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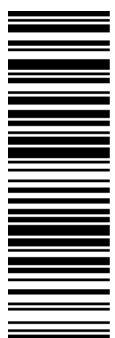
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# COVID-19: Response, Challenges and Opportunities

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## COVID-19 presents financial institutions with the rare and overarching opportunity to re-imagine completely their businesses.

The COOs who understand the nuts and bolts that connect front office production to the control functions from the cultural, operational, technical, risk, and compliance perspectives are positioned perfectly to direct a five-pronged disciplined approach to capitalize on this opportunity. The five prongs represent the key themes that COOs across global markets and asset management have discussed over the last months.

This approach addressing the five specific prongs of a COVID-19 response will shape the “New Normal”:

1. Assess the resiliency of rapidly deployed continuity strategies to ensure preparedness for a second wave and vet business continuity plans in terms its ability to recover business that are now WFH.
2. Assess the new operating models and new technologies for ramifications on the control environment; identify points that need to be enhanced. Approach the assessment from a capability standpoint in terms of a “controlled process” and not individual controls.
3. Document a strategy for “Future of Work” based on the guiding principle, “Physical and Phycological Safety is Priority One”
4. Acknowledge that “Return to the Workplace” will be a process, not an event; ensure that your organization can support the process across the entity and monitor it for effectiveness.
5. Ensure that your leadership and communication address both managing individuals and their expectations as well as maintaining corporate culture and values.

## Origins of the Opportunity

In order to capitalize on this opportunity, it is important to understand two key elements that in combination created the opportunity. Element one is the fact that COVID-19 pandemic differs from other major recent disruptions in three ways:

- First, it is truly a global event with all regions experiencing the disease concurrently but at different points in the cycle of the disease. From a BCP perspective it eliminates most relocation strategies except work from home.
- Second, it is not a single event that occurred with a specific end point, thereby allowing recovery to start immediately thereafter.
- Third, COVID-19 remains an active disrupting event.

While the pandemic continues to endanger human life, to pressure global economies, and to threaten a second wave of increasing cases, there cannot be a return to normal. The return has to be to a “new normal”.

The second element is the starting point of the “return”. The “return” starts from a previously inconceivable place. It starts from the bedrooms, dining rooms, and shared apartments where trading and sales teams, control functions and clients successfully repositioned themselves from the institutional trading floors 11 weeks ago. From these household locations, these teams successfully maintained the integrity and liquidity of the global markets. If the markets can function effectively with 90% of all staff working from home, and the need for the traditional institutional trading floor is in question, all other traditional constructs and best practices supporting operating models as we know them are open for discussion.

Together these two events create this rare situation. There is no going back. Yet, financial firms are in a position to move forward with a proven “proof of concept” that affirms re-imagining operating

models and platforms for financial firms is achievable. The proof is evidenced by fully functioning markets supported vastly by a WFH staff. That said, the current model is not sustainable as is. Firms will have the choice to continue to make tactical adjustments or to devise a strategy to truly revamp its operating models. The question becomes will a Firm just respond to COVID or will they use COVID to improve operating models, better product delivery, and enhance the work experience?

## Seizing the Opportunity

The stage is set. The key to success is appropriate due diligence and careful execution of all five aspects of the approach. Each prong has specific opportunities and challenges that must be identified and addressed. Additionally, it is essential to remember that creating a new normal has broad reaching impact on all aspects of an organization. Consequently, the organization must be prepared to commit resource with the appropriate skill to the due diligence and execution.

Equally important, an organization must have the appetite to re-prioritize resource and budget to both mitigate the challenges that impact the day-to-day operations and to invest in the emerging opportunities. Simply addressing the hiccups of the “now” is tactical. The organizations that can navigate this transition of priorities will be positioned well for continued growth going forward. They will also have the capacity to launch the “return to work” process as the economy re-opens as well as increased resiliency, if a second wave of COVID demands reverting to full WFM Strategies.

## Opportunities, Challenges and Considerations of the Five Prongs



1. Assess Business Continuity Strategies:

WFM is now considered BAU. Technically however, firms are operating under an “extended outage” business continuity plan utilizing a WFH strategy. As such, firms are reviewing business continuity from two different aspects.

The first is what militaries call an “after action report”. This assessment vets the original plans invoked in March/ April against what actually was done to respond to the pandemic. The objective is to highlight successes and gaps focusing on the completeness of the plan and the firm’s ability to enact the plan. It is an exercise in true lessons learned. Many firms have experienced some issues. Common issues like availability of printers, capabilities to back-fill wet signatures, and access to certain systems. Additionally, they noted issues in the compliance controls including supervision and surveillance. (To be addressed in the second prong).

Second, firms are conducting assessments of existing plans, or creating plans, to continue operations if the now BAU of WFM is disrupted. Just because COVID-19 remains an active disrupting event, that does not mean there could not be another disrupting event. Those on the East Coast of the U.S. have already felt the impact of the Tropical Storm Arthur, the first named storm of 2020. The question they are asking is “how at risk are these WFH processes and what is the biggest threat?” A common concern is disruption of third-party suppliers. There is agreement that contingency plans are needed for these providers. Firms also noted difficulty in connecting legacy “pipes” to third party providers.

Firms note the value of creating continuity plans to support the BAU of WFM serves two purposes. It provides better resiliency for now. Also, it can be used to shape the “new normal”. Almost all firms are indicating that in the future, WFH will include more people and more business units. Discussion continues regarding the need for large back-up sites capable of supporting trading or are WFH strategies sufficient?

Firms have noted specific challenges that should be considered. They included second order resiliency on broadband, power supply chains, and connectivity to vendors in a WFH mode. Many firms are discussing if large back-up sites capable of supporting trading are needed or if work from home strategies be sufficient. There seems to be no consensus at this point for two reasons: first, resiliency of WFH is not fully sorted and second, more physical space will be needed to support “social distancing” when the “return to workplace” starts.

2. Innovation: Operating Models, New Technologies, and Controlled Processes

If necessity is the mother of invention, COVID-19 is the accelerator of innovation. The change in operating model coupled with the need for more and different surveillance measures highlighted opportunity to increase effectiveness and efficiency while potentially producing more valuable data.

Market volatility and trade volumes proved that pandemic driven macro events could overwhelm surveillance systems and sheer volumes of alerts could mask real issues. It is estimated that alerts increased by 25%, not all of which could be reviewed. In this situation e-mail alerts proved less valuable as the individual alerts came in large volumes and with no context of a larger picture. The manual work necessary to manage and extract useful information proved difficult and ineffective. One firm diverted resources from areas like audit to help manage workloads.

The change in operating models – shifting activity from large centrally secured locations to multiple small unsecured locations – added to the need for new and increased surveillance. Firms noted that voice technologies were an area of focus. Firms noted that they heighten surveillance efforts around three broad categories: Communication Monitoring, Personal Account Dealing, Trade Review Activities. Many firms deployed new risk registers and added extra intra-day checks. Some required staff to complete conflict of interest attestation

because people from different firms were quarantined together resulting in two firms sharing the same space, something usually requiring regulatory approval.

In summary, firms recognize the need to revamp and document the supervision and surveillance protocols to accommodate a “new normal” and its heavy reliance on increased WFH as well as to evidence that controls were in place. Addressing these known inefficiencies in surveillance methods at the same time would be an investment. The timing is ripe for this investment and it would reap exponential benefits in the new normal including the ability to link structured and unstructured data. The question is which firms will make this a priority and seize the opportunity.

3. Document a Strategy for the “New Normal”

Firms recognize the need for a holistic strategy to transition their operations to the “future of work”. The “future of work” is more comprehensive than the process of safely returning people to the physical work locations. Firms acknowledge that the need to take thoughtful steps and consider all business lines as well as all aspects of operations. Firms agree that the focus areas will be Human Capital, Technology and Innovation.

Firms have recognized this as a unique opportunity to understand fully the needs of the entire platform and prioritize accordingly including the lens of legal, compliance, settlements, and risk management. Firms understand that the transition will be gradual. It will be informed by the both the experiences of the past months of WFH as well as the experience of “Returning to the Workplace”.

Firms agree that their ability to drive transformative change will be enhanced if the transition is treated as an enterprise level strategy. The strategy should be documented, approved, and articulate specific objectives to capitalize on this opportunity. Like any strategy it be well socialized. Metrics should be created to measure performance against objectives.

Firms have noted many common components that will be include in the strategy: real estate and location, digitization of processes, particularly in operations and middle office, third party risk and vendor management, data in terms of usability and accessibility across legacy systems.

4. The Process of “Return to the Workplace”

The first step to a new normal is a “return to the workplace” in some shape or form. All firms have started the discussion. It is widely agreed that this is a three-stage process most eloquently described as follows:

- “Pre-day 1”
- Wave 1 (Day 1 to 30)
- Future Waves Beyond Day 30

All firms agree that the first step is to identify which functions need to return to the workplace and which can permanently work remotely. This analysis requires a granular view of each function and its purpose and processes. Some firms are also considering the connectivity between functions.

The second step is to determine how to situate these functions physically while maintaining social distancing from the perspective of both the staff member’s individual workspace as well as shared and common space. Given the requirement of social distancing, These spaces are broadly defined and needs to be assessed as “fit for purpose”. These spaces include elevators, hallways, pantries, bathrooms, cafeterias. Firms are also considering factors that impact the area in which the facility is located such as the availability of public transport, parking facilities, restaurants.

Firms recognize that the “return to workplace” is complex. There is a long list of issues to consider. Firms are not necessarily in control of all the decisions. Many of these items raise the question “can large entities have a globally or even locally consistent policy. The lists include:

- What do the various local governments allow?

- What do landlords allow?
- What regions are ready for a return and which are still under restriction?
- What countries culturally accept and support WFH and which do not?
- How will school and day-care closures impact staff’s ability to return to a workplace?
- Are firms equipped to support testing and trace contacting?
- Are there legal and HR concerns about requiring staff to return; conversely are there additional liabilities if staff contract the disease in the workplace?

In summary, the conversations have begun, but firms recognize that much needs to be sorted before the process begins. Ultimately it will be a gradual process returning functions in small waves with “lessons learned” modifications made between waves.

5. Leadership, Communication and Cultural Values

All firms recognize that now, more than ever, leadership needs to focus on the human experience and approach the collective entity with empathy. They agree that communication must telegraph that the culture and values of the firm have not changed. They must emphasize that the physical and psychological safety of its staff is the priority.

The firms agree the challenge is that “one sizes does not fit all”. Each person’s emotional tolerance for the threat of COVID-19 is different. Likewise, the quality of each person’s WFH experience is different. Together the emotional tolerance and the quality of experience drive a staff member’s appetite to return to the workplace.

How do companies create a consistent policy that can accommodate these varied experiences?



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Currently Siobhan serves as an industry advisor designing holistic approaches and scalable solutions to support organizational transitions and regulatory alignment. Recently her projects focusing on data as a strategic asset as well as business continuity response to COVID-19.

Siobhan served in senior COO and global leadership roles in financial holding companies. She has experience with both the retail and institutional sides of their banking and broker-dealer entities. She served as the Global Head of Business Continuity Management for Morgan Stanley. In this role she had responsibility for firm-wide continuity planning and the coordination of the firm’s response in the event of disruption. Prior to that position she served as the COO for the Investment Portfolios of Morgan Stanley Bank N.A. and Morgan Stanley Private Bank National Association. She also served as the Global Head of Project Management for Bank Resource Management, the firm’s funding division.

At the Dresdner Bank, she served as the Head of Operational Risk Management, Americas and as the COO of Global Debt and Capital Markets, North America. Siobhan began her financial career as a trader of mortgage/treasury options at Lehman Brothers.