

# Covid 19 – A Roadmap for Change

Written by: Rebecca Healey and Charlotte Decuyper



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## Covid 19 – A Roadmap for Change

The global lockdown has firmly broken the taboo – Capital Markets are no longer restricted by the bricks and mortar of offices. The extent of the impact on the industry is only becoming apparent, but key factors are emerging which illustrate the opportunities as well as the challenges. To understand the significance for those who work in the industry and those who service them, we spoke during November-December 2020 to 64 industry participants, including asset managers managing in excess of \$18 trillion in assets globally, their sell-side counterparts, trading venues, exchanges and technology vendors. The respondents included CEOs, Heads of Research, Sales, Trading, IT and Compliance across global organisations.

1. **86%** of respondents anticipate the workplace is set for inevitable change. Successful working environments will no longer be dependent on the size of the trading floor but how intelligently firms can flexibly engage staff – both physically and virtually.
2. **72%** of respondents were successfully able to switch to working from home (WFH); a further **18%** already had the ability to WFH when required; just **10%** felt that WFH was not optimal. Success was comparable to the complexity and nature of the business, as well as the existing level of workflow automation; equities fared better than fixed income; algo trading better than voice.
3. **79%** of respondents believed their organisations were pro-actively addressing the human capital challenges as a result of the pandemic, creating a tale of two separate WFH experiences. How firms are able to respond to this will impact their ability to attract and retain talent in the future.
4. For **66%** of respondents, technology provided an opportunity to enhance communication and productivity, improving team interaction by breaking down geographical boundaries.
5. **70%** of sell-side and **53%** of buy-side respondents are planning to increase their investment in technology to address industry changes as a result of the pandemic.
6. **41%** of buy-side respondents saw a rise in external communication challenges, often due to difficulties in reaching sell-side counterparts; in comparison only **20%** of sell-side colleagues saw a decline in external communication but also a higher level of internal communication challenges.
7. **56%** of respondents anticipate a further streamlining of office costs due to the pandemic, with hot-desking and closure of Disaster Recovery sites under review.
8. Remote working is forcing a shift from traditional micro-management to a relationship based on trust, education and empathy. Compliance is no exception, with **48%** of respondent firms focusing on enhancing staff training.
9. Although **36%** of respondents anticipated active funds would benefit most from the pandemic, **40%** of respondents noted that it was no longer a clear split between active and passive investment but a focus on scalability and profitability which would dictate the success of future offerings.
10. **60%** are planning to expand their Environmental, Social and Governance (ESG) product coverage, but the concept is moving from investment products to how a firm itself operates by ESG principles, impacting how service providers are selected and engaged in the future.

# The Post Pandemic Workplace

## Exhibit 1 The Future Workplace

### The Future Workforce

- Facilitating multiple hybrid WFH options
- Ensuring effective team integration and collaboration
- Changes to policies and contracts
- Juggling vacations & sick leave
- Increased compliance tracking & monitoring
- Increased regulation around WFH model



### Digital Re-education

- Training in virtual engagement – internal & external client facing
- Online training and mentoring
- Improve cross-departmental engagement
- Management of teams in multiple locations with regional differences
- Independent Time Management
- Recognition of Mental Health Fatigue



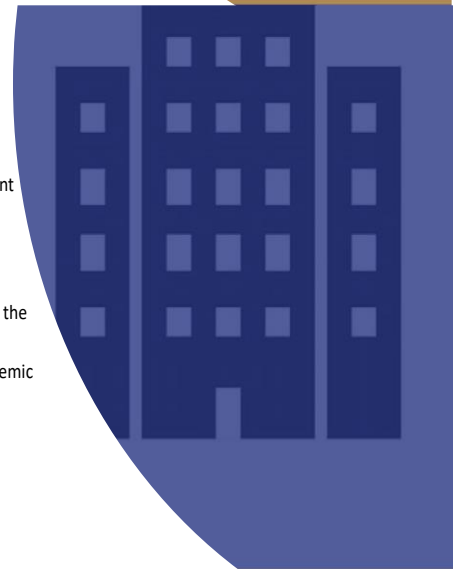
### Future Technology

- Revamped internal & external technology
- Security of network perimeters
- Managing upgrades & testing remotely
- Verifying staff ISPs for resilience & latency
- Upskilling IT staff for Cloud technology
- FinOps requirements– Capex vs Opex
- Increased automation of workflow processes & control of order flow



### The Future Office

- Compliance with regional government rules
- Re-allocation of workspace
- Re-designing footfall to
  - Enforce Social distancing during the pandemic
  - Maximize interaction post pandemic
- Downsizing/Regionalizing
- Hot-desking
- Readjusting Travel Policies



Source: Redlap Consulting 2020

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## Lessons for the Industry

Despite the historical, firmly held and widespread view that capital markets can only operate from their centralised domains like Wall Street and the City, firms proved remarkably resilient at making the switch to working from home when forced to do so. While senior management and portfolio managers may be used to logging in their laptops on VPNs from airport lounges in between business trips, the concept of moving trading floors to working remotely from home not only proved feasible, but in a time of unprecedented market volatility, trading systems held up remarkably well (Exhibit 2). But this is just the first step in addressing the enormity of change for the industry and its participants. There is a near unanimous expectation that staffing of offices will operate a flexible model going forward (see Exhibit 3) which will require a review of three key areas:

1. The continuing response to global lockdowns;
2. How employees can return to the office; and
3. The longer-term impact on the future of the workplace:
  - how capital markets will operate;
  - how the investment process will change;
  - who is employed, where they will be based; and
  - how firms will interact internally and externally.

The industry is once again in the throes of seismic change. The pandemic has triggered a switch of focus to automation to all aspects of the investment process. The move to a virtual environment is not just an internal team call, but how firms will elect to engage investee companies as well as industry peers and end investors. From virtual conferences to the increased use of client-facing apps, the shift in how firms engage will have a profound impact on how investment ideas are produced, distributed and implemented, which in turn will impact the services required, who gets paid for those services and by how much.

*“In January no-one believed that you could actually WFH. By mid-March we were all sent home and the firm has already acknowledged that this actually works incredibly well. They saw a real innovation, productivity spikes on all fronts within the organisation, and are now very supportive of the idea that you can work remotely 2 or 3 days a week.”*

Portfolio Manager, Large European Asset Manager

*“WFH longer term creates challenges. How do you manage who works in the office when? Do we keep a large site for everyone who wants to come in Tuesday and Thursday? What are the implications for team collaboration going forward?”*

Global Head of Research, Global Bulge Bracket

*“Everyone was issued with a high-performance laptop, Amazon AWS & VPN and it didn’t matter where you were - Singapore, London, New York - there was no downtime at all. There is no way that we can go back to the way we were before; we can’t risk it. We need a back-up system in place in perpetuity and we will need to test it out every other week.”*

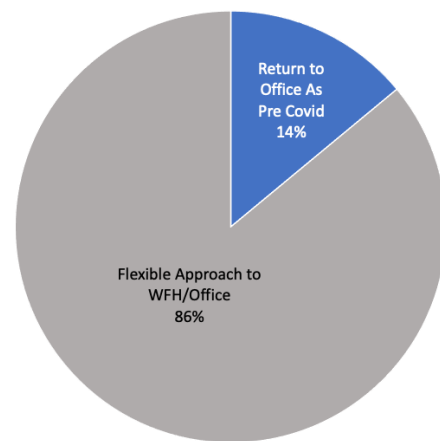
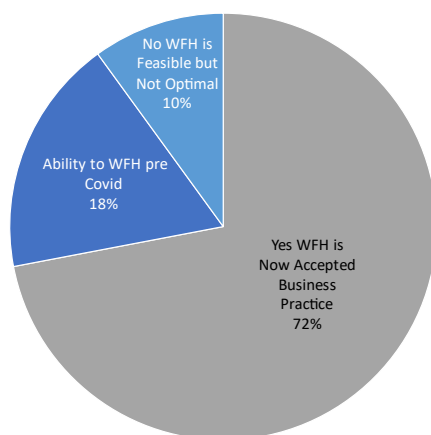
Global Head of Trading, Large European Asset Manager

*“We as an industry are in the middle of a transition and Covid has added another layer. Look at the huge write-off in the oil & utilities sector, billions have been wiped off in terms of assets. What are you going to do about the retail sector - not everything can be turned into a warehouse for Amazon. The low interest rate environment is the death knell for many of the continental banks. We need to start understanding that what we think is a value stock today can be a completely stranded asset tomorrow.”*

Portfolio Manager, Medium-sized European Asset Manager

### Exhibits 2 and 3

#### Is WFH Now the New Normal? /Expectation of staffing offices vs pre-Covid



Source: Redlap Consulting 2020

## WFH: Lessons Learnt – The Technology

### Investment is Key

It quickly became evident which organisations had invested in sufficient connectivity as well as infrastructure. To keep the business functioning, firms had to ensure secure channels of communication remained open between clients, salespeople, PMs and traders. While APAC was able to adapt quickly benefiting from the lessons learnt from SARS, New York was faced with the unprecedented situation of closing whole trading floors. Many European sell-side firms opted to split their workforce three ways – core skeleton staff in the office; a back-up team in the disaster recovery (DR) site; and everyone else at home to minimise the risk of cross contamination, rotating teams as required. Yet with DR sites often a stone's throw from many offices, employees were exposed to similar risks from the commute as those venturing into the office, while WFH created challenges for those with insufficient bandwidth, restricting simultaneous remote access for all employees.

Pre Covid, technology in Financial Services was predominantly focused on keeping as much as possible in-house to retain control. Resistance to security in the Cloud evaporated overnight as firms scrambled to get their staff on-line. Initially prioritising who had access to internal systems left some firms' non-core staff only able to access emails outside of market hours or staff having to internally trade Zoom licences in order to speak to their clients. Slower European connectivity speeds relative to those in NYC or Asia made it necessary for firms to ensure adequate access via multiple options according to their security and latency requirements.

Non-core trading staff retained access to internal systems via a Virtual Private Network (VPN). Moving from a centralised solution to a distributed solution requires additional layers of security, and every security check introduces another piece of latency. Home ISPs are impacted by routing logic which can change on a daily or hourly basis based on levels of internet traffic, creating additional latency which is also impossible to control. Whereas the extra millisecond is irrelevant for most work tasks, for trading it is critical. Rather than put in dedicated lines between a trader's house and the office, firms switched to operating trading systems from co-location data centres, controlled using Virtual Desktop Infrastructure (VDI). All the activity occurs on the internal computer and the internet traffic becomes just compressed images. However, if the VDI connection to the trading system is lost, control of orders is lost, whereas an algo programme running on a VPN would treat the event as a disconnection. Either option required firms to weigh up the risks of latency vs. security.

Advances in technology enabled automated desk set-ups with virtual turrets to operate from an office to a home laptop at a flick of a switch. The ability to rely on greater automation and technology within the execution process came into its own, as firms struggled to communicate effectively between market makers, salespeople and PMs by traditional means. Tracking and monitoring activity in a period of unprecedented

*"The problems we had for the first couple of weeks related to ensuring there was sufficient internet bandwidth, so we divided people into the critical roles - trading, operations, settlements, production support - they were the priority. Everyone else was told to not to log in, to read their emails on their phones or to log in earlier, download your emails and then log off and then log in at the end of the day."*

Head of IT, Large European Sell-Side Broker

*"Our new connectivity set up in London is equivalent to that put into a stadium, very centralised and controlled, whereas in Singapore they trade from laptops, as their home internet is as good as corporate internet here."*

Head of IT, Large Global Asset Manager

*"We ran A and B teams to make sure that we always had coverage. When it was the peak team A was in the office, team B was WFH, when lockdown was over, it was rotation. WFH support staff and management and staff had access via VPN, and the traders had their own machines set up to work in their home environment. Using a VPN into the system creates latency so they had to work off their own machines."*

Head of IT, Global Bulge Bracket

*"We had all our traders up and running pretty much as soon as they got home, using VPN to remote access their desktop. It was all fairly seamless. To be honest their broadband connection doesn't need to be state of the art, we just need enough to get them into the office, through the firewall and then they can use the internal broadband and protected systems. Then the turret you had on your desk is now running off your iPad."*

Head of IT, European Agency Broker

*"We have a full set up at home now. We were using a VPN and that was a bit slow, and then we switched to Cisco Meraki, which is able to control the Wi-Fi - you plug your computer and your phone into it and you're automatically logged into the network. That's been excellent."*

Head of Trading, US Buy-Side

*"The FCA came out with their Market Watch 65 on the monitoring of emails, what is expected by firms etc. Certain brokers that weren't used to that sort of monitoring had to change fast. I don't know how the voice brokers coped with doing business initially - most of our business is automated as is the workflow and controls around it."*

Head of Compliance, European Agency Broker

market activity took a toll on those voice brokers without automated workflows and controls, impacting their ability to price accurately and causing some firms to step back entirely.

The ability to automate the process front to back not only increased levels of comfort in being able to monitor activity throughout from sales to trading, but the increased levels of data capture meant any errors could be picked up in FIX logs and addressed post trade, accurately and efficiently.

While automated equity trading fared better than attempts to access risk principal in Fixed Income<sup>1</sup>, even here brokers initially struggled with unexpected market activity impacting execution performance. Smart order routers (SORs) were slow to adapt to increased activity on lit markets, and adjustments to algo routing practices were hampered by communication regarding upgrades and missed testing times.

As the pandemic reinforced the benefits of automated workflows, the buy side looked for further efficiencies, streamlining desktop real-estate to maximise visibility to liquidity, using not just EMS infrastructure but open-source technology. The switch from legacy platforms to investment in third party technology to meet increased regulatory obligations such as MiFID II revolutionised the engagement between the buy and sell side. Yet brokers are having to adapt further still, from providing desktop access via the provision of hardware to competing for visibility as an app. Successful future client engagement will increasingly require thinking less about physical client engagement and more like Steve Jobs as the buy side increasingly takes control of where and how liquidity is sourced.

*“These have been volatile markets and giving a PM info, guaranteeing an outcome is tough. It has led to far greater monitoring of FIX logs - every bust message is logged. We had once instance where we sent an order down for 20,000 shares which we busted out, but the broker sent us a fill, and we ended up with 40,000 shares round trade – it now requires tactical solutions to track activity.”*

Head of Trading, Large Global Asset Manager

*“There were zero issues for equities, but where you saw the challenges was in FI - the ability to provide principal risk. Spreads were out 3 or 4 times and real liquidity was just not there. You had to pay up or you were last in line.”*

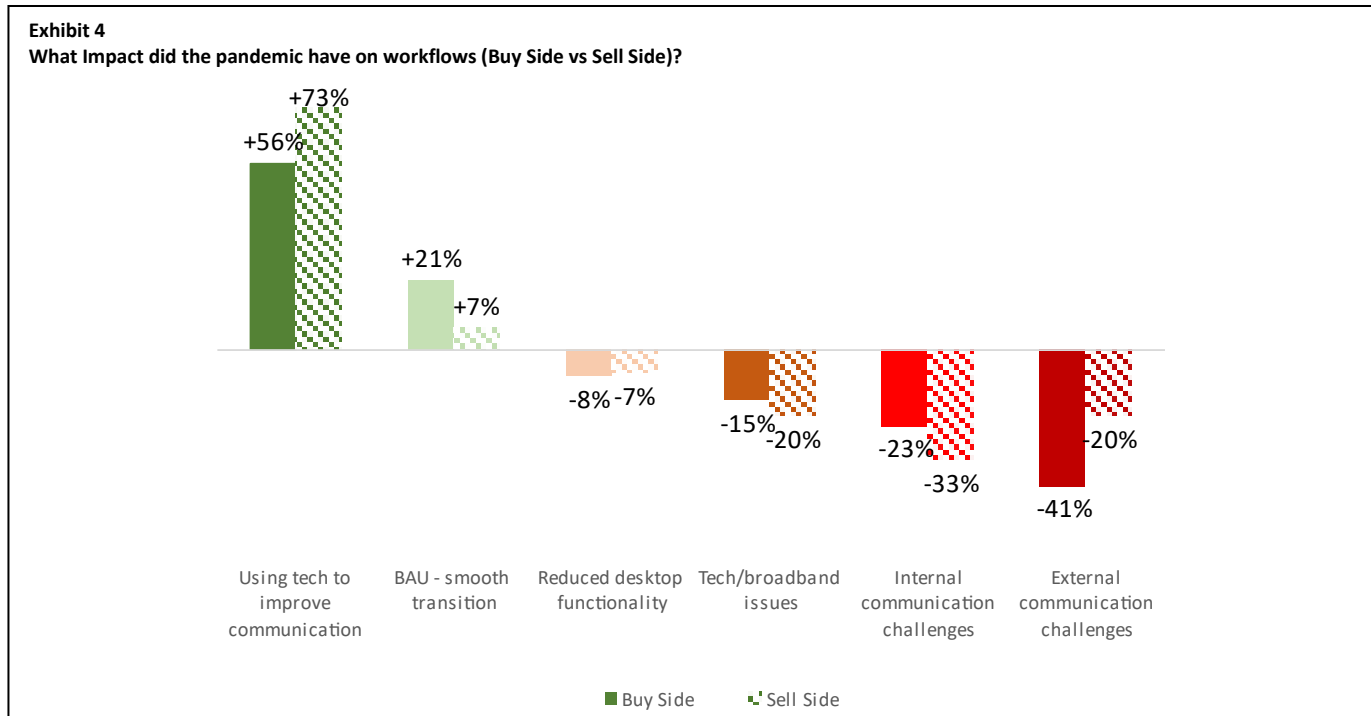
Head of Trading, Large European Asset Manager

*“The core of our investment in infrastructure is to make sure that the whole trade life cycle is automated – this was in place pre Covid, but when the pandemic kicked in that really helped in facilitating the move to remote working. We have replicated each workstation, hardware, software and connectivity. We have improved the setup with one large 60” screen – so no loss of desktop real estate, traders can set up all the windows to access the exact same set up in the office.”*

Head of Trading, Large European Asset Manager

*“We’ve streamlined our technology. We’ve isolated non-core applications that were utilizing space on our desktops to become more efficient in terms of what we’re looking at; has it impacted our quality of execution and what we’re seeing from the sell-side? It hasn’t, if anything it’s got stronger.”*

Head of Trading, Large Global Asset Manager



<sup>1</sup> <https://www.icmagroup.org/assets/documents/Regulatory/Secondary-markets/The-European-investment-grade-corporate-bond-secondary-market-and-the-COVID-19-crisis-280520v2.pdf>



## Pluses & Minuses of Virtual Communication

Internal communication swiftly moved to a plethora of new messaging applications and virtual functionality such as MS Teams, Zoom and Slack alongside existing means such as WhatsApp, BlueJeans and Skype. Apps which had previously been sitting idle on desktops were suddenly brought to the fore, enhancing team interaction and breaking down boundaries not only geographically but also between the front and back office, traders and PMs.

At the time of heightened market volatility, getting the relevant information to the relevant individual in timely manner was critical whether that was the research analyst speaking to clients, the trader providing a risk price or the PM liaising with the dealing desks. Speed and accuracy of information that mattered equally, incentivizing individuals to find better means of sharing and streamlining the information flow.

While the positive outcome was the reduction in the firm's phone bills alongside the ability to improve team interaction globally, firms quickly found virtual interaction lacking in the ability replicate ad-hoc conversations or face-to-face brainstorming. This necessitated a change in approach, with some opting for more regular structured catchups, others choosing to leave an IB Chat open all day.

## Improving Client Engagement

Despite the inability to see clients in person, participants were surprised not only at the minimal disruption to business, but at the improvements that virtual interaction was able to provide. The removal of geographical boundaries meant direct communication with the relevant individual - be that the head research analyst in London, the software developer in Bangalore or the quant in Chicago. In addition, the efficiency of a half-hour Zoom conversation not only improved productivity but facilitated greater client interaction, whether an individual product pitch, company roadshow via webinar or virtual industry conference reaching a wider global audience.

Yet there is still room for technological improvements. While one-on-one vendor engagements have enhanced product education by enabling the developer in San Francisco to speak direct to the buy-side dealer rather than via a salesperson, this still only works on a one to one or group to group basis. There is no ability yet to replicate a team watching a demonstration together and being able to discuss without the vendor being included which often results in duplicating any external presentations with an internal call.

While technology will undoubtedly evolve to address this issue, differing opinions on security risks left some firms locked out of using particular apps, leaving wider industry group interaction floundering - one organisation took nine months to install an application due to security concerns. The variety of means of communication is leaving individuals frustrated as to which application to use for which firm and in what capacity.

*"In the first week, every PM was calling every 5 mins for information, it was very inefficient. But we have a younger group of portfolio managers who are more into electronic communication and they were using Slack, so we switched. It's now our main mode of conversation and it's really effective."*

Head of Trading, Small US Asset Manager

*"By not commuting we were more productive as a team, we coped with a huge surge in demand for product and advisory in March and April without a hitch, switching to Zoom which is now part and parcel of our workflow. Productivity definitely increased, not only because you had all this time, not having to travel to the US etc - but the interventions were shorter. We went from one hour to a half-hour call."*

Global Head of Research, Global Bulge Bracket

*"We've all got a lot closer it's brought down barriers and the geographic boundaries have evaporated. There's much more momentum to get the other traders on the line in Japan & HK to talk through developments - we've had far greater communication."*

Head of Trading, Large European Asset Manager

*"We now use teams to call each other internally, as a firm we are no longer issuing phones - everything goes through MS Teams. It has been key, there has been a 700% increase in Teams across the industry, but it was all there prior, on 365 all Cloud based, just no-one was using it."*

Head of IT, European Agency Broker

*"We have a daily stand-up meeting which just moved to Zoom and if anything, I think the integration between the front office and the back office has got better as a result of this. We've got way more efficient in terms of external meetings with clients, engagement webinars and we had really good attendance. I just wonder if everyone's getting a bit Zoomed out now though?"*

Head of Trading, Global Sell-Side Agency Broker

*"Clients have been disproportionately willing to engage and meet and speak to you. In normal times if you tried to a video or voice conference call with a client, you've got no chance but, with everyone at home, they've embraced it and welcomed in a way that you might not have anticipated."*

Head of Sales, Technology Vendor

*"One key takeaway is that across the industry there is not one common communication tool. Every organisation is siloed, AFME use Blue Jeans, but we don't have permission to use BlueJeans. It took us nine months to get Zoom approved, but other companies use Webex or Microsoft Teams. There needs to be some sort of standard security specifications which the industry is comfortable to use and then it doesn't matter let's pick up six of the best and use all of those."*

Head of Trading, Global Bulge Bracket



## WFH: Lessons Learnt – The People

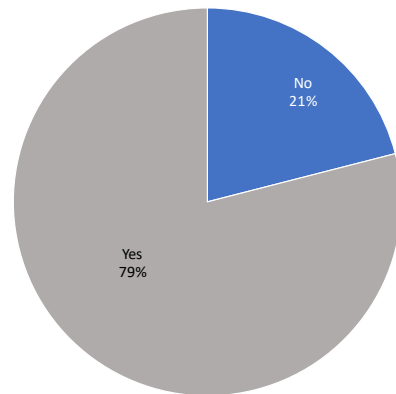
One of the most critical aspects of the pandemic has been the realignment of a firm’s most important asset – its staff. The majority of respondents felt their organizations had not just taken active measures to ensure staff were cared for, in some cases they had gone above and beyond anything anticipated - surprising staff, but also guaranteeing future loyalty (see Exhibit 5).

### Pluses & Minuses of WFH

The challenge for most firms was in recognizing and then being able to adapt to support staff in two very distinct versions of the WFH experience (see Exhibit 6). While the positive aspects created additional flexibility at a challenging and difficult time, not everyone had an ideal homelife set up, whether that was isolation in a bedsit or having to incorporate home schooling. Loss of the commute created valuable additional time, but this was quickly eaten up by unprecedented market activity and demand for time elongating the working day. Independent working allowed greater focus on more in-depth projects without being interrupted but working remotely hampered team interaction to strategize effectively.

New technology enabled senior management to be beamed into people’s homes to engage with members of staff directly; however, this is a limited substitution for being in the office to develop networks. Work is no longer at the end of the trainline, with the difficulties of separating personal and working life requiring self-motivation and discipline not to work 24/7.

**Exhibit 5**  
Is your Firm Actively Addressing WFH Issues?



Source: Redlap Consulting 2020

*“When the first lockdown started and schools closed, our firm gave indefinite leave to look after children. A guy who works for me, his wife is a GP so has to work 3 days a week, so 2 days a week he would work and 3 days a week he would look after his children. As soon as schools went back, everybody went back to work. It was a very smart move in assuring staff loyalty.”*

Head of Product, Global Bulge Bracket

*“WFH longer term creates challenges. It’s not technology but more behavioural change. The first reaction was great, I don’t have to commute. We were more productive as a team, we coped with a huge surge in demand for product and advisory. But we all recognize that 12 back-to-back Zoom calls is a pretty exhausting process, and certain things are harder to do as well, such as the impromptu conversations and maximising team collaboration.”*

Global Head of Research, Global Bulge Bracket

**Exhibit 6**  
Advantages and Disadvantages of Working from Home

The two sides of WFH during the pandemic	
+	-
<ul style="list-style-type: none"> <li>• Tech-enabled teams</li> <li>• Increased productivity</li> <li>• Self-motivation</li> <li>• Safety bubble</li> <li>• Independence</li> <li>• More family time</li> <li>• Time gain from commute</li> </ul>	<ul style="list-style-type: none"> <li>• Isolation</li> <li>• Lack of informal networking</li> <li>• Lack of structure</li> <li>• Anxiety over Covid</li> <li>• Lack of feedback</li> <li>• Intra-day interruptions</li> <li>• Extension of working day</li> </ul>

Source: Redlap Consulting 2020

## People First

Ensuring there is resilience built around staff to enable firms to get the best from their staff WFH, as well as attract and retain talent, is requiring firms to rethink how to engage and retrain staff. Recognizing the need for behavioral change from senior management down is forcing a radical rethink of what is required from employees, and how they should work and be managed, reviewed and rewarded in the future given the rising challenges they face (see Exhibit 7). One organization has even changed its appraisal process to take into account individual circumstances where staff are unable to work from home effectively due to personal circumstances.

While many firms already had a focus on mental health, the pandemic accentuated the challenges of not only providing support but making sure staff understand it is acceptable to take up that support. The majority of firms noted a significant improvement in senior management engagement, with CEOs and CIOs talking openly about the challenges they faced WFH. Longer working days together with an inability to take holiday has created an unprecedented situation, with firms heading into 2021 not only dealing with the current challenges of WFH, but with a depleted workforce, storing up potential issues for managing the firms most important asset in the months ahead.

*"We had global childcare scheme of \$800 if you needed help with childcare, we gave more junior members of staff on lower wage schemes a bonus to make working from home easier. We paid a midyear bonus for the first time and we started a giving back program matching \$5K per charity and we've launched a mentorship program. All these initiatives were ideas that we talked about before, but they really garnered progress through the pandemic."*

Global Head of Research, Global Agency Broker

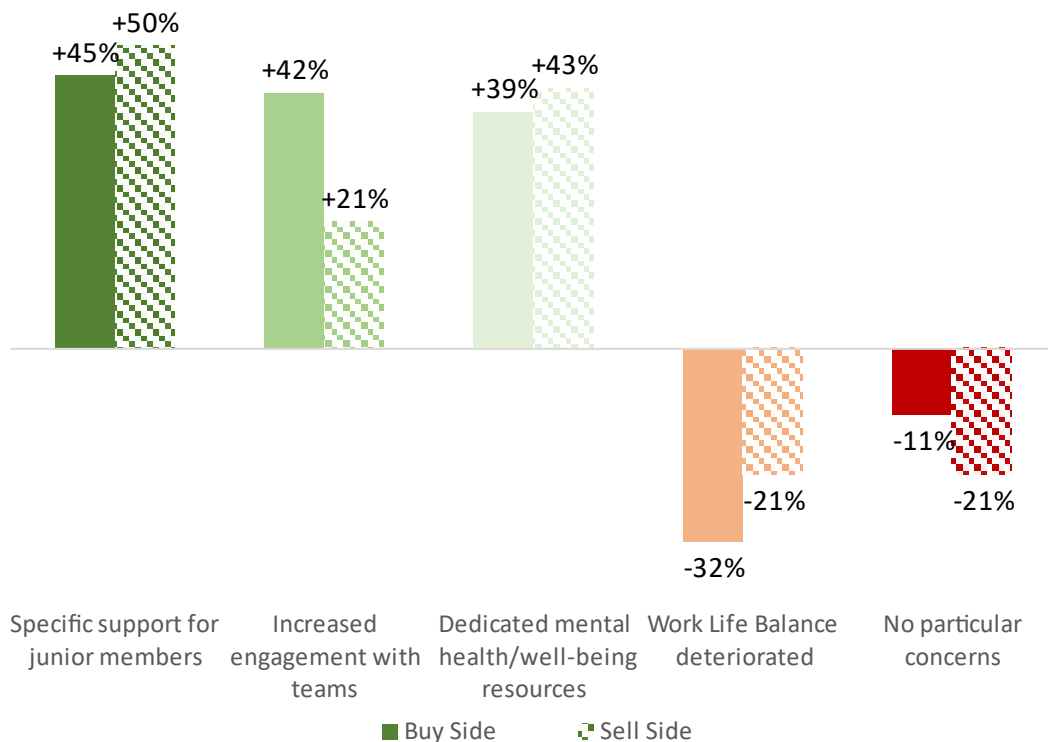
*"I am required to catch up with my team face to face once week. We have training in terms of understanding what degradation in mental health actually looks like. We have on-line courses like breathing techniques and meditation. We have a Town Hall every other week so that everyone feels connected, they understand what they're doing and why they're doing it."*

Global Head of Trading, Global Agency Broker

*"There is a very clear framework to take into account individual circumstances where people couldn't do their job 100%, if someone's struggling at home, maybe with an elderly relative or a newborn. In the appraisal process there is now a section earmarked to make room for people's individual situation."*

Head of Sales, Exchange

**Exhibit 7**  
How are Firms Actively Addressing WFH Issues (Buy Side vs Sell Side)?



Source: Redlap Consulting 2020

The effect on junior staff often living alone or in shared accommodation was a particular concern, with organizations looking at how to ensure those who wanted to continue working from the office were able to do so, where possible.

Where the use of technology has worked well is in the creation of global teams collaborating on graduate trainee program presentations to senior management, or even in the recruitment process itself with some individuals having now worked for organizations for several months without ever setting foot in the office.

Firms are also turning to technology to train junior members of staff using screenshare capabilities; some firms have adapted this to provide a head trader with remote access and control over a junior's trading blotter, others are using it still as a visual guide only.

Although the technological functionality is evolving, it is often still used to a limited capacity as it remains alien to those senior staff required to train, many of whom have only ever worked 12-hour days in a culture where they were clearly visible and micro-managed. The prevalent view remains that training best takes place in the office where junior staff can learn faster by sitting next to the Head Trader or Analyst, learning by osmosis. This may still be the optimal way to train junior staff, but given the extended lockdowns, firms now need to adapt training to what is possible.

*"It's the juniors who were really struggling, A few had detachment issues, they didn't have the emotional resilience to cope with this. They are desperate to have a social life again and our corporate policy is to get them back into the office as soon as soon as it's safe to do so."*

Head of Sales, Exchange

*"Although the tech is great - we can watch, we can intervene, we can take over control when we need to, a bit like a driving instructor and pressing the brakes, it is still hard to build their confidence. They're getting tested very quickly - what you tell a PM, when you engage them vs when you don't need to bother them. This would be easier to teach if they were sitting next to me rather than trying to do it remotely because it is about building up their confidence."*

Head of Trading, European Buy-Side

*"A few junior analysts are trying to come in not because they want to learn, and you don't learn sitting on your own at home. If you are a younger analyst trying to learn how to study companies, you do that by working closely with the PM, by going to company's meetings with them. You can still do this via Zoom but if you are in the office the PM may just ask you - I am going to meet with that company do you want to join, and this is just not going to happen via Zoom."*

Head of Trading, Large Global Asset Manager

*"Zoom cannot yet replicate going to the cafeteria to get lunch, when you sit down and talk to the marketing guys to learn about the firm, what they are looking at. These are the informal conversations that help you develop your understanding of the business and how you're going to develop your career. It's the loss of the informal and unstructured conversations that has the biggest impact."*

Head of Trading, US Asset Manager

## The Future Workplace: the 4 Factors to Consider

The structure of working life in the industry will undoubtedly change. From individuals travelling less and using technology more effectively, efficiencies to productivity have already been identified that will ensure working practices will not simply reverse even when the pandemic is over.

In some sense keeping businesses running during the pandemic was the easy part of the challenge, nearly half of all respondents were still in the office or rotating core positions (see Exhibit 8). With only 5% of buy-side respondents anticipating returning to the office to work as they did pre-Covid (see Exhibit 9), the 180-degree pivot from staff being traditionally unable to work from home to remote working becoming widely acceptable will require considerable management – and it will need to start with the firm’s culture.

*“Our CEO has already said he does not expect people to travel anywhere near as much. What working from home and doing virtual meetings has taught us is it can be done and has been done very effectively, we do not need to spend the time or the dollars, travelling around the world as we did.”*

Head of Research, Global Bulge Bracket

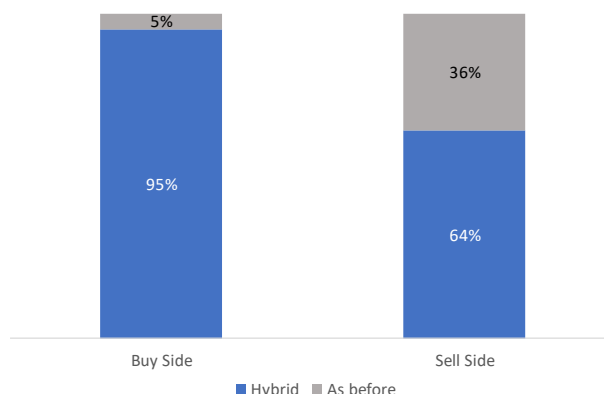
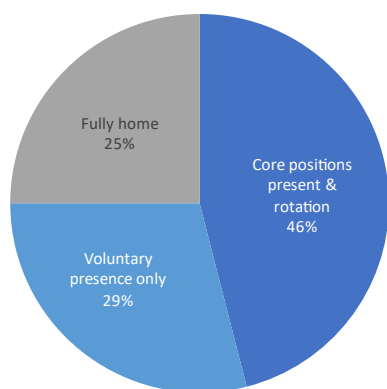
*“Leaving was easy. It’s the return that will be the hardest bit, what does it look like? I look at it across the demographic of my group and I’m going to have people who are going to want to come back five days, others three or two, and some people who don’t want to come back at all.”*

Head of Trading, Large Global Asset Manager

*“The key word here is culture. Having a strong culture is vital. We are under no illusions that working practices are going to change for good. How do we maintain the same cultural awareness to ensure regulatory oversight going forward?”*

Global Head of Research, Global Bulge Bracket

**Exhibits 8 and 9**  
**Current Working Arrangements vs. Planned Return to Work**



Source: Redlap Consulting 2020

## The Future Workforce

For some senior industry participants, the perception remains that if an individual is not sitting in the office with suit and tie, or in front of a client entertaining them, then they are not doing the job effectively. Yet if organizations are to survive the potential future limitations on their organizations, their staff and the ability to do business going forward, firms need to have a firmwide, top-down new culture that supports the new hybrid working structure. This will require changes in working policies, codes of conduct, re-education and training. But it is the culture that’s hardest to change. Educating senior management with generational different views of what working life entails and what productivity looks like will be just as critical for a firm’s success as being able to offer flexible working policies.

*“We have a minority element 10 to 20% of management that feels as a trading organisation we are exempted, we can get you protection, we are following the governmental and medical guidelines, you can wear a mask - if you’re still not willing to come into the office perhaps you should consider employment elsewhere.”*

Head of Trading, US Regional Broker

*“We will all improve the work/life balance with the right mix of WFH – one/two days a week to make your time more productive, concentrate your meetings, and then paperwork, the research at home. It will be a massive boost to productivity. Just because people are in the office doesn’t mean they are productive – how many screens have you seen in an office with newspapers, Amazon, etc. on them?”*

Global Head of Trading, Global Asset Manager

**Exhibit 10**  
**The Future Workforce**

## The Future Workforce

- Compliance with regional government rules
- Re-allocation of workspace
- Re-designing footfall to
  - Enforce Social distancing during the pandemic
  - Maximize interaction post pandemic
- Downsizing/Regionalizing
- Hot-desking
- Readjusting Travel Policies



Source: Redlap Consulting 2020

Despite the CEO fireside chats with other senior staff, on-line yoga classes and bootcamps, coffee mornings and wine-tastings, firms have yet to find the optimal way to build the grass roots interaction across organizations digitally, which is critical to keep staff engaged. Given the extended lockdown, firms will need to embrace and enhance the current technology available or risk losing or stagnating members of staff, requiring even greater effort from the top down to move to digital engagement – internally and externally (see Exhibit 10). The larger the organisation, the larger this problem becomes.

### Two-tiered Progression

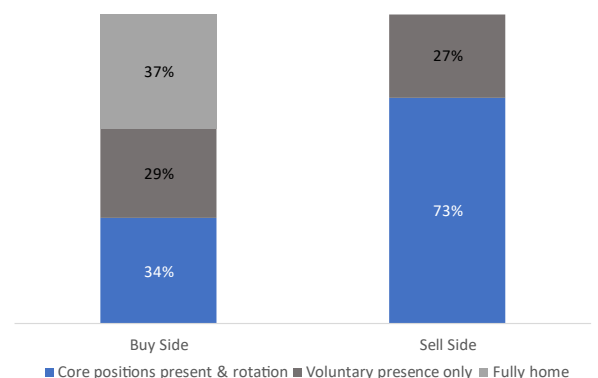
For the buy side there are clear benefits to WFH given the additional requirements on traders today around the trading day. But for the sell side, there was a more prevalent view that the best way to service clients was from a traditional office set-up (see Exhibit 11), with Client-facing and trading roles to operate from the office, and support functions operating remotely for part of the week.

In some sense, keeping track of productivity is easier with trading – orders have to be watched and executed. If the work is not completed it is quickly apparent. Those

*“I have delegated much more since the pandemic; I manage my people by giving them projects with total ownership and accountability. You can't talk to them every hour and you don't see them passing in front of your office; you need to tell them okay this is what you need to do, and I need this by x date.”*

Global Head of Trading, Global Asset Manager

### Exhibit 11 Current working arrangements (Buy Side vs. Sell Side)



Source: Redlap Consulting 2020

who work on projects, reports or client specific interaction will find it harder to demonstrate they have spent the time effectively, and ironically are likely to end up working harder.

Technology has facilitated huge gains in ensuring WFH is not only possible but in certain circumstances, it is optimal – working on projects, writing code, and tasks which require greater concentration. However, the assumption that if a manager needs to be in the office to manage their team may prevent them from having the very concentration time that is necessary to – not only complete their current role - but also to develop their career.

The concerns are two-fold. Firstly, whether there is a risk that those who work in the office receive preferential treatment and remuneration; and secondly, how firms can ensure continued team collaboration between the teams that are working remotely, those that work in the office permanently and those who come into the office only a few days a week.

Firms will need to put in place clear procedures and guidelines around what is expected of those employees who will continue to work from home, versus those they support in trading and client facing functions. Leaving this to the discretion of individual line managers alone places a considerable burden on middle management and could also lead to staff feeling obligated to come into the office to further their careers, depending whether or not their immediate line manager is or is not supportive of WFH.

## Generation Z

The demand for increased flexibility and improved work life balance was already challenging HR recruitment drives with Generation Z showing little appetite for traditional roles within financial services. This is a particular problem in Europe given the lengthy market hours; however, enforced WFH does provide the opportunity for firms to embrace more flexible options around the length of a trading day. Ironically, the Exchanges reluctance to reduce trading times may accentuate greater flexibility intraday, with peak volumes at the Open, the US Open and the Close. Generation Z appears to have zero enthusiasm for being chained to desk twelve hours a day as previous generations have accepted was a necessary part of the job. Aside from this being a somewhat outdated view of working life, this also has negative implications not only for women returning to work after childbirth, but also for any member of staff who may have obligations as a carer in the future.

*"We are very conscious that everyone working from home five days a week has led to a certain amount of dislocation, which is why we are not entirely comfortable with the fact that everyone now wants to work from home. If there's a team of 5 and they all pick a different day to WFH they are never going to catch up together. It has to be structured; the manager will be responsible for making sure that if there are team meetings everyone is in. Some people are going to be upset, but we can't just give everyone Carte Blanche."*

Global Head of Trading, Global Agency Broker

*"The front end will need to be in the office for clients, the interaction that generates business which is important. But areas such as surveillance or finance, if they work in the office two to three days a week and the rest at home, I can see management accepting this."*

Head of Compliance, European Agency Broker

*"Someone who is writing code and doesn't have to manage other people, who is predominantly assessed on just their work output could work home for from home - and they might not become MD or run the whole business because that requires you to be in person - but in terms of just cranking out work product right or talking to clients – those are all things you can do remotely anyway today"*

Head Trader, Global Asset Manager

*"The concern is there will be pressure to return to the office and if one team are more inclined to work from home, who gets rewarded – those in the office or those who WFH? This is where it will be dependent on senior management, the CEO or CFO, the culture of the firm to ensure that everyone is rewarded independently of whether they work from home or work in the office."*

Portfolio Manager, European Asset Manager

*"Long hours aren't foreign in other industries, but the flexibility that you find in the technology industry, for example, which is our main competitor, that's the problem."*

Head of Client Relations, Global Bulge Bracket

*"Our latest recruit chose our firm over a group of many different companies because of our approach to work life balance. The baby boomers need to understand that Generation Z, have a different attitude to life. Unless you respect what their views are, you're not going to get them to work for you. They are certainly not going to work hard for you, and they're certainly not going to stay."*

CEO, Exchange

*"Our industry does not offer flexibility, WLB, and we need to offer something unique to compete with the likes of Microsoft who are looking at implementing a four-day working week? We are very aware of the lack of Gen Z talent in our industry. What will be the longer-term impact of numbers of women working in the industry if flexible working is not provided? If a woman has a husband that has been badly affected by Covid, and he is now an invalid, she will need to work most of the time from home."*

PM, European Asset Manager

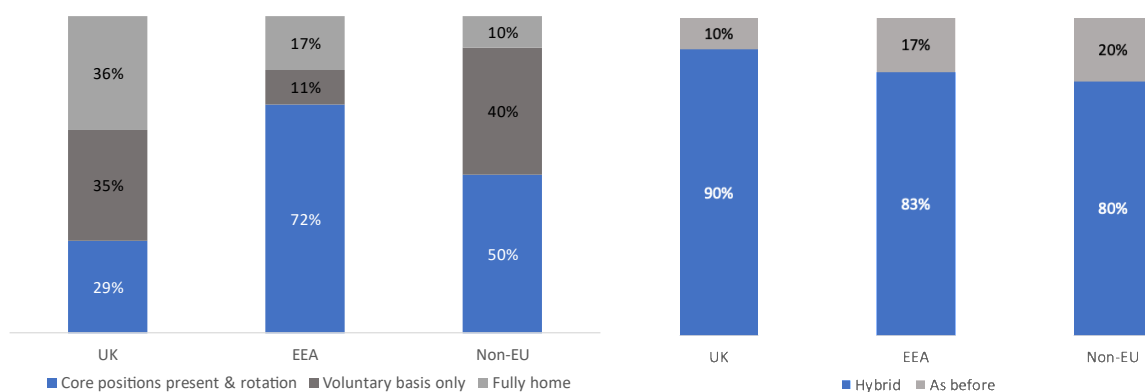
## Geographical Differences

Although it is widely accepted that there will be a much greater level of flexibility for people to adapt between working from home and work in the office, but there will also be geographical differences. In Asia, accommodation in Hong Kong and Singapore is at a premium, with most individuals living in limited accommodation and as such are keen to return to the office. Whereas in Europe and the UK it is clear to see that flexible working is the topic of the day, and most employees are expecting to do it in some shape or form (see Exhibits 12 and 13).

*"It's unlikely all floors of Canary Wharf are going to be reoccupied. We are definitely going to have some surplus space, whereas in HK everybody wants to go back at the office. I was shocked after the first lockdown, everybody was back in the office, cramming into the lifts and the offices without any sort of social distancing requirements. The firm didn't force people back in, they wanted to come back in."*

Global Head of Research, Global Bulge Bracket

**Exhibits 12 and 13**  
Current Working Arrangements vs. Planned Return to Work by Geography



Source: Redlap Consulting 2020

There are also cultural issues to address. WFH is perceived to be easier to implement in Europe versus the historic reluctance by some in the US even to take annual vacation given the loss of office facetime. One US organisation has already set up on-site Covid-19 testing for all employees at their HQ in Manhattan to ensure minimal work time is lost but the health of employees is protected as much as possible.

It is too early to tell what firms may choose or have to do with regard to vaccination requirements and social distancing, which adds an as-yet unknown complexity that is hard to plan for. The top comment was that the lack of human interaction will drive demand for individuals to want to return to the office. However, a couple of firms noted that when the optionality was provided, individuals returned and then quickly reverted to WFH – the trading floor is not the buzz that it once was. Whether staff crave social interaction or not, increasingly firms will need to depend on virtual means of engagement.

*"Once the vaccine starts rolling out, everyone will be expected to take it to retain their job, but that's a 6-12-month project."*

Global Head of Trading, Global Asset Manager

*"People will go back into the office - you need that human interaction to collaborate and brain-storm, there's no question about that in my mind, but it will be more blended model going forward."*

Head of Electronic Trading, Global Bulge Bracket

*"We had requests from staff who wanted to return to the office. As soon as they got back in and realised it wasn't the same as before, they were off. We didn't see them again."*

Head of IT, European Agency Broker



## Re-educating for Digital Engagement

Aside from the immediate practical challenges of managing working from home arrangements to meet various regional requirements and ensuring staff are coping with the stresses of working remotely, the ability to directly engage with clients virtually has not only improved efficiencies in delivery of content but fast-forwarded the digitalisation of the investment process. On the retail and the commercial side, firms switched to increased digital access as individuals have shunned physical visits to banks or corporate advisors. A whole raft of training and education is now required on how to improve engagement both internally and externally (see Exhibit 14).

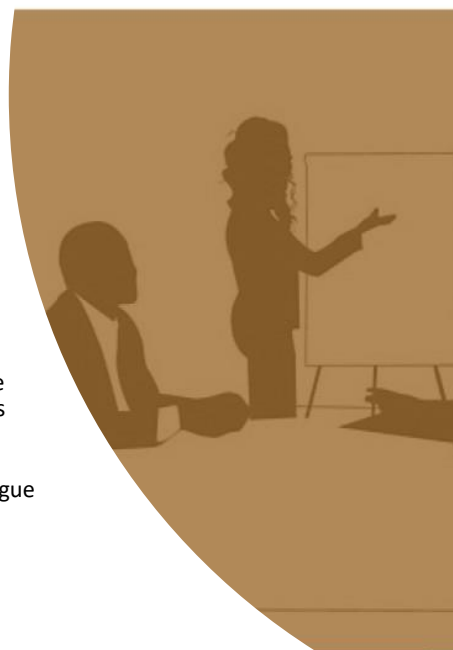
*"We are looking at readership data, using Natural Language Processing and data analytics to refine how we approach clients. It isn't just a question of sending research out to certain clients ahead of a general release. Now we analyse the attraction data of individual analysts and use AI to become more effective in approaching clients. This is also moving from written to visual as client are demanding different means of engagement."*

Head of Electronic Trading, Global Bulge Bracket

### Exhibit 14 Digital Education

#### Digital Education

- Training in Virtual Engagement—internal & external client facing
- Online training and mentoring
- Improve Cross-departmental collaboration
- Management of teams in multiple locations with regional differences
- Independent Time Management
- Recognition of Mental Health Fatigue



Source: Redlap Consulting 2020

The shock of the pandemic quickly switched research requirements to greater in-depth understanding of a company's ability to withstand long-term economic decline. Analyst engagement with clients rapidly adjusted to more efficient half-an-hour back-to-back conversations in order to get the relevant information in front of clients as quickly as possible. Ideas now need to be provided to clients in many different forms from video to social media as a pyramid of content. The generation of digital consumers don't want to read a long report; they want to consume it as a Twitter highlight on their mobile, whereas others value the full information with which to make their investment decision. Digital engagement has huge potential, but it is also incredibly noisy. Redefining how firms attract and retain clients which will require further investment in technology to improve the ability to read through the noise to access relevant content in a timely manner.

*"We've done LinkedIn live events - it's a huge potential audience, but only 60 people turn up. It's very noisy out there. There is an algorithm lurking in the background, which will either promote your research or ignore it. The more somebody likes your content and the more you engage, the more the algo picks up on it and at some point, you become a trending item. If you want get people to pay attention, you have to put some effort into it."*

Global Head of Research, Global Bulge Bracket

## Revamping Future Technology

The pandemic made one factor critical for all organisations – their level of investment in technology infrastructure and IT staff. The rapid move to the cloud necessitates a huge upskilling of existing staff to support and educate employees as to the changes. Many IT staff themselves still have much to learn as technology developments evolve as to what is now possible which creates challenges around current systems and controls in making sure all employees not only remain fully operational, but also understand the new risks they and their organisations now face.

*“When COVID hit you had to move to the cloud right away to stay in business. The huge risk is that most companies are taking is that they're moving infrastructure into the cloud, but they're trying to do it with staff who understand how to run on prem infrastructure. They're very good at it, they've been doing it for years. But using the Cloud is like saying, “I know how to drive a bus, and now you're telling me I need to navigate a boat”. It's not the same set of skills, staff need training, they need to understand the different security threats and the different operational issues, and most companies are not making the kinds of investments in training and upskilling their IT people. And that leads to new security threats because attackers know much more about office 365 than you do.”*

Head of IT Security, Technology Vendor

### Exhibit 15 Future Technology

## Future Technology

- Revamped internal & external technology
- Security of network perimeters
- Managing upgrades & testing remotely
- Verifying staff ISPs for resilience & latency
- Upskilling IT staff for Cloud technology
- FinOps requirements– Capex vs Opex
- Increased automation of workflow processes & control of order flow



Source: Redlap Consulting 2020

Managing teams working from home required firms to revamp internal and external technology and security. There is no longer a fixed perimeter between inside and outside a firm's network. If a firm had 40 locations, there were 40 network perimeters to protect, moving to VPN creates a network to protect per employee. The perimeter at the outside of the office was more reinforced than individual computers, now laptops with a VPN have to be individually protected to keep out malware. This limits what can go out as well as what can get in which creates latency.

*“Basically, we have to assume that you know you're always staying in a hotel that's run by the Russian government and they subcontract out room service to China and North Korea. So you're on a hostile network we can never trust and it's possible that your machine might be compromised. Every time somebody tries to access something you check to make sure they are they who they say they are, they are coming from a machine that we that we expect them to be coming from, you know, and then we check again. Most of us aren't doing this yet or they're doing it partially because they don't yet have the staff or the knowledge to deal with this.”*

Head of IT Security, Technology Vendor

On a corporate network where everything on the network belongs to the company and was controlled by the company. Once individuals are using the Cloud, there is little reason for them to access the VPN, but without accessing the VPN, it becomes harder to keep those machines secure. The VPN was never really designed for use every single day but for travelling on the ad-hoc day or working at home temporarily, with employees coming back into the office to plug in for updates. This now has to be managed independently to make sure all machines are secure.

Individuals at home connect via their individual ISP, alongside their home devices which could entail a Minecraft server, a partner in the technology industry, a budding programmer - all of which the company IT security has no control over, and zero visibility as to what the potential risks may be. That requires a shift in mindset about how to protect given privacy issues, creating a concept of "zero trust", which assumes every network is hostile and every machine is compromised. This entails not only greater IT security but educating staff as to what the potential risks now are.

Testing becomes more complex because it requires the same kinds of software and same VPN on a variety of different ISPs that employees may use. There are question marks around resilience with the number of employees using the same internet provider. Will firms elect to pay for decent internet connection in the same way mobile phones were paid for because firms wanted their staff to be accessible and secure in the future?

All of this requires increase management – as well as new roles within firms. As technology becomes ever more important to an organisation, firms are needing to repurpose existing budgets rather than solely increasing spend (see Exhibit 16). The assumption is that the Cloud is automatically cheaper, but that may not necessarily be the case and Fin Ops staff are increasingly being hired to specialise in optimising the cost of technology, and whether a firm should opt for Capex over Opex.

*"Employees can probably do 99% of their jobs without ever connecting to the VPN because meetings are on Team's, email is all Office 365, they've got SharePoint etc. But if they are not on the VPN, keeping those machines secure becomes harder because we always assumed that people would be using the VPN, they would come back into the office and they'd plug their computer, and all the updates would happen automatically – now these have to be managed individually."*

Head of IT Security, Technology Vendor

*"As a large corporation every day the firm has to deal with 20 or 30 cyberattacks, that's the name of the game now."*

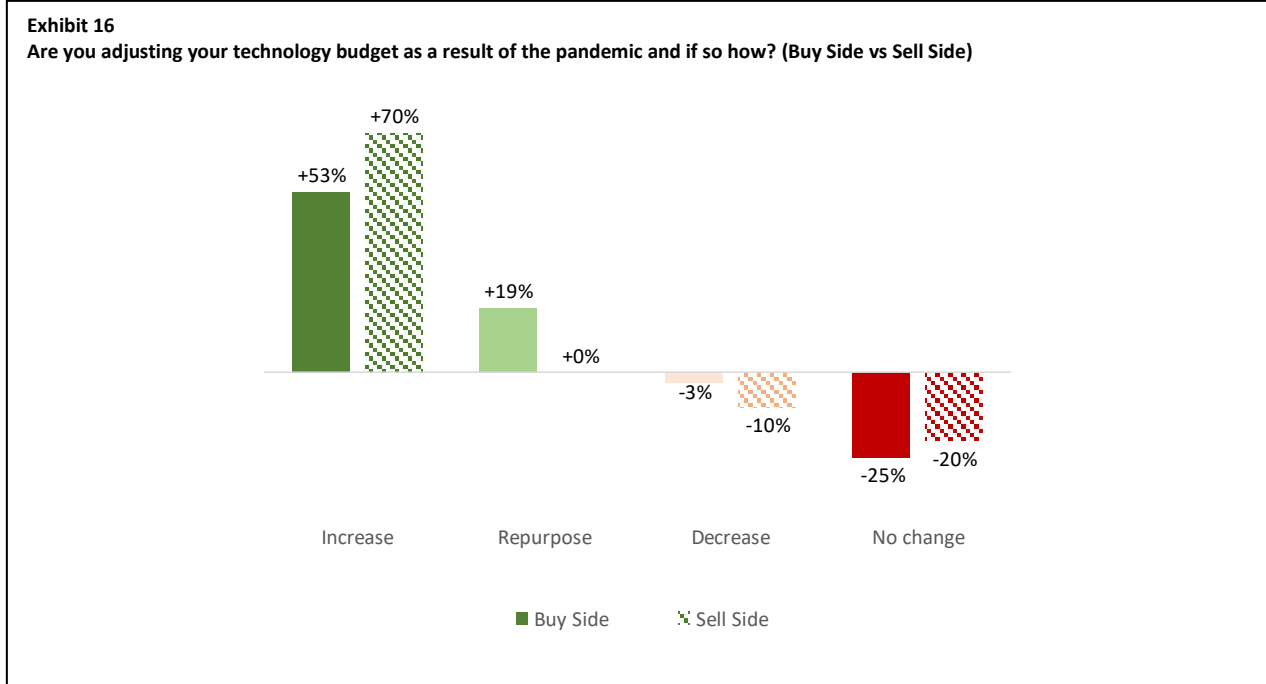
Head of Research, Global Bulge Bracket

*"There are obvious questions to ask such as if everyone is on Virgin or Sky, how close do they live together, what impact would it have if one supplier goes down, what is our contingency around this?"*

COO, European Buy-Side

*"The good news about the Cloud is you don't have to buy a bunch of servers and have a data centre, but the bad news is now you've got all this operational expense that starts on day one, and a firm's budgeting cycles, and budgeting processes are not yet ready for this."*

Head of IT Security, Technology Vendor



## Reassessing “The Office”

Another area which will have a profound impact of the future of the industry is the reassessment of office space and disaster recovery (DR) sites (see Exhibit 17).

Over the last few years, the industry has been increasingly focused on more of a distributed model in terms of real estate to reduce spend on fixed costs for buildings. Over half the respondents are looking to downsize their footprint and introduce smart desks where employees can plug in as and when required, to streamlining costs by having more people work from home (see Exhibit 18). However, working out who can be, when and where, is creating additional layers of complexity for office management to optimise the space available.

A fifth are also looking to reassess the viability of DR sites, other firms have already chosen to close DR sites given the difficulty in getting staff to the sites previously, either due to terrorist attacks or adverse weather conditions.

*“Firms can no longer afford to spend a lot of money on fixed costs for buildings that they never entirely fill because of sickness or holidays etc. The idea of allowing people to work from home, using their own devices helps cut costs.”*

Head of Electronic Trading, Global Budge Bracket

*“Our long-term solution is for DR sites to move to home. The one variable you can't control is people on public transport and if you're going to catch Covid on that then there's no point having BCP sites even outside the city because you're potentially contaminated.”*

Head of Trading, Global Asset Manager

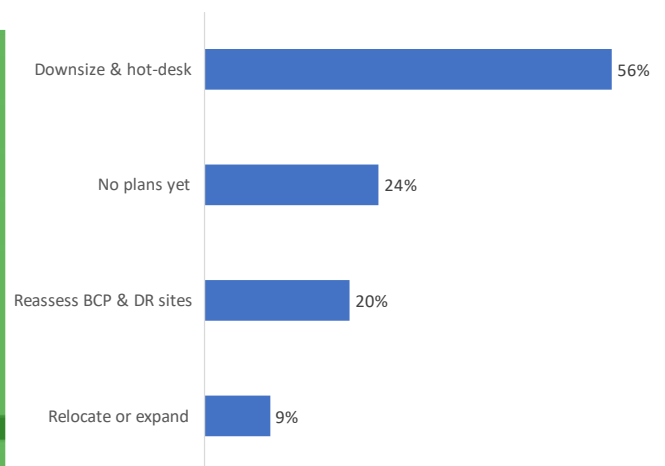
*“We closed our DR site last year due to the Beast from the East – no-one could get there.”*

Head of Trading, UK Asset Manager

### Exhibits 17 and 18 Re-assessing the “Office”/ What Real-Estate Changes are Firms Making?

#### The Future Office

- Compliance with regional Government rules
- Re-allocation of workspace
- Re-designing footfall to
  - Enforce Social distancing during the pandemic
  - Maximize interaction post pandemic
- Downsizing/Regionalizing
- Hot-desking
- Readjusting Travel Policies



Source: Redlap Consulting 2020

With firms often locked into multi-year existing contracts, firms acknowledged that this would-be longer-term change but then the question is, what to plan for. Some firms are opting for sites outside of main business centers and building complexes with everything from on-site healthcare and creches, providing not just a space for employees but family members also. Tax incentives and job creation schemes are encouraging firms to look further afield than traditional locations provided there is adequate infrastructure and is within the right time zone.

*“People will realize that if they want to get out of NY metro area, you are not going to New Jersey or Connecticut, you go further afield to benefit from tax incentives. But you still need infrastructure and the right time zone. But you can't just dump the back office there, it has to be commitment from the top down. We are moving the majority of our C-Suite there and will be able to provide significant job creation; that's massive for the local economy post Covid.”*

Global Head of Trading, Global Asset Manager

Others maintain that previous relocation experiments have proven to be just that – experiments. A number of banks that made a push to relocate, now appear to be winding down their remote operations. Some have upscaled their business recovery sites – e.g. a site that originally might have been set up for 5 or 10 people has been upscaled to 50 or 60 people from different core teams. Several respondents reiterated London’s unique position in terms of time zone and strength of capital markets, a position that was already under threat from Brexit and rising regulatory divergence both sides of the channel.

To survive in an increasingly challenging industry, the economics will eventually speak for themselves and for some European countries working from home may not deliver the cost savings anticipated. Germany is pushing to define clearer boundaries between personal life and work by introducing a new law that aims to better regulate homeworking. The objectives are to ensure workers have the option of working from home when possible but also better home office working hours and conditions. Depending on the rules what are finally published companies may re-think offering working from home, for example, if they are required to contribute to a separate workspace or assist with connectivity if individuals don't want to use their private internet connection.

In contrast, France has chosen to focus on an employee’s “right to disconnect” from work and related electronic communications<sup>2</sup>. It also encourages the company to set up processes to regulate the use of digital tools, in order to ensure the respect of rest and leave periods as well as that of personal and family life. In a seeming premonition of future working life, Luxembourg and Italy have also recently addressed the right to disconnect, as the lines between work and home life become increasingly blurred.

## Managing Risk

Inherent traditional views that staff are only productive and valuable if they are visible requires a micro-management of staff which is no longer feasible without a camera pointed on employees 24/7. Engagement with employees has had to change from micro-management to encouraging self-motivation and discipline, adapting the skill-set requirements now needed.

Given the increased regulatory scrutiny regarding market abuse, firms are under pressure to implement processes and procedures that deliver. Managing this remotely led to firms increasing spot checks, monitoring FIX logs of transactions front to back. But it has also required a far deeper level of trust in staff working remotely, shifting the culture of compliance from a policy of strict oversight to one of greater education and support (see Exhibit 19).

*“The bank now has the evidence of how much they have saved, and it has been massive - costs from heating, lighting, etc. We were planning to increase our headquarters, that is not even a subject now. Previously no-one worked from home, so that will be radical change for us.”*

Head of Trading, European Asset Manager

*“There are a number of internal projects globally to look at the real-estate we currently have but this is more US focused. In the UK the central office location is useful for a convenience point of view, but we are paying a lot for a building that is never more than 50% full. But it’s a long-term lease, so there will be no changes in the short-term, we are starting the negotiation process now.”*

Head of Trading, Global Asset Manager

*“We are a very global operation – we have global equity teams across the globe so we will always need a presence – it’s just now the physical presence is likely to get smaller. Offices will be smaller in size, more open plan and flexible, more interactive, rather than little cubbyhole offices with your name on the door – those days have gone.”*

Global Head of Trading, Global Asset Manager

*“In Germany discussions are already underway regarding if you are trading and working with personal data for example, you’re supposed to have a separate room, which can be closed and cupboard that can be closed so that personal data is protected. There will be a difference between (temporary) mobile working vs working from home permanently so for example mobile working is similar to what we have today, you use your private infrastructure supplemented by your office laptop, screens etc. That’s acceptable. If it is more than that companies will be more reluctant to do so due to the possible double cost.”*

Head of Trading, European Firm

*“Management needs to be increasingly based on trust, encouragement, empathy than on a more historic controlling, micro-managed approach.”*

Head of Trading, Large Global Asset Manager

*“We have had a fragmented and remote team for almost two decades now, but the challenge for traders who traditionally never worked from home was security, compliance and oversight. Making sure that nobody was looking behind their back. We have staff whose partners are competitors, necessitating disclosure agreements as well as a lot of trust.”*

Head of Product Management, Global Bulge Bracket

*“We’ve got virtual turrets, so we have exactly the same monitoring capabilities, language detection monitoring, IB chats. The compliance position is no different at home than in the office.”*

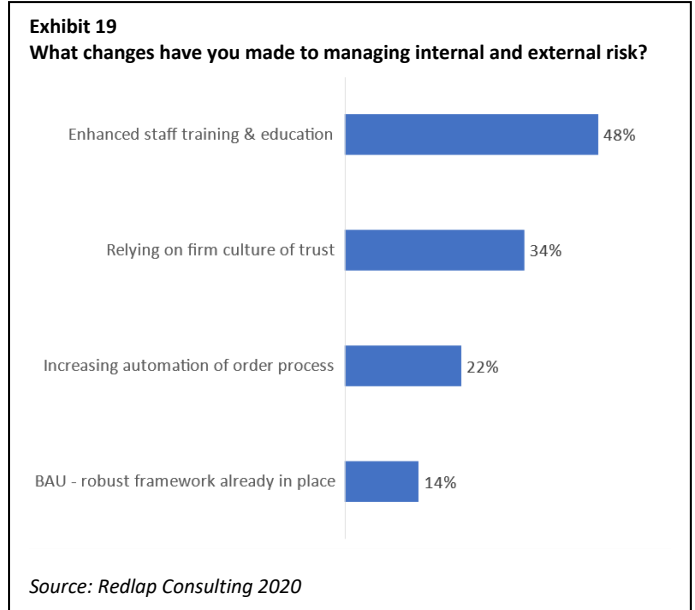
Head of Trading, Global Buy-Side

<sup>2</sup> <https://www.legifrance.gouv.fr/codes/id/LEGIARTI000039785096/2020-01-01/>

Working from home does create additional risks, requiring compliance departments to issue generic safety notices regarding making sure PCs and laptops were switched off, that children couldn't inadvertently access keys, and the visitors were not able to see sensitive documents, but in the main firms were able to redirect the systems and controls in place on the trading floor to home set-ups alongside the virtual turret, OMS and EMS.

In addition, firms also focused on automating processes wherever possible to limit unnecessary errors, as well as introduce controls and accountability to track any irregular activity, even when working from home. While much of the trading function in equities is heavily automated, this is not always the case for other equity classes or order creation, leading some firms to put in place additional manual checks and authorizations to tighten up communication between portfolio managers and the trading desk and avoid costly errors.

Of greater concern was making sure staff WFH understood the processes and procedures to be taken in the event of an inadvertent error; that junior staff working from home did not panic and were able to follow clear guidance, and in that regard all respondents were clear, fostering a culture of trust is critical. The concern lay in how to ensure the same level of responsibility and corporate awareness is maintained when individuals WFH for a continued and indefinite period.



*"Traders do not create orders and trades are automated front to back. We are so automated that any abnormal activity would be easy to identify. But at the management/PMs/analyst level it is harder to monitor."*

Head of Trading, Global Asset Manager

*"Pre-lockdown one of our PMs tested positive and his back-up incorrectly authorized a futures trade at the height of the volatility. It cost us a significant amount of money to cover. Now we will not execute any trades unless we've had two separate authorisations from the PMs to tells us that's a good trade, we have a built-in extra controls."*

Head of Trading, European Asset Manager



## ESG – The bigger picture post Covid

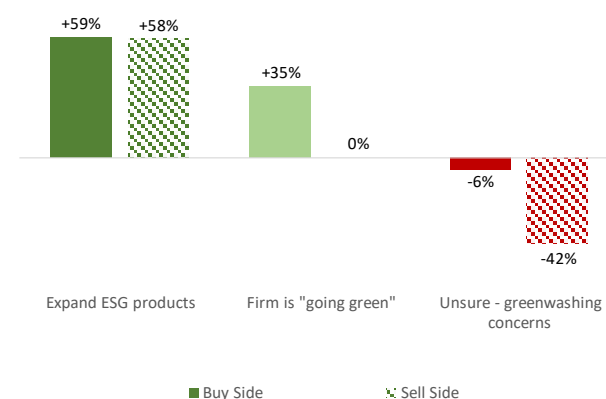
Firms not only have to re-adjust to ensure existing business can function, they also need to rapidly adapt the products and services they provide. In 2019, ESG looked set to transform asset management and financial services. Some predicted that the pandemic would derail progress - instead Covid-19 has *accelerated* the sustainability debate. The Biden victory, the European Recovery & Resilience Fund, mandatory climate risk and other new disclosures will ensure investment in ESG is likely to remain top of the agenda in a post pandemic recovery. Over half both buy-side and the sell-side respondents are continuing to expand investments in ESG products (see Exhibit 20). This is set to alter not only research, data and analytics requirements, but also how a firm manages their own green credentials with the latest focus on women and minority firms – 35% of asset managers are now focused on how they as an organisation “go green”.

Forthcoming regulations are set to enhance climate-related disclosures to address the impact climate change has on the value of a companies’ assets and prospective profits. These will ramp up the need for further alternative data, often from alternative providers such as charities and NGOs. The COP26 private finance agenda<sup>3</sup> seeks to ensure that every professional financial decision takes climate change into account as well as channel more private capital into sustainable projects to minimize the risk of perceived “greenwashing.

Global demand for climate-related disclosures continues to grow, with major investor networks such as Climate Action 100+<sup>4</sup> (representing investors with over \$52 trillion in assets) demanding strengthened corporate disclosure. The TCFD framework<sup>5</sup> has grown to over 1,440 organizations representing a market capitalization of over \$12.6 trillion. Thirty of the world’s biggest asset managers collectively overseeing \$9 trillion have set a goal of net zero carbon emissions across their investment portfolios by 2050.

The challenge for many is whether this hype creating an artificial bubble as the industry grapples to make itself more attractive to investors or whether there are now sufficient legitimate financial risks in traditional safe haven investments. While the evidence is clear on the “E” with companies such as CalSTRS<sup>6</sup> and the NY State Common Retirement fund pledging to divest investments in energy companies that do not plan on cutting emissions or diverting from

**Exhibit 20**  
What are the longer-term implications as the industry moves to a socially fair and climate neutral economy (Buy Side vs Sell Side)?



Source: Redlap Consulting 2020

*“ESG is in every single portfolio strategy, it’s now a bare minimum entry point, then you have high ESG and ultra ESG. You can no longer avoid it; when we get RSPs they increasingly focus on ESG. Anyone who manages anyone else’s money now doesn’t want to end up on the front page of a newspaper, whether it’s oil, nuclear weapons or governance, we all have to be on the front foot.”*

Head of Trading, US Asset Manager

*“It is definitely a big focus for us but not only in terms of green investments but as a green firm – an environmental group has been set up and we have an eco-dashboard to understand our impact. Going forward the brokers we use will become a significant factor – they have all been public on their commitment but it’s a bit difficult to establish what they will deliver as there are multiple layers of ESG.”*

Head of Trading, Global Asset Manager

*“The one place where we are most active is exclusive capital, which is our engagement with minority and women owned enterprises. We have made a concerted push over the last three years to find ways to increase our engagement with that cohort of firm.”*

Head of Trading, US Asset Manager

*“We would struggle if we didn’t have a strong ESG offering. What has been interesting in the last two or three years is how all our competitors have caught up and it is becoming extremely competitive. My children only want to invest in things that have an ESG or diversity angle and if you don’t offer those products, you’re dead in the water. We’re not yet being selected because of our ESG credentials but I think that will come.”*

Global Head of Research, Global Bulge Bracket

<sup>3</sup> <https://www.bankofengland.co.uk/events/2020/february/cop26-private-finance-agenda-launch#:~:text=The%20objective%20of%20the%20COP26,finance%20a%20whole%20economy%20transition>

<sup>4</sup> <https://www.climateaction100.org/>

<sup>5</sup> <https://www.fsb-tcf.org/>

<sup>6</sup> <https://www.ft.com/content/6762a43d-79fe-471d-8f3b-41e2fb8f3835>



fossil fuels<sup>7</sup>; the “S” and “G” are proving challenging for firms to address. Some organizations are choosing to focus on minority and women organizations – others dismiss this as hype, with the jury still out as to whether this leads to improved investment returns. While some recognize the immediate business opportunity in promoting their socially responsible credentials, there is a huge challenge ahead in delivering real change. 2020 was the start of a decade of delivery for the UN Sustainable Development Goals (SDGs) but the economic impact of the pandemic has undone years’ worth of progress in meeting many of the UN’s targets for health, literacy and gender equality and economic development in poor countries<sup>8</sup>. The SDGs are doubly important, but also far harder to achieve in the current environment.

Asset managers are further ahead of their sell-side counterparts in recognising the impact of delivering on these challenges. End Investors may want to invest in the right companies but if the focus is on pure ESG rather than stewardship of existing investments there is a risk of competing for a declining pool of assets which is already beginning to emerge (see Exhibit 21).

As the definition of a supposed sin stock extends from fossil fuels and gambling, to aviation and data storage, asset managers have to look in more depth at the underlying company, its full activity as well as that of its subsidiaries, to establish the risks as well as the opportunity. There are two main challenges emerging in this debate; one whether it is legitimate to invest in companies such as Tesla, whose meteoric rise of 425% year-to-date compared to the S&P 500's 9% gain in the same period makes the company now worth more than the largest nine global carmakers combined<sup>9</sup> yet with less than 1% of global sales and perceived questionable governance in certain areas.

The second is the conflicting and arbitrary nature of some current ESG ratings which necessitate far greater analysis to uncover why the rating is as it is, and whether the company – or its subsidiary – is actually undertaking an untoward activity or been mis-categorised instead. For example, whether selling navigation systems to the military constitutes trading in weapons. The level

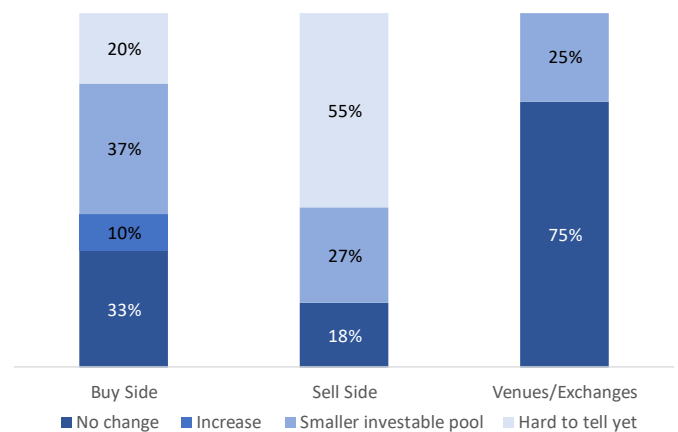
*“As a minority broker dealer we have been actively sought out by ESG funds in order to handle portions of their investments. It is in vogue and there are rarely conversations we have with the buy-side where it doesn't come up.”*

Head of Trading, US Broker

*“There is a lot of talk, and the industry is inching towards change, but in reality, I have never seen a Pension Consultant positively discriminating funds run by women, that makes no difference to their selection process at all. The only thing that ticks the box for these consultants is if you can say that you have an ESG fund, do you have ESG integrated into your investment process.”*

Portfolio Manager, European Asset Manager

**Exhibit 21**  
Do you think the move to ESG will result in a shift in liquidity formation and supply & demand as sectors fall in or out of favour?



Source: Redlap Consulting 2020

*“We haven't yet defined what ESG means for the end investor Whether Airbus can be included because it has a military division; how you justify not investing in oil companies that are diversifying? What do you do when an asset screens perfectly adequately but in some dark corner of the firm a year later, one of their vehicles is turned into an armoured car and it gets sold in Yemen?”*

Head of Electronic Trading, Global Asset Manager

*“The data is now so expensive. We subscribe to three providers of ESG data and you look at the heatmap, the same stock is green, one is yellow, one is red, they have completely different scores and opinions, one is how the company behaved in the past, another is how they compare to other companies or the sector. I have to go with it with my judgement and look at what they do, is it something that is really dangerous for the environment or can I question the management to understand what they are doing?”*

Portfolio Manager, European Asset Manager

<sup>7</sup> <https://www.ft.com/content/67e87d22-f733-4914-8c6a-e447e61d9ea2>

<sup>8</sup> <https://www.un.org/development/desa/en/news/sustainable/sustainable-development-goals-report-2020.html>

<sup>9</sup> <https://www.cnn.com/2020/12/14/tesla-valuation-more-than-nine-largest-carmakers-combined-why.html#:~:text=Tesla's%20market%20capitalization%20has%20increased,of%20cars%20that%20they%20do.>

of analysis now required to prevent an asset manager ending up on the front page of a newspaper for all the wrong reasons has shifted up a significant gear adding vast levels of cost to an already stretched industry.

It is not only the buy side that is grappling with the new demands around ESG categorisation. Increasingly, ESG valuations are being challenged by asset managers who perceive analyst research as misleading given the lack of clarity and consensus around ESG ratings. Added to which the ESG trend has pushed the valuations of many companies which creates added complications for those investing for short rather than long-term profit.

Rising political pressure is set to escalate the ESG debate still further. 123 scientists from 27 European countries have expressed concern that current proposals for an EU taxonomy to provide scientific definitions for 'green' and 'brown' investments do not go far enough ahead of implementation in 2022<sup>10</sup>. Politics is also playing an increasing role in the US. The latest US Executive Order 13959 to prohibit transactions in publicly traded securities of Chinese military companies and their subsidiaries may not be for strictly ESG reasons but will prevent all US investors from investing in a raft of Chinese firms<sup>11</sup>, many of which are already a substantial part of the MSCI world indices. This is likely to have a significant impact on the continued rise of passive funds tracking the index. 40% of respondents believe that passive funds will increasingly be forced to steer away from vanilla index tracking, focusing on scale and profitability as well as ESG overlays to remain successful (see Exhibit 22). Management of multiple passive fund structures across numerous portfolios requires scalability to remain competitive but managing liquidity within the new context of ESG overlays will create a new layer of complexity that few firms can manage effectively.

Active management may benefit from the pandemic, but passive funds will remain. Yet the post pandemic economic recovery will ensure that the constituents of these funds are set to become radically reformed requiring changes to liquidity profiles and trading strategies.

*"ESG data costs are getting out of control, you have to take the data multiple times to put it in different systems, should ESG clients pay 3 x the fees? How can a company recover the cost of all the analysis that now needs to be done if you need to take into consideration every aspect of the business."*

Portfolio Manager, European Asset Manager

*"A hedge fund criticized our approach to ESG, they felt that the valuation and the way the company presented the information was completely out of whack. The question is – is ESG a bubble or will valuations normalize as all companies become more ESG orientated?"*

Global Head of Research, Global Bulge Bracket

*"ESG has pushed the valuations of a lot of those companies meaning that if you invest for a short term you probably cannot justify the valuations but if you go for long term and you can afford to buy and hold."*

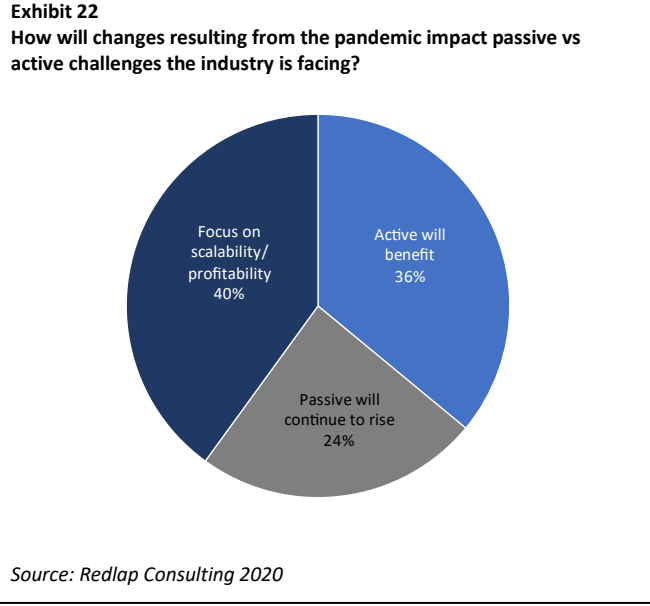
Portfolio Manager, European Asset Manager

*"You can't just passively invest in index because you need to take the social responsibility aspect into consideration. Passive will have to become more active; you will increasing see passive index trackers with active ESG overlays."*

Head of Trading, Large European Asset Manager

*"Our goal is to be 80/85% sustainable by next year. There is a definite ESG selection shift. If you want to track S&P, then it will be in a portfolio that will be modelled on ESG principles, so you are a passive, but excluding fossil fuels, or arms etc."*

Head of Trading, Large European Asset Manager



<sup>10</sup> <https://www.responsible-investor.com/articles/eu-taxonomy-advisors-call-for-expansion-to-brown-in-final-report>

<sup>11</sup> <https://www.federalregister.gov/documents/2020/11/17/2020-25459/addressing-the-threat-from-securities-investments-that-finance-communist-chinese-military-companies>

## Looking Ahead

The industry's response to Covid-19 will be far greater than just figuring out how to continue doing business working from home - but rather what, why and how future investments will be made, reshaping the industry and its constituents in the process. The global economy is undergoing a massive decline, with a wave of bankruptcies and redundancies and financial services will be no exception. Yet with change comes opportunity.

The unrelenting focus on lower costs is whittling the industry down to the bare bones ensuring the industry will continue its inexorable glide towards greater automation. This will create efficiencies, lower the cost of production and improve the quality of client experience through more bespoke and targeted solutions. Ultimately maximising a firm's chances of weathering the post pandemic recovery and ensure their ultimate survival.

Successful working environments will no longer be dependent on the size of footprint in Manhattan but how intelligently firms can flexibly engage with their staff – physically and virtually using the space available to them. While there are cost savings to be made by reducing the office footprint in prime areas of real-estate and closing Disaster Recovery sites in favour of hot-desking and remote working, establishing who can work from home and how will this work in practice will require balancing - sometimes conflicting corporate and employee requirements - but if this is navigated successfully, this will increase and diversify the industry's talent pool exponentially.

Alternative approaches to flexible and hybrid working, minimising less productive tasks such as long-distance travel and commuting will have a positive impact on time management. Virtual interaction will not replace physical presence but will instead improve team collaboration through better use of technology, breaking down geographical boundaries. This will be true not only for firms internally and externally, but also extending to how investors and investee companies are engaged going forward.

Matching the right investor with the optimal product can be improved by expanding an analyst's reach both in the companies they invest in and their virtual audience they can engage with. From the use of drones to evaluate future investments to virtual roadshows, Covid-19 has ensured a rapid adoption of technology in the research process forcing a decade's worth of behavioural change in a matter of months. On the retail and the commercial side, firms were forced to switch to increased digital access as individuals shunned physical visits to banks or corporate advisors. With approximately 80% of the US and Chinese markets still invested locally, the pandemic may yet represent the beginning of truly global investments as asset management has the capability to go virtual, 24/7 around the globe.

This will require upskilling of workforces currently focused on physical interaction. An individual's need to read the room will be replaced by those more adept and at home with operating in a digital environment. The shift to virtually working will increase the need for self-starters and those who are self-motivated, rather than micro-managed. Greater virtual engagement will also require new technological skillsets to transform client digital interaction from mobile offices. Monitoring staff will require more agile compliance approaches, including the rising need for cyber security experts.

A huge opportunity has emerged for policy makers to rethink long-term savings plans of the population – but through greater financial education. Passive funds that blindly track the index may leave investors running higher hidden risks given wider macro changes. Assets that are the mainstay of indices today, may not necessarily be those of tomorrow and the pace of change is unprecedented.

The trend towards ESG investing continues to herald opportunity but also rising concerns for those invested in supposedly "safe" assets as the definition of a supposed sin stock extends from fossil fuels and gambling, to aviation and data storage. Traditional blue-chip assets will require a change in investment strategy as the

pandemic impacts not just in terms of the type of underlying investment but its liquidity profile and profitability as an investment.

Ensuing that capital markets serve the wider economy better can be achieved by encouraging greater retail investment outside of large cap. Committing capital for seven plus years in a diversified portfolio to off-set the risk could improve companies access to capital as well as improve investment opportunities for end investors. Daily liquidity for small and mid-cap stocks appears an impossible circle to square given recent volatility and one-way liquidity. The increased burden of regulation in order to protect end investors while justifiable, creates legitimate hurdles for PMs to invest. Changes to policy could better enable Capital Markets to better support the post pandemic economic recovery across the globe but wider adoption of smartphone technology, with the ability to access information and trade global companies 24/7, will be how the public can best be brought back into public markets.

Capital Markets now has the ability to level-set the industry through more efficient use of technology and greater automation across the entire investment chain. Not only will this improve the working life for its participants, but this will also deliver better performance for the end investors and the post pandemic economic recovery. From end investor to investee company and the intermediaries in between, Covid-19 is not just an immediate challenge to overcome, but a huge opportunity for the future success of the industry.

This report has been written by:  
Rebecca Healey and Charlotte Decuyper



Redlap Consulting consists of a group of experienced industry professionals who have a deep knowledge of Capital Markets. Using this as the basis of research this enables us to provide detailed and thought-provoking research on the impact of evolving market structure globally.

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## About Redlap Consulting:

Rebecca Healey



Rebecca is considered to be a leading industry voice on market structure, regulatory reform, and financial services technology. Writing research since 2011, Rebecca has authored a plethora of qualitative reports and commentaries covering the impact of market regulation on all asset classes, the impact of the rise of fintech in capital markets, as well as the impact of the move to ESG and sustainability in asset management; focusing on how technology can help address current challenges, improving capital markets both for participants and investors.

Widely quoted in the financial, business and trade media, she has appeared on TV and radio discussing ongoing changes in capital markets such as the *Financial Times*, *The Economist*, *The Wall Street Journal*, *The Times*, *DeTelegraaf*, *Die Welt*, *Le Monde*, *Les Echos*, CNBC TV, BBC and Bloomberg, among others. She has contributed to regulatory policy participating in a wide number of roundtables in the UK and Europe including providing evidence for the UK House of Lords review into electronic trading.

Prior to writing research since 2011, Rebecca held various positions at Bankers Trust, Goldman Sachs, and Credit Suisse, where as Vice President she was instrumental in launching the successful AES product from its inception in 2002. She was the first electronic trader at Credit Suisse to be registered for all electronic European cash equity markets. During this time Rebecca also set up Positive Risk, a forerunner of initiatives to educate women in financial planning. Rebecca was based in the Middle East from 2008 to 2010, where she was employed by the British Embassy in Bahrain, successfully launching the UK Government's financial services strategy in Bahrain.

Rebecca holds a Bachelor of Arts degree in Spanish & Latin American History & Politics from the University of London.

@\_RebeccaHealey

<https://www.linkedin.com/in/rebecca-healey/>

Charlotte Decuyper



Writing market structure research since 2017, Charlotte has co-authored a number of reports and commentaries covering the impact of market regulation on equities and fixed income markets, the impact of the rise of fintech in capital markets, as well as the impact of the move to ESG and sustainability in asset management; focusing on how technology can help address current challenges, improving capital markets both for participants and investors.

Charlotte was quoted in a number of financial articles such as *The Trade*, *L'Agefi*, *IFLR Practice*, among others. Prior to writing research since 2017, Charlotte held roles at Reed Exhibitions and The Boston Company Asset Management in Boston. Charlotte holds a Master of Science from Montpellier Business School (France) and a Master of Business Administration (MBA) from Salem State University (US).

@CharlotteDecuy1

<https://www.linkedin.com/in/charlottedecuyper/>