

**Eiger Regulatory Partners**

Human Capital & Consulting

**Post-COVID pandemic survey findings: Strategic  
Compliance risks and issues for Investment Banking  
Chief Compliance Officers**

**James Ritchie and Malcolm Hill, October 2020**

# Background to the Survey

- With what is looking like a protracted lock-down and a continuation in remote working for 6 months we thought it would be timely and informative to speak to the Chief Compliance Officer (CCO) community about their experiences over the last 6 months and their expectations for the year ahead.
- How have Compliance functions performed over the last 6 months? Have they maintained operating effectiveness as a second-line challenge and control function? What have been the key management and operational challenges from remote working? What does the future look like?
- The COVID pandemic has come at a time of significant challenges for many financial services companies operating in the UK and EU wholesale markets. These include:
  - Preparing for Brexit
  - Ramping up organisational preparations for LIBOR Transition in 2021
  - Improving financial crime and AML related controls
  - Climate change, ESG and green finance
  - Continued implementation and development of core EU regulations
  - And much more: accessing and using wholesale data, data protection, cyber security, operational resilience, prudential changes and so forth.
- Compliance functions continue to be under significant pressure from the breadth of issues they have to cover, the need to demonstrate operating effectiveness and efficiency and resource challenges.

## 5 survey questions

1. What have been the key Compliance management challenges during COVID lockdown and remote working?
2. What were the main Compliance risk management issues during lockdown?
3. What changes in working practices have you adopted during remote working?
4. Which operational control areas have been under greatest pressure?
5. What do you consider to be the main regulatory risk concerns over the next 12 months?

## Survey approach

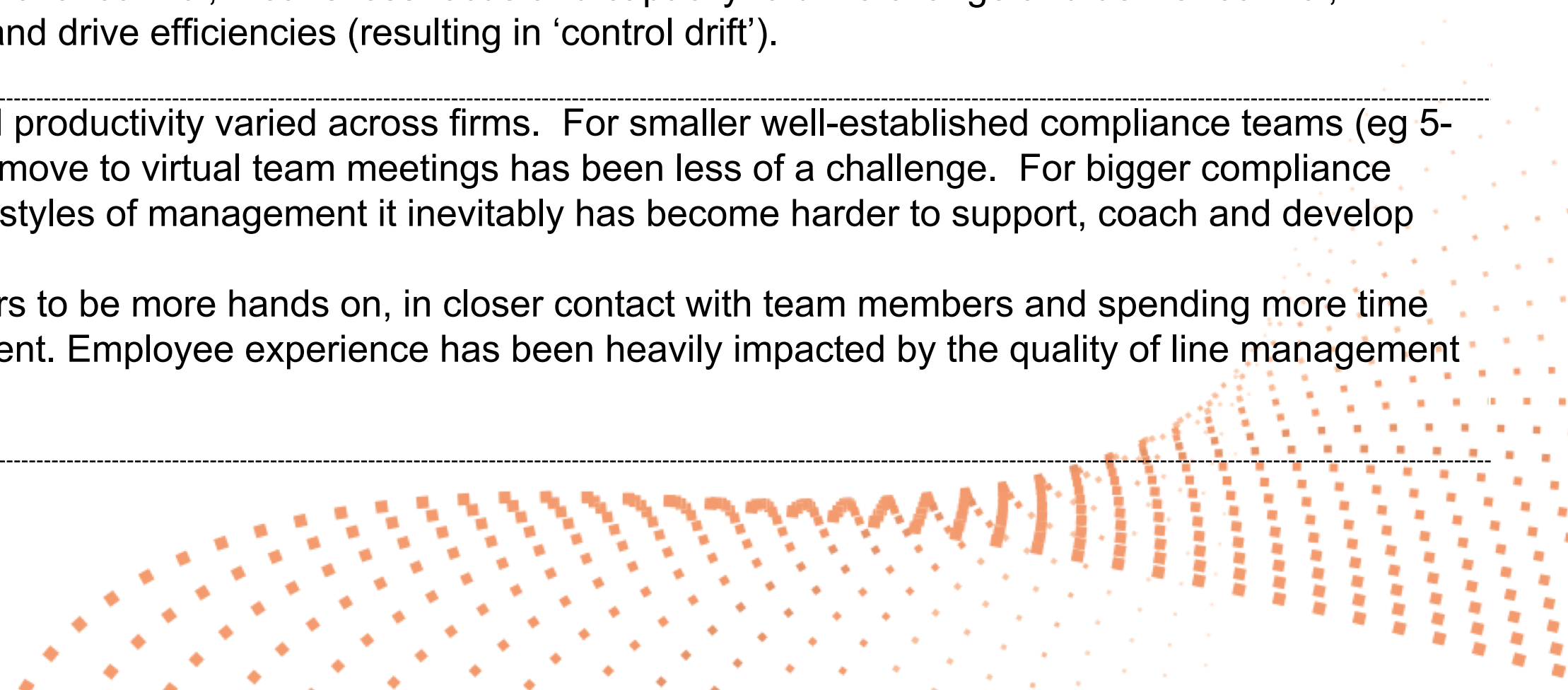
- We have interviewed CCOs from a broad spectrum of Investment Banks from the US, Asia and EMEA which have different business activities in the UK. The Compliance Teams range in size from 10-20 employees up to over 150+ employees.
- The report reflects the key themes and observations the authors considered to be of most interest and materiality to the wider compliance community.

# Executive summary of the key themes

Topic	Themes
<ul style="list-style-type: none"><li>■ <b>Compliance management challenges</b></li></ul>	<ul style="list-style-type: none"><li>■ The transition to a full remote working operating model was generally smooth and without major incidents.</li><li>■ The majority of firms are focusing resources on run-the-bank controls to deliver the compliance programme, impacting change delivery.</li><li>■ Virtual supervision of staff requires a more hands on managerial approach.</li><li>■ The loss of face-face contact impacts information flows and relationships and is regarded as a step backwards.</li><li>■ Risks to health and wellbeing of employees and team cohesion remain a key management challenge.</li><li>■ Continued remoting working elevates compliance and conduct risks over time.</li></ul>
<ul style="list-style-type: none"><li>■ <b>Risk management challenges</b></li></ul>	<ul style="list-style-type: none"><li>■ Maintaining effective operational control and resilience from continued remote working.</li><li>■ Enhancing front office supervision routines to strengthen control.</li><li>■ Conduct and control risks by 'bad actors' multiplied by remote working.</li></ul>
<ul style="list-style-type: none"><li>■ <b>Operational control pressure points</b></li></ul>	<ul style="list-style-type: none"><li>■ Trade and communication surveillance platforms processing unprecedented alert volumes.</li><li>■ Technology and IT security teams have maintained operational stability. Use of new technologies creates additional compliance risks.</li><li>■ Staff-onboarding and training has been a challenge in many firms and a factor in the reduction of recruitment activity.</li></ul>
<ul style="list-style-type: none"><li>■ <b>Strategic issues (including Working Practices)</b></li></ul>	<ul style="list-style-type: none"><li>■ Workforce and return to work strategy issues include:<ul style="list-style-type: none"><li>○ Future work patterns won't be the same. There will be a 'new BAU'</li><li>○ Health and wellbeing of staff and burnout. Many employees want to return to an office environment, others do not</li><li>○ Career development and progression may be impacted</li><li>○ Return to work strategy is going to require a balanced approach</li></ul></li><li>■ Catching up with control remediation programmes and project 'drift'. Change delivery programmes need to be re-energised.</li><li>■ Concerns over team capacity and resourcing and winter illness impact. Pressure mounting on BAU and delivery challenges in 2021.</li><li>■ Remote working has exposed increased operational risks with the use of third parties.</li><li>■ Recognition that the use and set-up of disaster recovery facilities will come under strategic review.</li></ul>

# Compliance Challenges (1/2)

Theme	Observations
<ul style="list-style-type: none"><li>The transition to a full remote working operating model was generally smooth and without major incidents</li></ul>	<ul style="list-style-type: none"><li>Operating a compliance function fully remotely at the outset of Lockdown, was a major risk concern, with many compliance activities never contemplated as being delivered remotely having to operate that way.</li><li>Most firms had a smooth transition to the remote working environment after 1-2 weeks of initial set-up and ironing out technology and operational issues (eg IT capacity, domain access, the need for more hardware).</li><li>Some firms invoked their Business Continuity Plans (BCP) whilst others did not.</li><li>Run-the-bank compliance control processes remain effective (with some exceptions noted below) in the remote working environment with activities switched to phone and video-conference based communication rather than face-to-face (which for some international teams was not new).</li><li>Residual concerns expressed around operational risks in manual compliance processes leading to errors and mistakes and limited ability to conduct quality assurance activities.</li></ul>
<ul style="list-style-type: none"><li>The majority of firms are focusing resources on run-the-bank controls to deliver the compliance programme, impacting change delivery</li></ul>	<ul style="list-style-type: none"><li>Teams adjusted to the new operating environment well, compliance programmes remain effective, but some activities are behind schedule (eg risk assessments, annual compliance training, testing and reviews).</li><li>Closer team connectivity means managers are often spending more time on conference calls and meetings and responding to emails, which is reducing capacity or requiring longer working hours for some employees.</li><li>Some respondents felt it just takes “longer to get stuff done”; the remote set up is “less efficient” and decision making can be slow and as a result, everything takes too long.</li><li>The focus on maintaining and demonstrating operational control, means less focus and capacity to drive change and deliver control, process and system enhancements or to innovate and drive efficiencies (resulting in ‘control drift’).</li></ul>
<ul style="list-style-type: none"><li>Virtual supervision of staff requires a more hands on managerial approach</li></ul>	<ul style="list-style-type: none"><li>The impacts of remote working on team morale and productivity varied across firms. For smaller well-established compliance teams (eg 5-20 employees) who know and trust each other, the move to virtual team meetings has been less of a challenge. For bigger compliance teams, with different functional teams with different styles of management it inevitably has become harder to support, coach and develop junior staff.</li><li>In most cases, remote working is requiring managers to be more hands on, in closer contact with team members and spending more time managing than they would do in an office environment. Employee experience has been heavily impacted by the quality of line management engagement and support.</li></ul>



# Compliance Challenges (2/2)

Theme	Observations
<ul style="list-style-type: none"><li>The loss of face-face (F2F) contact impacts information flows and relationships and is regarded as a step backwards</li></ul>	<ul style="list-style-type: none"><li>A clear theme was lower levels of connectivity with and a reduction / loss of informal information flow between 1LOD and 2LOD teams. However, formal governance forums and channels remain strong and the primary source of communication between teams.</li><li>No quick conversations 'on the desk', loss of informal desk-based contact, loss of context and reduced 'eyes on' management are all considered a negative development.</li><li>F2F meetings 'building trust' were deemed more effective at building and maintaining effective relationships with colleagues within the department. Lack of F2F contact with other control functions makes liaison more challenging.</li></ul>
<ul style="list-style-type: none"><li>Risks to health and wellbeing of employees and team cohesion</li></ul>	<ul style="list-style-type: none"><li>A common theme was resource pressure with external recruitment, in the main, being on 'hold'. Restrictions on use of contractors and consultants and resources not being replaced due to cost constraints and operational concerns has had a knock-on impact on employee wellbeing.</li><li>Concerns expressed about staff emotional burn-out with some employees working longer hours (eg 0700-2100), "people not switching off" was regularly cited and with no demarcation between work and home environments being a concern.</li><li>Challenges concerning the longer-term impact of more flexible / split-team working on team dynamics (eg cohesion, connectivity, morale, productivity).</li><li>A number of respondents from larger firms noted elevated levels of anxiety across firms about job security, compensation, career progression and possible redundancy from restructuring and cost cutting activities.</li><li>There was a recognition that, for many junior compliance officers, remote working is restricting the ability build their knowledge, network and profile, with a feeling of 'treading water' at this time.</li></ul>
<ul style="list-style-type: none"><li>Continued remoting working elevates compliance and conduct risks over time</li></ul>	<ul style="list-style-type: none"><li>There was consensus that more remote working increases compliance, conduct and operational risks some of which may not be visible today or crystallise immediately (see next section) and was described as "not knowing what we don't know".</li><li>New technology is challenging for compliance in terms of recording and security issues.</li><li>"Relying on staff to do the right thing" and maintain conduct standards and cultural values in a remote working environment becomes harder over time.</li></ul>

# Risk Management Challenges

Theme	Observations
<ul style="list-style-type: none"><li>Operational control and resilience from remote working</li></ul>	<ul style="list-style-type: none"><li>Generally, operating platforms worked well after an initial set up period – not all firms were fully prepared for full remote working initially.</li><li>Some larger firms had initial operational challenges due to transaction volumes (e.g. operational errors, systems issues) and remote connectivity limitations for some staff who needed access to multiple screens, tools and systems.</li><li>Whilst first line control frameworks showed operational resiliency, there is recognition that remote working puts additional pressure on the robustness of first line controls. Known control deficiencies, previously risk accepted, may need to be revisited.</li></ul>
<ul style="list-style-type: none"><li>Enhanced supervision routines implemented in most firms</li></ul>	<ul style="list-style-type: none"><li>First line supervision frameworks become even more critical in a fully remote working environment.</li><li>Additional supervision routines and controls were implemented in many firms (eg daily first line control reports and manager 1-1s).</li><li>Some Compliance teams increased testing of first line supervisory checks and routines and are undertaking spot checks on transactions.</li><li>Clear risks in some cases of supervisory stretch, restricted supervision and practical limitations in oversight arrangements.</li><li>Some firms have not allowed junior traders to work from home.</li><li>Concerns expressed around the need for control officers (first and second line) to be present on floors where trading activities continue to operate. “Making presence felt is a part of Compliance”.</li></ul>
<ul style="list-style-type: none"><li>Conduct and control risks by ‘bad actors’ multiplied by remote working</li></ul>	<ul style="list-style-type: none"><li>The continued absence of control staff from trading floors and disaster recovery sites is sub-optimal from a control perspective - “a lot of compliance is about presence”.</li><li>Risk of ‘bad actor’s’ misbehaving (e.g. committing market abuse, leaking confidential data, information abuses (e.g. “point mobile at screen, take photo and send to spread-betting firm”) or becoming complacent, learning bad habits, thinking normal rules don’t apply when working from home and that transgressions are unlikely to get caught, due to lax supervision and management oversight.</li><li>A common concern was materially increased information security risks. Examples included information security in shared flats, risks exemplified with screen sharing, risks with personal emails being used working from home, unlocked computer screens, USB sticks etc.</li><li>Some firms had seen increasing levels of phishing (eg an FCA email scam), fraud (eg in relation to payments) and cyber attacks.</li><li>It is much harder to spot control challenges and problems via video conference engagement.</li><li>Whilst firms continue to reinforce culture and conduct which is impacted by remoteness – being enthused in the culture of a bank is difficult remotely.</li></ul>

# Operational Control Challenges

Theme	Observations
<ul style="list-style-type: none"><li>Trade and communication surveillance</li></ul>	<ul style="list-style-type: none"><li>Inevitably most firms are managing an increase in communication and trade surveillance alerts driven by market volatility and the increase activity over communication platforms. This is particularly acute in larger firms who are processing new highs in alert volumes.</li><li>Systems tuning and new lexicons are being added to some communication surveillance platforms to capture bad actor risks, 'staff going off-grid' and to police ethical wall policies.</li><li>Some respondents commented that parameters on some surveillance scenarios are being altered to add address market volatility and some scenarios have been suspended at times of extreme market volatility.</li></ul>
<ul style="list-style-type: none"><li>Technology and IT security</li></ul>	<ul style="list-style-type: none"><li>Generally, respondents felt their technology teams had done an excellent job in maintaining operational stability and facilitating remote access.</li><li>Not all firms had the technology platforms or infrastructure for all employee to switch to immediate remote working. Some firms needed to facilitate the build of 'home offices' with the appropriate hardware and associated infrastructure for remote working. Others firms needed to expand remote access across IT domains with most respondents commenting on physical bandwidth challenges to enable video-conferences and telecommunications.</li><li>From a compliance perspective, the use of new technologies has to comply with FCA conduct of business rules on recording 'relevant conversions' when conducting regulated activities. This has been a practical challenge because not all tools are recordable, which leads to restrictions on usage and in some cases, there have been limitations on server storage space for recorded video conference communications. The on-going monitoring of communications therefore remains a continuing risk issue.</li></ul>
<ul style="list-style-type: none"><li>Staff-onboarding, resourcing and training</li></ul>	<ul style="list-style-type: none"><li>Recruitment and onboarding of new staff has been challenging for a number of firms, leading to a reduction in recruitment across some firms.</li><li>Concerns were raised about the lack of available internal resourcing options to replace Compliance team leavers and that "taking from Peter to pay Paul" was a firm-wide operational risk as different functions cross-hired from each other.</li><li>Embedding of new joiners in teams and getting them fully operational is harder and generally slower in a remote working environment, particularly those who have not physically met colleagues. In some firms, the quantity of induction training has been increased and front loaded, particularly for client facing staff to enable them to operate remotely and safely.</li><li>Some respondents expressed concerns about the quality and quantity of compliance training by video-conference. Others noted, they felt better engagement with business colleagues who were able to be more engaged working from home. Either way, there is recognition that face-to-face training is definitely more effective, and that training over video conference is more one-way in terms of communication and engagement. The effectiveness of pre-recorded training was questioned.</li></ul>

# Strategic Issues (including working practices) (1/3)

Theme	Observations
<ul style="list-style-type: none"><li>Workforce and return to work strategy</li></ul>	<p><b>Future work patterns will not be the same</b></p> <ul style="list-style-type: none"><li>There was general recognition that future work patterns will not be the same as the past. There will be a “new BAU”.</li><li>Many firms / managers who have typically not embraced remote / flexible working have now had to embrace this way of working and with varying degrees of enthusiasm.</li><li>Most respondents are expecting increased formal requests for permanent flexible / remote working requests once COVID is over and there is a general call to return to work.</li><li>The likely cultural shift in demands for remote working (potentially up to 50% of all staff in some firms working remotely) will create management challenges around how you manage remote working (e.g. peak demand to work from home on Monday and Friday).</li><li>There is a risk of antipathy amongst ‘office workers’ and ‘remote workers’ and its wider impact on team dynamics.</li><li>For some respondents, COVID is likely to have a material impact on workforce and location strategy, which is generally seen as a negative for London and with potential for more offshore working and outsourcing of activities.</li><li>Some respondents commented on perhaps there being potential reduction in wages for staff who do not commute into London, working fully remotely, and therefore not incurring travel costs.</li></ul> <p><b>Health and wellbeing of staff and burnout</b></p> <ul style="list-style-type: none"><li>Common recognition that lots of people want to and need to come back to work for a variety of different reasons, and that most firms are fully supportive of staff returning to COVID secure workplaces.</li><li>Concern was expressed that the well-being of staff often depends on family units and not everyone has an adequate home working environment. Some employees live alone and may be isolated, others may not have the ability to set up a ‘home office’ or indeed have a home environment that is conducive to home working.</li><li>Whilst many staff are embracing the extra time saved from not commuting, some staff are finding it challenging when making a distinction / transition between work and home routines. As a result, longer days and working extended hours are seen as an unhealthy development for many managers.</li></ul>



# Strategic Issues (including working practices) (2/3)

Theme	Observations
<ul style="list-style-type: none"><li>Workforce and return to work strategy</li></ul>	<p><b>Career development and progression</b></p> <ul style="list-style-type: none"><li>Staff need to recognise, that whilst a 'presenteeism culture' may be a thing of the past, for some people, lengthy absence from an office environment will not necessarily help move a career forward. This was cited by most respondents with regards to developing their team members and was seen as an impediment to operational efficiency.</li><li>Continued high levels of remote working will potentially have significant impact on career development and pace of career progression.</li><li>A common held view was that remote management impacts coaching and mentoring capabilities. Junior staff are not learning from having colleagues directly around them as much and critically, therefore less knowledge is being absorbed for future use.</li></ul> <p><b>Return to work strategy</b></p> <ul style="list-style-type: none"><li>Willingness of people to return to work voluntarily is going down for a variety of reasons (travel cost, child care, COVID infection risk during the commute, and the desire for more work life balance etc).</li><li>Firms need to reinforce the positives of working in an office and getting the appropriate balance right.</li><li>Risk of subcultures within firms – firms being flexible on return to work timelines, but some business units demanding colleagues back to work sooner, thereby creating inconsistent return to work protocols across the firm.</li></ul>
<ul style="list-style-type: none"><li>Catching up with control remediation and project 'drift'</li></ul>	<ul style="list-style-type: none"><li>With concerns expressed over the ability to mobilise and execute new non-BAU projects (e.g. new systems, new change projects) and build project teams, a key challenge will be to refocus and re-energise change delivery programmes with this protracted lock-down and add new capacity for teams to focus on delivery.</li></ul>
<ul style="list-style-type: none"><li>Team capacity and resourcing and winter impact</li></ul>	<ul style="list-style-type: none"><li>Pressure mounting on BAU and delivery challenges looking into 2021. "All hands to pumps is unsustainable" was cited when looking forward another 6 months.</li><li>Staff energy and motivation levels a major concern with protracted lock-down.</li><li>Team capacity in the absence of access to external qualified resources to plug SME gaps is a common concern, which may be amplified due to winter illnesses alongside COVID related absences.</li><li>For some firms, the mandatory 2 week leave period has not been taken by many colleagues for operational and control reasons, and now they have a practical challenge to schedule it in before the end of the year.</li></ul>

# Strategic Issues (including working practices) (3/3)

Theme	Observations
<ul style="list-style-type: none"><li>Remote working has exposed increased operational risks with the use of third parties</li></ul>	<ul style="list-style-type: none"><li>COVID has highlighted dependency on external providers (eg in offshore locations) and the impacts of COVID on them being able to deliver services.</li><li>Not all service providers were set up to provide services remotely in the way that has transpired and in some countries where there were greater restrictions on physical movement, employees were unable to access offices.</li></ul>
<ul style="list-style-type: none"><li>Question marks over the future use of disaster recovery sites</li></ul>	<ul style="list-style-type: none"><li>There seemed to be a reluctance to use disaster recovery sites. They have limited use if, for example, say Compliance is there but perhaps no Legal or Risk.</li><li>Looking ahead there may be no need for 500+ desks to be paid for at disaster recovery locations when teams have proved they can operate effectively in a remote working environment.</li><li>A number of respondents commented that disaster recovery sites were not used effectively, did not offer full-service technology and were not fully staffed.</li></ul>
<ul style="list-style-type: none"><li>Technology developments will need to be monitored</li></ul>	<ul style="list-style-type: none"><li>Improved video technology needed to engage better remotely.</li><li>A need for more formalised guidance, in some firms, around the need for remote working ethical walls between different departments (eg sales and research).</li><li>Pressure from clients to use unrecorded video conference software was cited as an ongoing risk issue.</li></ul>

We would like to express our sincere thanks to the CCOs who participated in the Survey. If you would like to discuss any aspect of the survey on a confidential basis please contact James Ritchie ([james.ritchie@eiger-rp.com](mailto:james.ritchie@eiger-rp.com)) or Malcolm Hill ([malcolm.hill@eiger-rp.com](mailto:malcolm.hill@eiger-rp.com)).

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## Can we help you?

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## Regulatory consulting

- We are compliance experts providing specialist regulatory consulting services delivered by former in-house practitioners. Our primary focus is on high-impact delivery and execution leveraging the experience and skills of our consultants.
- Our team of consultants can provide tailored consulting assignments on a wide range of compliance technical disciplines and specialist areas which include:
  - LIBOR Transformation
  - Conduct Risk Management
  - Derivatives Reform
  - Financial Crime Compliance transformation
  - Climate change
  - Regulatory change projects
  - Project management
  - S166 investigations
  - Audit point remediation
  - Product governance
  - Compliance training
  - Rule SMEs
  - Business restructuring support
  - Product specialists
  - Regulatory examination support

## Human Capital

- We specialise in providing regulatory experts to meet our clients' human capital demands. We bring niche regulatory resourcing experience, working closely and discreetly with our clients across the regulatory sector, to provide a range of services which include:
  - Retained executive search
  - Permanent recruitment
  - Contract and interim specialists (operating inside and outside of IR35)
  - Candidate career management and coaching
  - NEDs and Senior Advisors