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FINANCIAL SERVICES

NED ROUNDTABLE 'WISDOM AND WINE'

SUMMARY NOTES FROM
JUNE / JULY DISCUSSIONS



WISDOM AND WINE ROUNDTABLE SUMMARY

The pressure placed on Financial Services' Boards, by Regulators and Executive teams, to 'respond' during COVID-19, saw many Non-Executive Directors (NEDs) helping perform the most important job of all -safeguarding their people and customers.

With many NEDs playing a dual role of 'challenger' and 'supporter', the human response to the crisis has brought the Executive and NEDs closer together. However, some NEDs also noted that as the frequency of Board meetings increased, the formality and record keeping decreased, blurring the lines between NEDs and Executives as NEDs became more 'hands-on'.

Coming out the crisis, NEDs felt that 'coming down the mountain will be much harder than going up' and decisions around re-opening offices will be difficult, managing the needs of the business, clients and staff wellbeing. Those who embraced technology, acted strategically and took advantage of market conditions, would be successful. Those that went backwards to the way 'things were', would struggle to be competitive.

ReThink

BDO has mapped the COVID-19 crisis into three key phases:

- ▶ **React** - the 'now', focusing on safeguarding and survival
- ▶ **Resilience** - embedding resilience and keeping the organisation running
- ▶ **Realise** - returning and succeeding in a 'new normal'.

After running two intimate NED roundtables with Financial Services' clients, we are delighted to share insights and lessons learnt from the COVID-19 NED journey.

NEDS' REFLECTIONS ON 'REACT'

During the first six weeks of lock-down, the immediate priorities for Boards were to safeguard colleagues by enabling them to work remotely, ensure continuity of service to customers (and treating customers fairly) and ensuring third party suppliers were also able to maintain continuity of service. Given Financial Services firms' focus on operational resilience and business continuity plans (BCP) prior to the crisis, moving teams overnight to work from home (WFH) was a success. Infrastructure proved to be resilient and firms were operational immediately, with some firms experiencing busier periods than pre-COVID-19.

Staff wellbeing was critical, and many NEDs reflected on 'shifting gears' into a more 'support/mentor/trusted confidant' role for the Exec, 'checking in' on a personal and individual basis, as some Executives were finding lockdown tough. Other NEDs were calling their Executives to say 'Thank you', impressed by their leadership and ability to motivate and mobilise a remote workforce under such extreme conditions.

Conversely, some NEDs felt 'excluded' as Executives crisis-managed in isolation, and others struggled to see what 'value' they could add given the Executives seemed to be doing such an exceptional job without them.

As Board meetings became more frequent and more 'apps' were being tested, protocols were sometimes overlooked and NEDs commented that meeting 'ground rules' and 'meeting etiquette' had to be re-established, virtually. For Chairs specifically, they found it important when leading virtual Board meetings to ensure that all opinions were heard, a roll call was taken, appropriate time was allocated to debate proposals, records were robust and decision making processes were evidenced in Board minutes. Some Boards spoke about daily and weekly MI, recalibrating forecasts for the next 6-12 months although conscious not to make important decisions in 'panic mode'.

WISDOM AND WINE ROUNDTABLE SUMMARY

NEDS' REFLECTIONS ON 'RESILIENCE'

As the adrenaline of the first two months of lock down has started to wear off, NEDs reflected on dipping morale and fatigue. With working remotely, NEDs (and Execs) found it difficult to get a true sense of how people were 'really' doing and whether prolonged remote working was starting to affect culture. There is an overall concern about longer-term burn-out, poor mental health and PTSD as the crisis continues.

Having established the ground rules for Board meetings, meetings seem to be working well however, NEDs debated whether this was because Most Boards already know each other fairly well and are 'trading' the personal human capital that has built up over the years/months pre-COVID-19. How long will that human capital last and can it be regenerated virtually?

From an operational perspective, Risk and Audit Committees were refreshing risk registers, with remote working increasing the risk of human error, fraud, cyber, with some firms implementing preventative and detective controls. NEDs also reflected on the challenge 2nd and 3rd line functions have in managing risk, and whether testing remotely will be as effective in the long run.

Whilst the recruitment market for NEDs is opening up (NEDs reported more approaches during COVID-19), conducting interviews and inductions via Zoom felt awkward and somewhat risky, having never 'shaken' hands or met face to face. Would this be the new normal?

How often will Boards meet in the future? Will Boards become too executive if they continue to meet more frequently? Some NEDs noted that UK Regulators have, and will continue to have, a heightened sensitivity (some NEDs described regulators are being intrusive) to how Boards (especially SMF holders) have behaved and reacted to the crisis, how decisions have been made, and what records exist to evidence decision making in accordance with the Regulators' rules and expectations.

As firms move out of crisis mode and into a state of new normal, what does this mean for the NED role moving forward?



NEDS' REFLECTIONS ON 'REALISE'

There is no one size fits all approach for a 'return to the office' and NEDs are concerned, that with prolonged remote working, how will firms 'preserve' culture? How will relationships form and develop?

For Boards, remote working has saved significant costs on Board travel and expenses in attending meetings abroad (many NEDs sit on global boards), there was a question however, on whether physical meetings should ever return. If not how will NEDs be able to 'take the temperature' of the business if they are not able to 'walk the corridors'? This is a particular area of concern, reflecting also the Regulators' expectations of a strong culture and tone from the top, governance and accountability

How will NEDs be able to navigate this? Whilst most firms have been very resilient, as we move into a recession, how long can/will that last?

Now is the time to revisit and challenge the levels of risk accepted during lockdown/moving to remote working and what is now needed to ensure future activities fall within a firm's longer-term risk appetite. There is a need to re-ignite discussions on strategy and lift the executive out of the current (and somewhat) reactive position we are in.

NEDs felt that talent is both a risk and opportunity in the new normal. There will be Execs who will be celebrated as 'COVID-19 top performers' and will be highly sought after. Therefore whilst it is an opportune time to recruit, there is also an increased risk of losing talent in a volatile market. If we look at the next generation of talent, and those graduates/young people entering a 'remote' workforce, how they will learn core soft skills such as body language, face-to-face communication and reading a room?

Finally, whilst firms have arguably had access to online collaborations/meeting tools (as well as the option of remote working) for years, many financial services' firms have chosen to ignore them until COVID-19, and may be tempted to revert to the 'way it used to be'. NEDs felt that this would be a mistake.

They predict that the most successful firms will embrace technology, keep adapting (as will their eco systems) and create an operational model that services its people and clients.

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