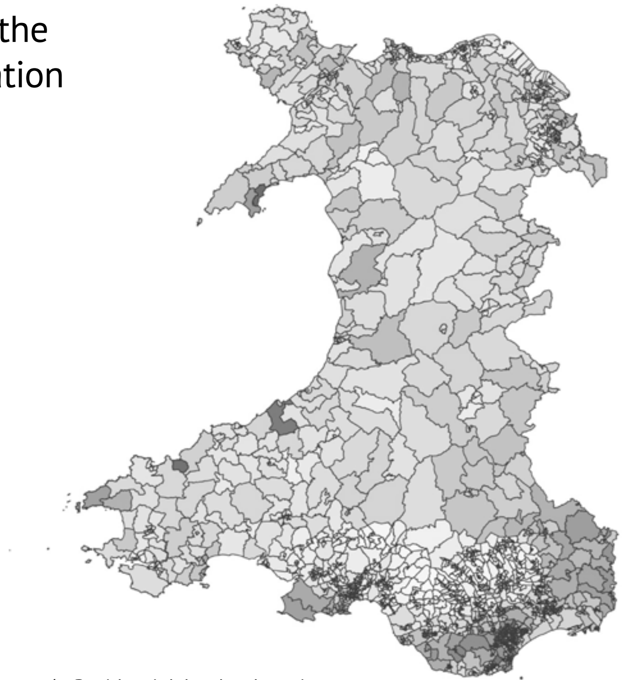


Figure 1: Residential land values in Wales (Darker shades represent higher land values per metre square of residential property). Source: ap Gwilym et al (2020)

The increasing importance of mortgage lending belies the fact that housebuilding has not increased significantly in most countries. Indeed in the UK, housebuilding over the past decade has been at its lowest level since the Second World War. As a result, the vast majority of mortgages are not funding new building projects, but rather have been used for the transfer of existing buildings and, crucially, the transfer of land. This increase in bank lending to fund the purchase of land has led to a significant increase in land prices, and the corresponding increase in the importance of land as a store of wealth.

This process is amplified as land, of course, is in fixed supply. Hence the value of land is driven by demand, and in this the banking sector plays a key role. Land and property have a central role in providing collateral for bank loans, and so lower land values can lead to higher financing costs. Hakenes and Schnabel (2010)[2], for example, show how moral hazard in financial markets impinges more severely in poorer regions than in regions with richer endowments. This process has also been recognised by financial regulators with Adair Turner, the former head of the UK's Financial Services Authority, long arguing the expansion of banks' mortgage business has come at the expense of investment in more productive areas of the economy. A case can be made that this trend in bank lending is helping to fuel levels of inequality that haven't been seen in developed economies since before the Second World War. Taken together, this evidence suggests that the mortgage-fuelled boom in land values that many developed economies have experienced over recent decades has been highly uneven across regions.

This outcome has wider economic and societal implications. Following the upheaval of the financial crisis and the ensuing period of austerity in many developed economies, economic inequality has re-emerged over the past decade as a key academic and political concern. While global inequalities have narrowed over recent decades, primarily as a result of the rapid economic growth experienced by China, inequalities within many developed nations have widened. Notably, inequality has increased on almost every measure in the United States, the UK and most other anglophone countries since the 1980s, reversing most of the gains in equality made during the period following the Second World War. For example, the central hypothesis of Thomas Piketty's (2013) influential work on modern-day inequality[3] is that over the past four decades the returns to capital, or accumulated wealth, have outstripped the overall rate of economic growth in developed economies. Those already endowed with significant wealth have seen their fortunes grow faster than those who rely on wages or salaries.

The nature of wealth has also changed over time. The re-emergence of land as the primary store of wealth has been particularly noticeable in the UK. Estimates from the ONS[4] show how the proportion of UK net worth accounted for by land swelled from 38% in 1995 to 58% in 2018. Therefore, the uneven growth in land values across regions might be expected to drive further economic divergence. At Bangor University we are continuing to explore this relationship. Ongoing research by ap Gwilym and Chrysovalantis Vasilakis is studying the extent to which the increased 'financialisation' of land via mortgage markets drives regional inequality. CB

1.Ap Gwilym, Rhys, Jones, Edward and Rogers, Helen (2019). 'A technical of the potential for a local land value tax in Wales', Cardiff: Welsh Government, GSR report number 17/2020. Available at: https://gov.wales/local-land-value-tax-technical-assessment. 2.Hakenes, H., & Schnabel, I. (2010). 'The Threat of Capital Drain: A Rationale for Regional Public Banks?', Journal of Institutional and Theoretical Economics (JITE), 166(4), 662-689. 3. Piketty T. (2013) Capital in the Twenty-First Century. Harvard University Press. 4.ONS UK balance sheet estimates (2019).

YOUNG BANKER OF THE YEAR

Ideas for our future

The 2020 Young Banker of the Year semi-finals might not have followed the usual format, but that didn't stop contestants impressing the judges as they competed, virtually, for a place in the final.

By the time lockdown was announced in the UK on 23 March, individuals, businesses, and other organisations were already adapting to remote social and business practices. The Institute, along with entrants of its Young Banker of the Year competition, was no exception.

The move from live to virtual inevitably brought new challenges for those involved, but the process changes enabled an additional three semi-finalists the opportunity to present their response to the question:

"What idea would you implement in your organisation to improve outcomes for customers, colleagues, and communities? Your idea should reflect your vision for the future of the industry and be consistent with the UN Principles for Responsible Banking."

Four of the 11 individuals who competed in the semi-finals have now been selected to go through to the virtual final in September: Charles Collis, HSBC; Matt Jennings, AIB; Tippie Malgwi, Arbuthnot Latham & Co. and Ana Xhemalaj, Barclays.

Following the semi-finals, contenders receive feedback on their presentation and have the opportunity to develop their proposals further before the last stage of the competition in September. At the final, the four contestants present their idea before an invited audience comprising representatives from banks, regulators and other industry organisations. The Young Banker of the Year is chosen by an illustrious panel of judges.

THE FINALISTS

CHARLES COLLIS
Global Commercial Banking Strategy Graduate, HSBC

"The competition is the perfect platform to champion sustainable and responsible solutions for customers across the banking industry and has driven me to think critically and innovatively about how we, as young professionals in the banking industry, have a responsibility to shape its future."

About Charles
Born in Sydney, Australia, it was during high school that Charles first developed a keen interest in financial markets and sustainability. Cross-cultural experiences, education and extensive travel have given him a unique perspective of the nuances that exist across global financial markets.

The idea
HSBC Shift is an app that will enable SME customers to seamlessly apply for, and obtain, an ESG score while providing advice on managing transition risk – the business risk associated with moving towards an environmentally and socially conscious economy.

The app will leverage HSBC's extensive access to numerous data sources to provide the most informed, data-led assessment of their customer's ESG score, and will tap into HSBCs existing partnerships with third-party sustainable analytics providers to enhance its ability to provide functional transition advice.

In doing so, it will provide SMEs with a signalling tool for attracting capital from sustainably attuned sources and add impetus to the assessment of how their current business model/operations are ESG-aligned.

MATT JENNINGS
Associate Director, Commercial Growth and Acquisition Funding, AIB

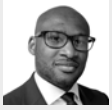
"This competition has given me a platform to explore how I can support businesses in achieving their goals whilst also shaping AIB's response to sustainability and climate change"

About Matt
After completing work experience with AIB in 2008, Matt rejoined the bank after graduating from Durham University to take up his first role in 2011. As Associate Director in the Commercial Growth and Acquisition Funding team, he supports UK-based, high-growth, lower-mid corporates. Although his role is multifaceted, his primary focus is on deal origination and execution in the private equity market.

The idea
The UN Principles for Responsible Banking were introduced to help banks align their business strategies with society's goals, one of which is to manage growth while reducing our impact on the environment.

Matt's entry involved creating 'AIB Green Spaces' to promote and support customer and community projects that reflect a shared vision of a sustainable future. The aim is to transform outside office space into urban green sites, including rooftop gardens, allotments and beekeeping sites. He also suggests that AIB collaborates with green office suppliers to support green ways of working.

As well as promoting biodiversity and staff well-being, these spaces will be used to engage with customers and communities to understand their green projects and support them with access to green funding.



TIPPIE MALGWI
Commercial Banker,
Arbuthnot Latham & Co.

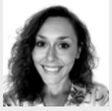
"The Principles for Responsible Banking aim to help the banking industry make a positive contribution to society and this is what I've set out to achieve with my proposal."

About Tippie
Tippie is a Commercial Banker servicing high-net-worth individuals, owner-managed businesses and charities and trusts with turnover of £1m-50m. He specialises in providing banking and investment services for Court of Protection professional firms catering for seriously injured and vulnerable persons.

He is also a Trustee for north west charity Disabled Living, which has provided information and advice about products, equipment and services for disabled people for over 120 years.

The idea
The Court of Protection (COP) appoints specialist lawyers to act on behalf of injured and vulnerable individuals with a remit to obtain any recompense due and secure access to high-quality medical care and rehabilitation. Unfortunately, these deputies can struggle to find banking partners that understand the industry and can comply with the stringent rules governing these appointments.

Tippie's proposal, the Serious Injury Life Care account (SILC account), aims to provide the deputy, the individual and any associated carers with a one-stop solution for their banking needs. The SILC account also incorporates a life care planning forecasting tool and investment management advice to enable them plan for the future.



ANA XHEMALAJ
Business Manager, Barclays

"I feel incredibly privileged to be part of the final four and have the opportunity to represent my firm via a proposal which marries two big passions of mine: finance and gender equality."

About Ana
Ana is a multilingual Business Manager with six years' Corporate Banking experience. She works closely with the various Corporate Lending and Portfolio teams and senior management across Europe, the Middle East and Asia to ensure implementation of strategic goals, operational and commercial effectiveness of the wider business. She is also an active member of the Barclays Citizenship and Sustainability Working Group.

The idea
Companies increasingly recognise the importance of enhancing gender equality within their organisational structures, but they often struggle on how to produce the desired long-term outcomes.

Ana's idea, the Gender Equality-linked Revolver Credit Facility (GEI RCF) aims to give clients the flexibility to withdraw funds in line with their day-to-day capital expenditure needs as well as the additional incentive by way of a discount to deliver on their strategic gender equality goals. This proposal will provide companies with a tangible framework, which currently does not exist, enabling them to incorporate gender equality into their traditional and existing financing structures. The enhanced knowledge gained from the framework will, she believes, inevitably diminish the scepticism around the long-term commercial benefits of achieving gender equality beyond any margin discount.

YOUNG BANKER OF THE YEAR

MEET THE RUNNERS-UP

JONATHAN BREWER
Relationship Director,
RBS/NatWest Group

About Jonathan
Jonathan joined NatWest on the retail leadership graduate scheme in 2011, working in a wide range of roles in Personal Banking. After conducting Branch Manager roles in Central London locations, Jonathan led 14 branches as a Local Director in North London before relocating to Manchester two years ago with his wife Rosie. As a Relationship Director, he now supports SMEs in the north west with revenues ranging from £10m-60m.

The idea
Having undertaken roles in Personal and Corporate Banking, Jonathan is aware of the devastating effects of fraud on both individuals and businesses. His response to the challenge investigates ways in which customers can report fraudulent transactions, and how banks can relay these messages to other institutions in a manner that supports customers at a time of great stress, with the aim of minimising losses.

While recent improvements such as confirmation of payee demonstrate progress, he believes that, until fraudulent transactions are eradicated, banks' approach to fraudulent situations must be continually reviewed. Improving channels of communication, both for customers and between institutions, would go a long way towards supporting that.

CHARLOTTE FINNEY
Community Banking Graduate,
Lloyds Banking Group

About Charlotte
Charlotte joined Lloyds Banking Group in 2018 as a Community Banking Graduate. Her placements across the Retail Banking Division have included roles in the branch network, as bank manager, and within the Managing Director's Office for Halifax Community Bank. She is currently in her final placement within the Business Optimisation Directorate.

Last year, Charlotte was delighted to achieved Chartered Banker status, having studied an Advanced Diploma in Banking and Leadership in a Digital Age.

The idea
Franklin Finance seeks to address financial illiteracy in young people by partnering with educational bodies. By equipping teachers with engaging lesson plans and resources to advocate sustainable financial habits, demand for human interaction in financial education will be accommodated.

These educational partnerships will be supported by an artificially intelligent robot, Franklin, accessed via app stores and Internet Explorer. Franklin helps to enrich a mundane financial curriculum to deliver robust learner journeys for those aged between five and 21.

Using machine learning, Franklin can identify knowledge gaps via classroom tests, challenges and tracking of the virtual currency feature. It automatically creates homework and tailored follow-up actions. As a result, it empowers and immerses families in their children's learning experience, stimulating their own financial acumen.

GABBIE GLABICKA
Personal Banker, Santander

About Gabbie
After studying business and accounting at college, Gabbie started her banking career with Santander. Having worked her way up from Cashier to Personal Banker, she now supports customers, students and lecturers in all areas of their personal finances. She gains satisfaction from seeing the positive impact of her efforts to help people make, save and protect their money.

The idea
Gabbie's idea, the 'Scam Booth', focuses on the growing prominence and authoritativeness of scams – and the millions of pounds lost across the financial services industry. The tool is designed to help educate the public using technology. The interactive aspect of this will teach the user to spot the scam themselves and keep them up to date with the most recent types of scams out there – in return decreasing the risk of that customer being scammed themselves. The Scam Booth aims to cater for all ages and learning styles because anyone can become a victim of fraud.

COLE HALLSWORTH
Personal Banker, RBS/NatWest Group

About Cole
Cole is a newly qualified Personal Banker and tech expert whose banking career was motivated by a strong desire to help the customer. Since joining RBS, now NatWest Group, his journey in banking has gone from strength to strength and he is currently working towards a CeMAP [Certificate in Mortgage Advice and Practice] qualification and diploma in banking.

The idea
Cole's Virtual Reality Banker uses existing technologies to provide a service that is accessible to all, including

those most vulnerable in society. It comprises three-stage biometric security, contains a virtual avatar assistant to help people navigate the banking application and the option to speak to a live stream banker. It aims to provide convenient access to everyday banking services from home – something that the COVID-19 situation has underlined the need for. The amalgamation of technologies that are already available will mean the cost of implementing this will be low and have a minimum impact to current services.

CEDRIC LEUNG
Graduate Analyst, Barclays

About Cedric
Cedric is passionate about using finance to create positive social change. In the past five years he has started a social enterprise that was recognised by the Clinton Foundation and hosted one of the world's largest social affairs youth conferences. Within a year of joining Barclays, he was nominated for external mentoring for outstanding contribution in diversity and inclusion and appointed as the Secretariat for the Sustainable Investment Forum within the Corporate and Investment Bank.

The idea
As an established lender, Barclays pledged to help channel more funds into green and sustainable projects. However, with returns in mind, banks are not always able to extend lending to their Corporate clients, especially when reaching maximum hold capacity in their portfolios.

Cedric's solution is to bring in external investors to bridge the funding gap. He proposes a fee-earning platform that connects large corporates of good financial health which require sustainable loans with investors from banks' retail and wealth businesses, with a mechanism similar to crowd-funding where investors invest in certain amounts of cash and receive a pro rata interest in return.

THOMAS ROBINSON
Card Payments Subject Matter Expert (SME), Starling Bank

About Thomas
Thomas is responsible for managing card payment products across customer, operational, technical and regulatory verticals. In his current role he has been key to the successful delivery of several high-profile internal cards projects. Since joining Starling in 2019 as a Supplier and Scheme Manager, he has also founded and led the bank's LGBTQ+ Network.

The idea
The Houseshare Account is a financial product for cohabiters who share financial responsibility for many aspects of their lives. It provides two or more customers with access to an account from which bills and services can be paid, goods can be bought and budgeting tools can be accessed. Additionally, third-party integrations through Starling's marketplace add value to customers' financial lives. In line with Starling' vision to be sustainable, this product promotes the pooling of resources, encouraging cohabiting customers to share items more readily, such as groceries, and reduce their carbon footprint. The technology behind the product is scalable and could, in future, be adapted to serve additional use cases, such as community groups.

NATHAN WILLIAMS
Business Readiness and Implementation Manager, Coutts & Co.

About Nathan
Nathan has worked in multiple data and analytics roles (including building Communities of Practice within NatWest Group), Global Payments and Credit Risk. He has also run his own coaching and tutoring practice since 2008. He is currently working on upskilling himself in the fields of emergent technology, such as artificial intelligence and robotic process automation, as well as deep learning.

The idea
ARIEL (Automated Robotic Intelligent Experiential Learning) would be the world's first digitally human financial educator, helping customers to manage their finances in a sustainable and responsible manner.

By linking the availability of financial education with the wide range of financial products available in the digital space, it could:

- Provide customised education and help on any product, process or concept for any type of financial services customer
- Refer customers to specialised help (with the assistance of the Open Banking platform to optimise choice) where advice or human assistance is required
- Offer empathetic, interactive customer journeys that reduce the carbon footprint of the banking industry and its customers alike
- Create a secure, trustworthy and transparent platform for a wide variety of banking and financial needs to be served, with exceptional governance, IT security and data privacy criteria.

Please check our website for more information about how to join September's live final virtually. CB

AGM 2020

Minutes of Annual General Meeting

HELD ON 25 JUNE 2020

Due to UK and Scottish Government restrictions and guidance on social distancing, the 145th Annual General Meeting of the Institute took place remotely via BrightTALK Link.

1. Minutes of the 144rd Annual General Meeting
The Minutes of the 144rd Annual General Meeting, which was held on 20 June 2019 in Edinburgh, were published in the Summer 2019 edition of *Chartered Banker* and were taken as read.

2. President's Address
Extracts from President Bill McCall's address are to be displayed on the Institute's website.

3. Annual Report
The 2019-2020 Annual Report had been made available on the Institute website in advance of the Meeting. The adoption of the Annual Report was proposed by the Chair and, subsequently, approved by the Meeting.

4. Annual Accounts
The adoption of the accounts was proposed by the Chair and, subsequently, approved by the Meeting.

5. Appointment of Auditor for 2020-2021
The Chair proposed the re-appointment of Messrs Chiene + Tait as the Institute's auditor and this was approved by the Meeting.

6. Update on Trustee Recruitment and Selection
The President reported that in March 2020, the Board of Trustees had decided that, in the light of the exceptional circumstances caused by the COVID-19 pandemic, the recruitment of new Trustees to join the Board at the AGM would be paused and reviewed later in the year. The Board believed that it would not be appropriate to proceed with recruitment at that time.

The President noted that he was very grateful to the three colleagues who had agreed to extend their Trusteeship until recruitment could be completed and new Trustees appointed:

- Susan Younger – Chair of Quality and Standards Committee
- Hugh McKay – Chair of Nominations Committee
- Brian McCrindle – Chair of Audit & Risk Committee.

The President advised that at the Institute's Board meeting on the 25 June, it had been agreed to proceed with the recruitment of new Trustees during the summer, with the aim of having them join the Board in December. A Special General Meeting would be convened to approve the appointments, with details to be communicated in due course.

The Chair further advised that there were no elections for office bearers this year and he would continue to serve as President for a further 12 months. Lynne Burns and Steve Pateman would also continue to serve as Vice-Presidents for the next year.

7. Any other business
As there was no further business the President concluded the formal business of the 145th Annual General Meeting of the Chartered Banker Institute and thanked Fellows and members present for their attendance and support.

PERSONAL DEVELOPMENT

The rules of the game

Since the global financial crisis, the long-established and profitable Crown Bank has struggled to remain competitive. How are the strategies and policies of its golden age viewed today?

The scenario

Although it weathered the 2008 financial crisis without needing government assistance, Crown Bank had to abandon policies which, until then, had been highly successful. The post-crisis decade saw a period of consolidation, with the board pursuing a conservative, 'safety first' policy, little innovation and minimal growth.

Many managers who work for Crown Bank look back on the period between 1985 and 2008 as a golden age. During those years, the bank was led by Gregory, its young CEO, who was described as 'brilliant', 'mercurial' and 'inspirational'. The late 1980s saw the bank fully embrace new technological developments in order to increase efficiency and reduce its operating costs significantly.

"The entire focus of the bank was on profit. Gregory once told an annual managers' conference that 'if anything is not profitable, we won't do it'."

The bank had a small board comprising only six directors, with four of them occupying non-executive roles. However, the non-executive directors maintained close business relationships with the bank, including a solicitor, an accountant and an insurance broker, all of whom introduced valuable business to Crown. In turn, the bank reciprocated by referring clients to the firms owned by the non-executive directors.

The directors were heavily dependent on Gregory's judgement. As a result, Gregory could adopt an autocratic approach, with the board effectively 'rubber-stamping' his proposals. The board didn't have any standing committees until 2008.

In the 1980s and 1990s the bank grew rapidly. Gregory insisted on an aggressive approach to sales and as the bank's spread between lending and funding interest rates was competitive (due to the low operating costs), much of the bank's profitability was built on substantial commission earnings from products such as payment protection insurance (PPI), endowment policies linked to residential mortgages and other insurance products.

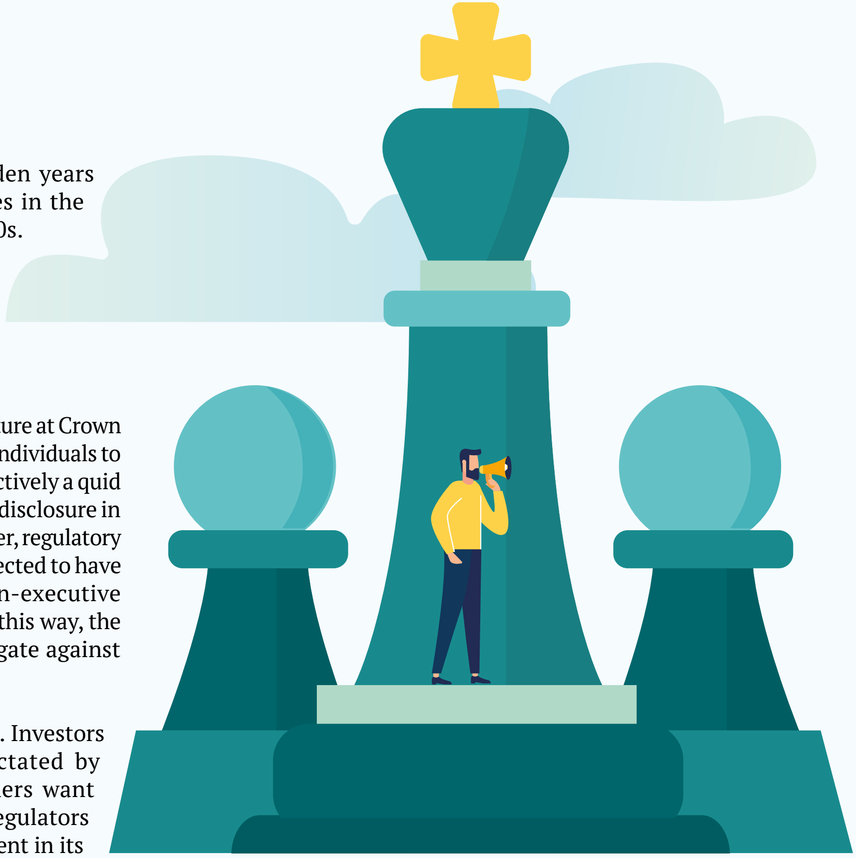
Throughout Gregory's tenure as CEO, the entire focus of the bank was on profit. Gregory once told an annual managers' conference that 'if anything is not profitable, we won't do it'. The bank was involved in supporting local societies, clubs and associations, but Gregory regarded this as an extension of the marketing budget, as he knew that business would come the way of the bank through carefully selected sponsorships and donations. The profit orientation was supported by the remuneration systems of the bank; sales were driven by targets, and those responsible for selling products and services were left in no doubt that they were judged on the volume of new accounts introduced and commissions earned from cross-sales. Few managers complained as they were paid well, with their bonuses driven by sales.

In the first decade of the 21st century, some negative effects of Gregory's strategies emerged. The bank was hit by a large number of compensation claims based on alleged mis-selling of PPI policies and borrowers who had been told to anticipate mortgage shortfalls brought about by under-performing endowment policies. The bank responded by contesting many of these claims, stating that it had fully disclosed the terms and conditions of the policies that had been sold, and blaming the representatives of the life assurance companies with which it partnered for not giving appropriate advice.

Many of the longer-serving managers of the bank are frustrated that Crown Bank cannot repeat its successes of the last two decades of the 20th century. Some attribute this to the board's inability to find a suitable successor to Gregory, who retired due to ill health in 2008 and was replaced by competent but lower-profile administrators. They also lament how the organisation is now managed. It has a bigger board, comprising people with less experience of the banking industry and a seemingly endless appetite for attending committees and producing lengthy, complicated reports for investors.

Consider how changes in the regulatory environment and expectations of stakeholders have made it no longer possible for banks such as Crown Bank to pursue strategies and policies that brought so much success under Gregory's tenure. By working through this scenario and developing your own solution before reading the author's analysis on the next page, you may claim up to one hour towards the professionalism and ethics component of the Institute's CPD scheme.

PERSONAL DEVELOPMENT



The analysis

The story of Crown Bank during its so-called golden years mirrors that of several banks and building societies in the period following the deregulation of the early 1980s. At that time, the traditional demarcation between different types of financial institutions broke down rapidly, and the players in the financial services sector were free to innovate as never before.

There was nothing unusual about the former board structure at Crown Bank. It was common for large organisations to appoint individuals to their boards with expectations of reciprocity. It was effectively a quid pro quo arrangement. This is still permissible if there is disclosure in relation to the level of independence of directors. However, regulatory expectations are now higher. Public companies are expected to have a board comprising a majority of independent non-executive directors, and to put in place standing committees. In this way, the institution has checks and balances in place to mitigate against governance failures.

Furthermore, stakeholders are now more demanding. Investors require more than the minimum disclosures dictated by law and the rules of the stock exchange. Customers want information that is relevant specifically to them. Regulators want to know that due regard is paid to risk management in its broadest sense.

It was also not unusual for a bank to be led by a powerful, autocratic individual such as Gregory. During his time as CEO, he presided over a successful organisation. But this begs the question as to the risks if such a powerful person proves not to be successful? There is some risk here, as the outcomes of strategies often do not crystallise for perhaps three to five years, and it is evident from the global financial crisis that some leaders had not been successful, or effective, except in the short-term.

Gregory was successful during his time with the bank because he focused on profit and could be reasonably confident that customers would obtain products and services to suit their needs. After all, most banking organisations were selling similar ranges of products. His approach differed little from the Friedman doctrine, which promotes maximising profits while staying within the 'rules of the game'. However, this may sit less comfortably in the current environment in which organisations are shifting towards an enlightened shareholder value approach.

> **"Fair treatment of customers is also the key to understanding why the sales-orientated model adopted by Crown Bank could not apply today."**

The 1980s was the first decade in which a large number of customers purchased endowment policies alongside their mortgages, or PPI policies alongside their loans. While not complex to banking practitioners, the products were being offered to customers who were used to relying on the judgements and advice of their bankers. Products and services were designed on a utilitarian basis, so that most features of most products suited the greater number of customers. The fact that endowment and PPI products, as just two examples, could result in detriment to customers meant that there had to be changes once the regulatory focus switched to fair treatment of customers.

Fair treatment of customers is also the key to understanding why the sales-orientated model adopted by Crown Bank could not apply today, and probably never will again. Those who are told to sell because it is their job to do so, and that they will be rewarded well on that basis, will do their best to generate results sought by their employer. This is a significant driver of conduct risk, because if rewards are dependent on sales volumes, inevitably some customers will buy products they do not need, more products than they need, or even not buy products that they do need. This does not mean that those who sold endowments or PPI were bad people, as many might quite reasonably have assumed that their employer's strategy had taken account of customer utility. The post-crisis re-evaluation of what and how banks should sell does not mean that sales targets are redundant, but that targets should be focused rather more on desirable customer outcomes instead of volumes of accounts generated. CB

Bob Souster is a Module Director, Professional Ethics, Chartered Banker MBA at Bangor University. Share your views on Bob's verdict about this ethical dilemma by joining the Chartered Banker LinkedIn discussion forum.

LESSONS LEARNED

Never let a crisis go to waste

Showing respect, being useful and choosing the right tone of voice were qualities that set brands apart at the beginning of the coronavirus pandemic. But will this catastrophe bring about lasting change to the relationships between businesses and their audiences?

In the early days of the crisis there were some fairly obvious examples of how brands really shouldn't behave. The way Wetherspoon's treated its staff; Sports Direct insisting workers carried on despite the risk; and easyJet paying out dividends after asking crew to take unpaid leave were just three examples – there were plenty more.

Tone-deaf marketers sending out reassuring emails to customers they'd ignored for years got rightly ribbed on Twitter. Ads on TV that showed charming couples on cruise liners suddenly looked deeply unappealing. Banking brands taking out full-page ads when their desperate small business customers couldn't reach them to ask for help looked worse than being merely out of touch.

Some brands of course got it right. And mostly through acts, not ads: Bacardi and other drinks makers turning distilleries into hand-sanitiser factories, Mercedes-AMG engineering ventilators, Asda donating £5m to food banks to support the vulnerable during the crisis, and other stores introducing dedicated shopping times for key workers. A few banks came out on the good side too. Lloyds suspended planned job cuts and acted fast to grant mortgage holidays and waive overdraft interest, along with Barclays. HSBC made sizeable donations to the British Red Cross and the National Emergencies Trust Coronavirus Appeal.

"Some brands of course got it right. And mostly through acts, not ads."

The crisis produced a global tide of home-produced video clips showing everything from opera-singing Italians on balconies to keep-fit ideas in kitchens involving washing-up liquid. Brands struggled to keep up with the memes and were rightly worried whether humour was even appropriate. The McDonald's 'distancing' ad in Brazil, which separated the golden arches logo, came in for some criticism, although *Private Eye*'s irreverent brand allowed the front cover to promise '48 sheets of toilet paper free with this issue' when shops were running out of essential supplies.

"The crisis showed there is a fine line for marketers between being useful and relevant or being seen to take advantage of a crisis."

Mostly, though, the crisis showed there is a fine line for marketers between being useful and relevant or being seen to take advantage of a disaster situation. Brands could learn a lot from the way most of the public responded to calls for responsible behaviour, showing a new-found courtesy and respect for others. Queuing shoppers stayed a polite two metres apart, and in the critical few weeks (with a few exceptions) people did as they were asked and protected the NHS by staying at home.

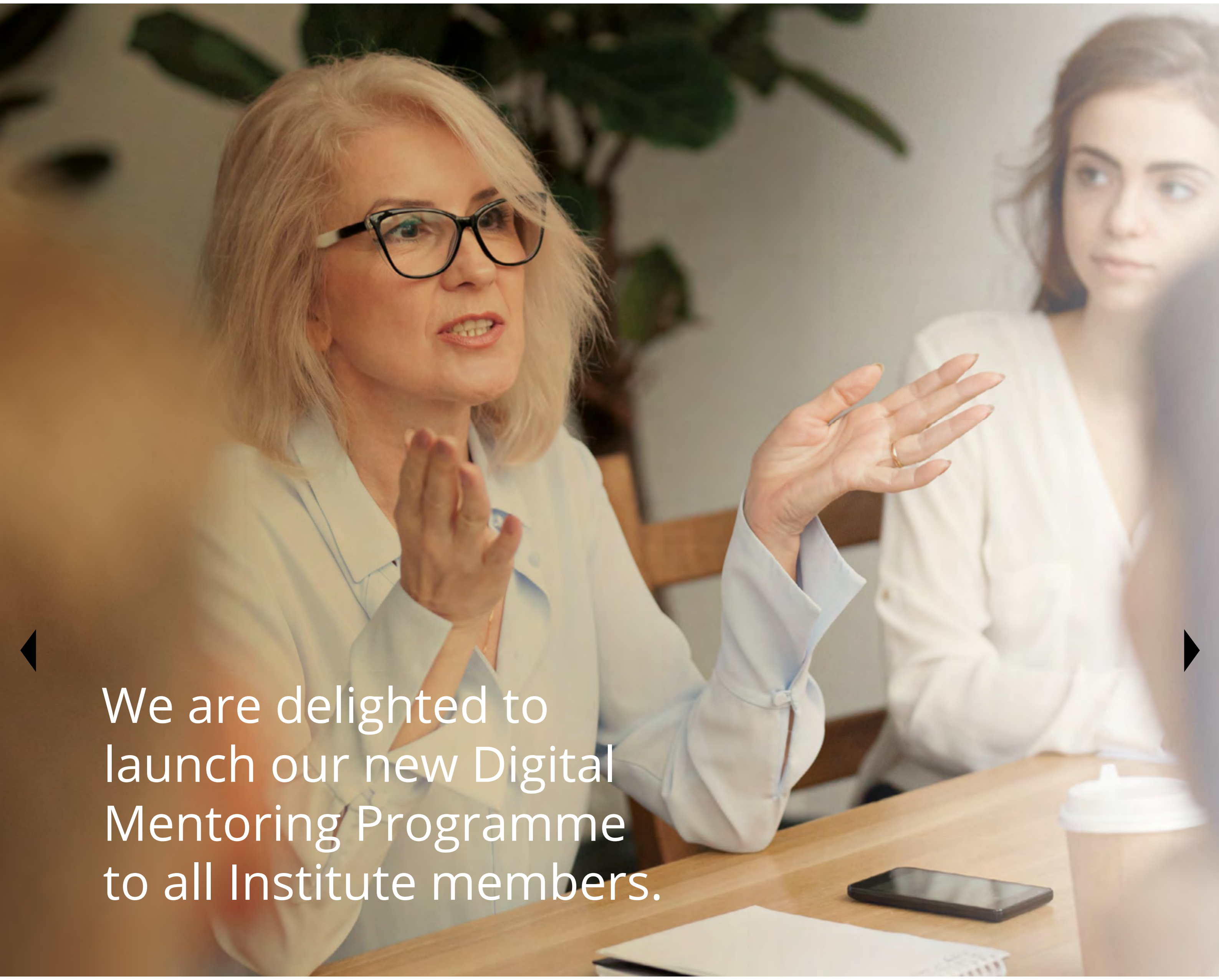
Brands that got it right behaved in a similar way. They were respectful of others and did their best to make sure they were being useful to the rest of society. Tone of voice is always important, but it matters far more when sensitivities are high; messaging should always be filtered for appropriateness and an empathetic understanding of how the audience may be feeling, especially in difficult times.

Most of our clients needed more communication not less, and we were able to offer our advice to a number of them in ways that let their brands increase their value by being more useful and relevant to their own customers – from SME lenders to emergency services.

It's still too early to say whether things have changed, or if the relationship between brands and their audiences will simply revert to how it was before the coronavirus struck. But there is hope that we will all have learned a little more about responsibility, social purpose and how we should behave towards others – and that includes marketers. CB

Ian Henderson is CEO of AML Group
aml-group.com

Chartered Banker
MENTORING PROGRAMME



This platform has been designed to help members' professional development, expand their network and build their industry knowledge. The new digital platform allows mentees and mentors to easily manage their mentoring relationship online, and we hope members find this new service beneficial. As a valued member of the Chartered Banker Institute, we invite you to create a profile on the mentoring platform either as a mentor or mentee.

Discover the new platform, visit **www.charteredbanker.com/mentoring**, or please get in touch if you have any questions: **mentoring@charteredbanker.com**

"The Mentoring Programme has enabled great conversation with someone who has a lot of experience in the sector. I have received good advice on how to reach my career goals and have also been put in contact with others to discuss potential opportunities. I would strongly recommend the programme to others."

Institute Mentee

"Becoming a mentor has allowed me to give something back to the next generation of professional bankers; to pass on the experience I have acquired in the industry and to press home the importance of professionalism."

Institute Mentor