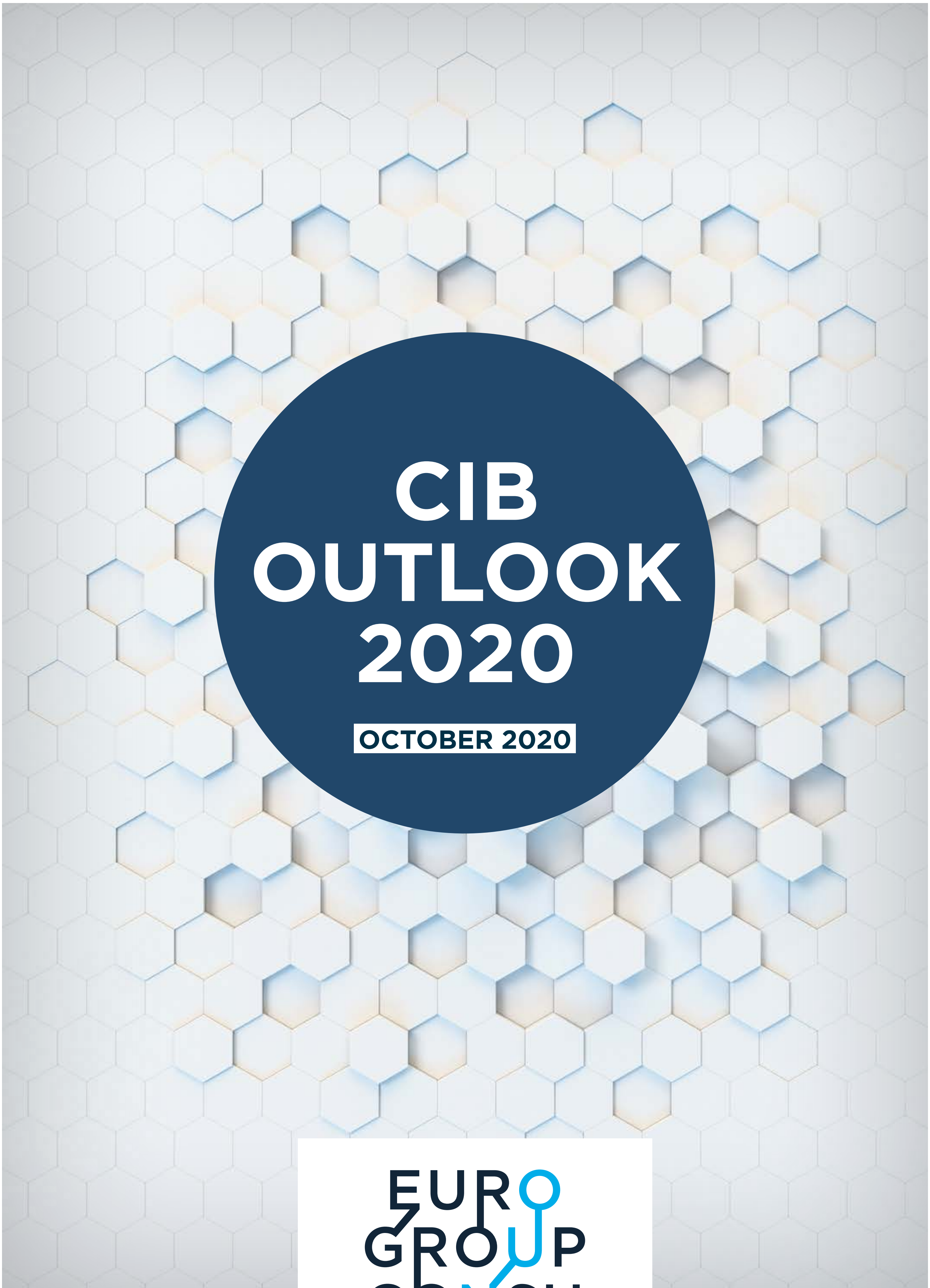


CIB OUTLOOK 2020

OCTOBER 2020

EUROGROUP CONSULTING

Leading positive transformation

TABLE OF CONTENT

EXECUTIVE SUMMARY

01.

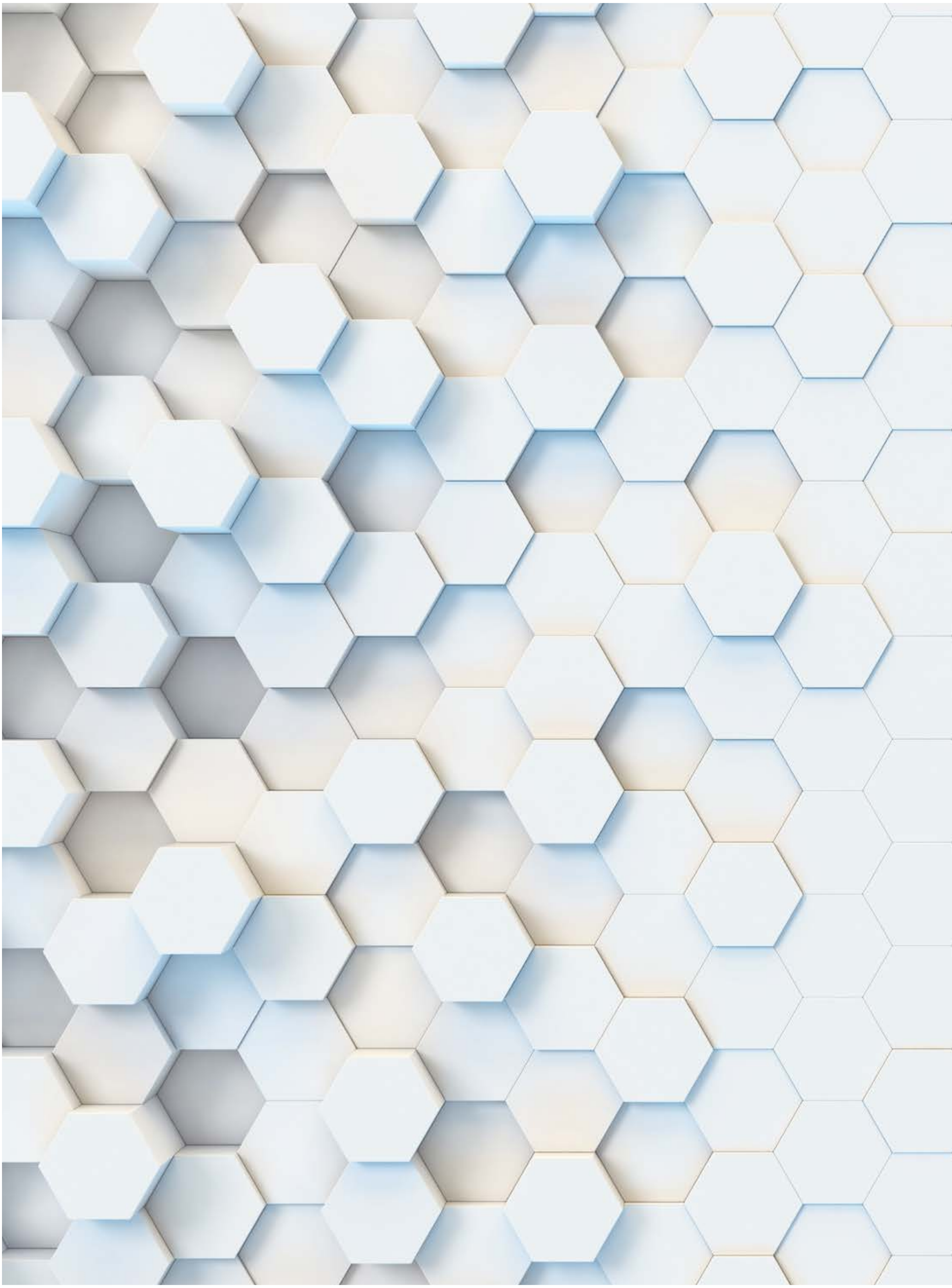
The last 8 months have been rather extra-ordinary with millions of people around the globe impacted by the Covid-19 and economic crises. During these abnormal times, CIBs have had to redesign their business organisations and re-invent elastic and resilient operating models.

02.

As they continue to ramp up on ESG integration, to combat greenwashing and finance a recovery that is sustainable, CIBs are using technological solutions that can help them increase data management capabilities to gear up for a greener future and build legitimacy as drivers of the transition.

03.

In this fast changing environment, the challenge of integrating a resilient cooperation strategy is significant for banks, in order to retain high potential talents and remain attractive in a world where motivational models based solely on financial rewards are no longer sufficient to ensure long-term performance.



CIBS MUST RE-DEFINE THEIR PURPOSE AND INDUSTRIALISE THEIR BUSINESS AND OPERATING MODELS

1 2019 WAS A GOOD VINTAGE FOR MOST CIBS BY MANY STANDARDS

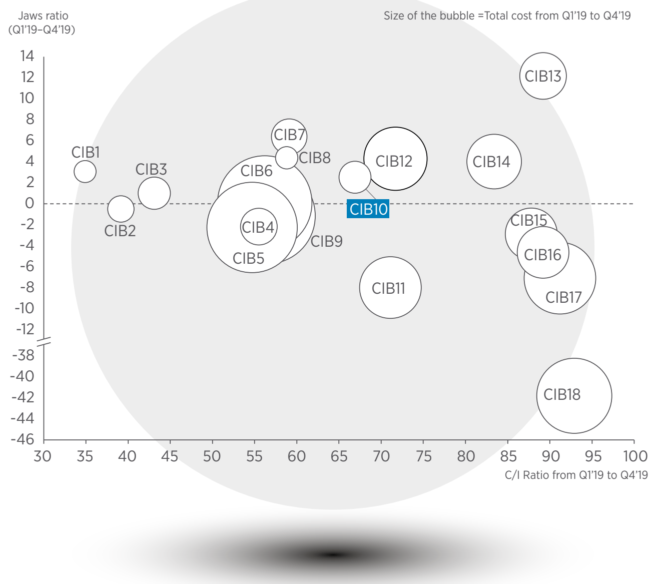
2019 started with a difficult first quarter. However, most CIBs benefited from short-term cost reduction programmes and favourable market conditions in the last quarter to regain positive jaws.

In 2019, global CIB market suffered from a stagnation in corporate banking and declining revenues from capital markets activities. Aggregated 2019 Capital Markets' revenues totalled $172bn: FICC grew +3% whilst Primary and Equities fell -3% and -4% respectively year on year. 2019 saw a disparity in performance across our sample of CIBs[1] : CIB12 delivered the highest year-on-year revenue growth (+11.6%) whilst CIB16 and CIB8 suffered a dip in performance (revenue down -9.6% and -11.9% respectively).

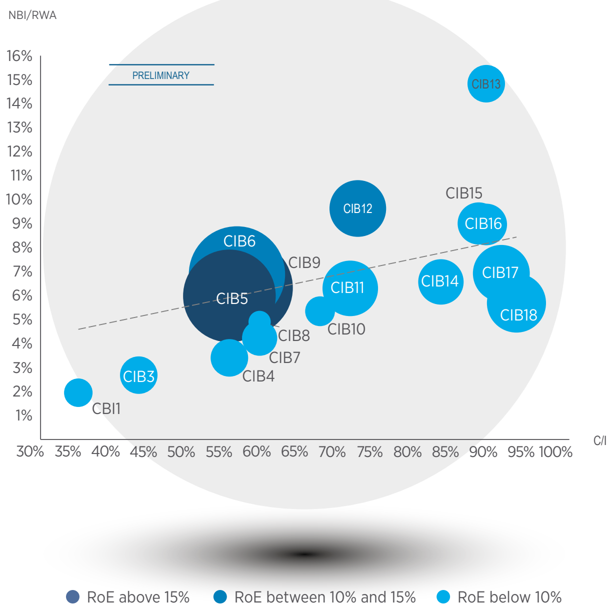
However, cost-to-income ratios remained a challenge for European CIBs as highlighted in our recent publication[2]. The average cost-to-income ratio of our set[3] of CIBs in 2019 was 65.53% with a noticeable difference between US CIBs and European ones (56.06% and 74.98% respectively).

Early 2020, as sales and trading were thriving, the world was hit by the Covid-19 pandemic resulting in an economic crisis that turns out to be one of the most serious challenges to financial institutions in nearly a century.

CIB Jaw analysis (FY'19)



Asset Productivity and Cost Efficiency for major CIBs (FY'19)



2 2020 – ANNUS HORRIBILIS?

During the early part of 2020, half of humanity went on forced lockdown, 17+ million people got infected by the Covid-19 virus and 670,000 people lost their lives[4] .

The world now faces the most severe recession since the Great Depression. Around the world, stock markets lost 30% of their values in a few weeks during the first quarter, millions of employees have been furloughed and thousands have lost their jobs.

These were the consequence of the first wave of the pandemic which hit a very unprepared world.

During the first few weeks, CIBs across the world enforced remote working at scale: all functions and businesses, including front office activities that were previously deemed not suitable for remote working, were forced to remote working. This put pressure on many support functions including Legal and Compliance, Finance and Risk, HR, Security and IT teams to enable remote working activities with a suitable and reliable infrastructure. Immediate challenges had to be addressed such as providing laptops and screens, connectivity and communication tools to everyone as well as ensuring safety and wellbeing of employees while working remotely.

3 HOWEVER, 2020 FIRST QUARTER CIB RESULTS WERE RATHER OUT OF THE ORDINARY...

During the first half of 2020, volatility indexes and volumes of activities hit record levels in most part of CIB businesses. Although heightened volatility and increased volumes put additional pressure on the newly adapted remote infrastructure and resources, a number of CIBs greatly benefited from these and delivered extraordinary results in the first quarter.

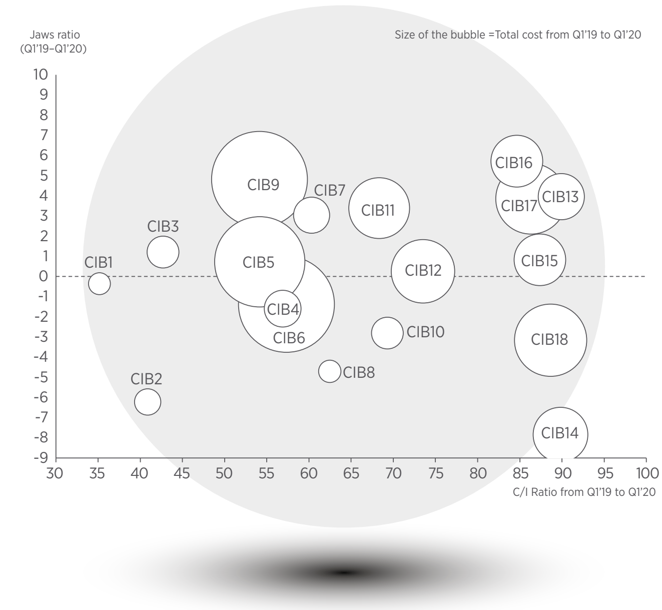
Global revenue pools expanded, a trend rarely seen since the global Financial Crisis. Our panel of 18 banks' capital markets revenue surged 20% year on year, to $54bn whilst operating costs grew at just 4%.

It must be noted that Front Office staff levels declined c.5% year-on-year, with Equities being (slightly) harder hit than FICC, and Banking essentially unchanged. Headline numbers, however, do not tell the full story, as there are important differences between banks' internal definitions of front, middle, and back office roles. Several banks paused their redundancy programs during the covid-19 crisis, but this will not last and the second quarter saw a number of redundancy programmes re-initiated.

Accelerating extraordinary gains seen in the first quarter, capital markets revenue of our 15-bank panel surged by 35% y/y in Q2 to $66bn, with FICC contributing the most, leading to a 57% jump in overall pre-tax profits.

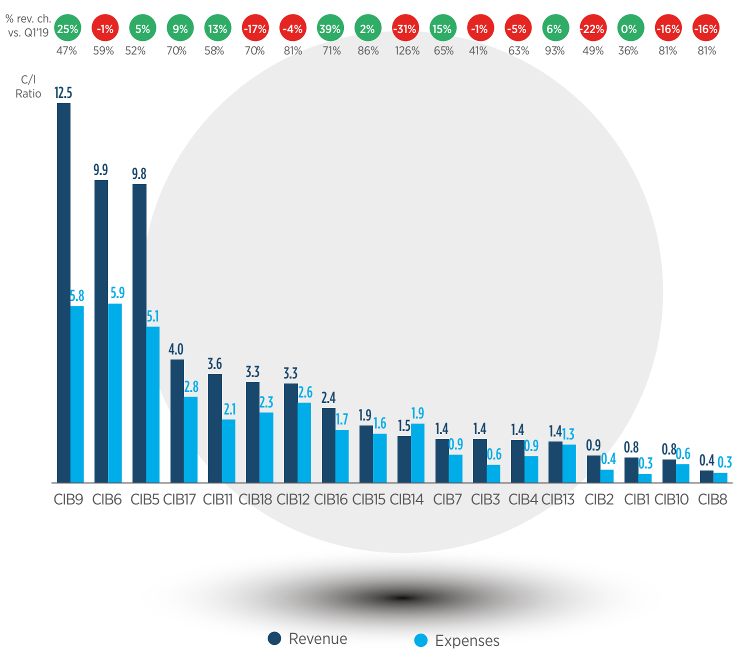
Hence, in the first quarter, most CIBs benefited from these extraordinary market conditions to deliver improved performance. Most of these trends carried on through the second quarter.

CIB Jaw analysis (Q1'19 to Q1'20)



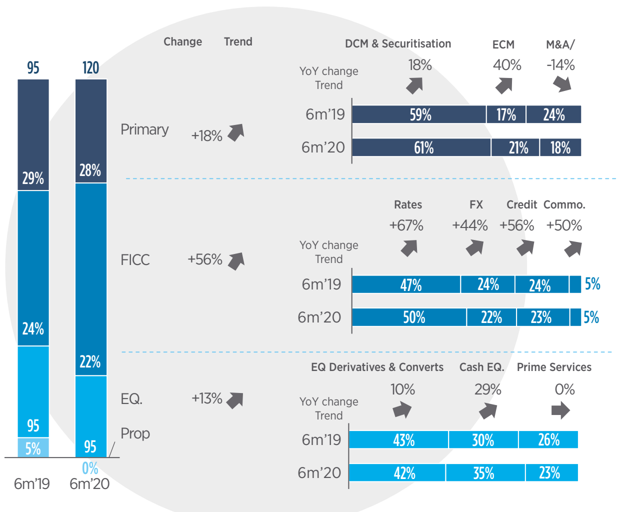
Revenue and Expenses for major CIBs (Q1'20)

[USD bn]



Capital Markets & Advisory Revenue

[USD bn, selection of top 15 CIBs] Zoom per activity [%] (1)



Source: Tricumen data, Eurogroup Consulting analysis

4 HOW CAN CIBS ANTICIPATE THE NEAR AND MEDIUM TERM FUTURE?

With the global economy facing the worst recession since the Great Depression and a large portion of their workforce working remotely, CIBs and other financial institutions need to reconsider their business and operating models whilst also making the most of their collaborative and collective intelligence to better perform at crisis times.

Extraordinary times require CIBs and other financial institutions to consider industrialising their business and operating models. Banks need to re-think their purpose and "right to win", align their business and operating models, and accommodate for "new" risks (e.g. pandemic, climate, ESG).

RE-DEFINE THE STRATEGIC VISION

In these unprecedented times, CIBs must actively contribute to the economic reset by, amongst other activities, financing the recovery, financing the ecological transition, supporting economies and governments, providing infrastructure and capabilities necessary for corporations to access liquidity, capital and funding.

Redefining strategic vision starts with the Why[5]. This is sometimes referred to as the bank's value proposition. By confirming why they do what they do, CIBs will be able to define and prioritise products and services, as well as clients and markets they serve and operate within respectively. This must be defined and communicated to all stakeholders. This is the core of the bank's business model which can then be relied upon to review business priorities.

By reviewing their business priorities, CIBs will access their "right to win" in their prioritised markets. It requires the definition of a set of core and auxiliary businesses, focusing on profitable customers and rationalising customer tail, prioritising product portfolio based on cost to serve metrics and contribution to profitability. CIBs will also allocate capital to the optimum portfolio mix (products and services) and accelerate penetration of overperforming products and services (e.g. ESG), allocating investments towards new drivers for growth.

Whilst redefining their strategic vision to access their "right to win", CIBs will rediscover their purpose, confirm their "raison d'être" and engage with all stakeholders.

RE-INVENT YOUR BUSINESS ORGANISATION

Remote working has highlighted the ability for employees and teams to re-organise themselves and quickly adapt to unusual market conditions. During the first few weeks of lockdown, teams have been rather busy adapting to new ways of working, whilst handling increased volumes of business and driving their existing order book to completion. After this phase, employees had to collaborate and define further objectives in the context of remote working. This required guidance and increased communication from management who was drafting plans in terms of going back to somewhat "normal" operating conditions: back in the office and less volatile market conditions.

However, the next normal will be different. CIBs must reinvent their business organisation holding their employees at their nerve centre. Lockdown proved it: CIBs can handle increased business volumes with the same scale of resources and less micro-management.

Re-inventing business organisation and ways of working must involve more than another round of restructuring or redundancies. Banks should take the opportunity to re-organise their teams and management to foster innovative collaboration and end-to-end ownership.

This is the core of the bank's operating model.

RE-ALIGN YOUR BUSINESS AND OPERATING MODEL

European CIBs have traditionally been struggling to address their cost to income ratio, in both a contracting environment and more recently in an expanding market. The key reason for that is the lack of alignment between their operating model and their strategic vision resulting in the lack of possible industrialisation of their operating model.

The required alignment includes clarifying front-to-back ownership, without segregating front office staff and activities from the rest of the bank. CIBs are complex organisations and the (in)actions at the early stage of a business activity can trigger huge consequences down the line. Front office, Sales and Marketing, Risk, Legal, Compliance, Operations and Technology staff must collaborate to design solutions and align the way they operate to achieve business priorities.

This must be the end of the revenue-generation-against-cost-centre model, alienating staff across the bank. Overall contribution must be accounted for. This can be achieved by front-to-back ownership aligned with business priorities. As a side effect of this re-alignment, CIBs will have a far better accurate view of cost-to-serve and contribution-to-profitability metrics.

Most European CIBs have tried and adapted their models across the years, from consolidating their operations into centralised (and monolithic) service centres to aligning their operations with business lines. What we are advocating is a shift in paradigm, removing the intermediaries between front office activities and the rest of the bank, and industrialising the way the bank operates. An interesting analogy can be made with a car production line:

The production line is designed so that all tasks are industrialised, including manual ones, where most are automated against a set of high specifications whilst allowing customised activities to be performed along the production. This is enabled by design, with experts along the way, front to back owners, with clear performance metrics.

By industrialising their operating model, CIBs will be able to adapt their legacy infrastructure with new technology and deliver end-to-end solutions. Human expertise can be leveraged and exemplified. Performance metrics can be accurate and transparent. Run-the-Bank and Change-the-Bank teams can work hand-in-hand to address the root causes of inefficiencies. Management can be delayered.

Industrialisation also relies on building a resilient ecosystem which is something banks have been working on for some time now. Where non-differentiating activities can be segregated, expertise should be pooled together and attract volumes to achieve efficient cost to serve ratio (for example, a car seat production and other accessories in our automotive analogy).

Industrialisation results in operating elasticity (within certain limits) of the model.

CIBs must address their inelastic operating model by industrialising their business model and take the opportunity to rediscover their purpose during these extra-ordinary times. By embarking on such a journey, banks will achieve:

1. **Strategic vision and definition of their "right to win"**
2. **Front to back accountability and transparency**
3. **Elastic operating model aligned with business priorities**
4. **Collaborative ecosystem and empowered employees**

RETHINKING RISK MODELS TO INTEGRATE CLIMATE RELATED RISKS

In the banking sector, climate change has taken the front-seat as the health crisis continues to unravel its consequences. Financial institutions can play two roles:

- Protect balance sheets from uncertainty, which is what we will talk about in this article.
- Finance the recovery, which should be sustainable and aligned to our climate ambitions (next article).

Bearing in mind the 2008 financial crisis, regulators have been careful when imposing stricter capital conditions for banks under the Covid-19 crisis. Alongside liquidity buffers, regulators are subjecting CIBs to annual stress-testing to gauge their ability to survive worst-case scenarios and temporary closures of liability markets (with limited or no access to capital).

Interestingly, compliance seems to encompass new reasoning in the post-Covid crisis period. Although banks are still required to follow market rules, regulators are expecting additional flexibility and resilience from their operating models and delivery processes from them.

The European Disclosure policy

The Disclosure Regulation (from December 2019) imposes sustainability-related disclosure rules to the financial services sector in view of stressing the importance of ESG considerations in business strategies. As part of the EU 2018 Sustainable Finance Action Plan, the Regulation includes an amendment of the Benchmark Regulation in relation to low carbon impacts, the Taxonomy Regulation on sustainable investments frameworks and an amendment to MIFID II Delegated Regulation to integrate ESG into portfolio management .

1 UNDERSTANDING AND QUANTIFYING CLIMATE-RELATED RISKS

> CLIMATE- OR ENVIRONMENTAL-RELATED CRITERIA ARE NOT YET SUFFICIENTLY ACCOUNTED FOR IN INTERNAL CREDIT ASSESSMENTS OR IN [...] CREDIT AGENCIES' MODELS
>
> **according to the Central Banks and Regulators Network for Greening the Financial System (NGFS) reports of 2018**

Climate change has very tangible impacts in terms of destruction of livelihoods and mass-migrations. However, just like with an iceberg, most of the potential cost of climate change is invisible and lies beyond the horizon of traditional economic analysis.

Within credit risk, it has become essential for creditors and central banks to include climate related risks. We are slowly seeing the creation of a complex climate risk model, built upon stress-testing scenarios, unstructured data points and cause-and-effect linkages made to prevent the unforeseen financial loss risks that creditors are exposed to.

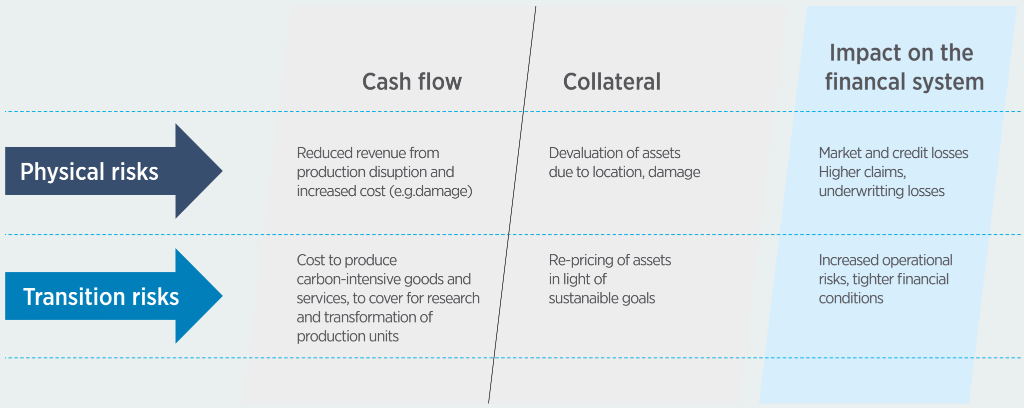
HOW DO CLIMATE RISKS TRANSLATE INTO CREDIT RISKS?

According to the NGFS 2018 report, there are two main sources of risks:

- **Physical risks:** potential financial loss caused by climate-related disasters (extreme climate events such as storms, floods or chronic hazards like droughts, sea-level rise). They have direct and indirect consequences on households and businesses.
- **Transition risks:** potential financial loss associated with the process of evolving towards a low-carbon economy. This usually encompasses changes in policy, technology evolutions and market and consumer preferences.

Since credit risk is based on the potential financial loss stemming from the borrower's failure to repay a loan in full (with interests), it is calculated on one's ability to repay the debt by generating enough income and the collateral that backs the loan. Climate risks impact both dimensions as they could potentially lead to higher risk of default and increased losses.

Climate risk impacts



HOW CAN WE INTEGRATE CLIMATE RISKS INTO CREDIT RISK ASSESSMENT?

Usually, risk assessments of climate change on credit risk work according to the following process:

a. Defining scenarios with several variables and clearly defined physical and transition risks. The variables will evolve depending on the impacts of climate change (technology intensity, infrastructure, corporate processes, etc.) and will help identify mitigation actions that could work to prevent or limit financial losses. Step 1 is about **defining the economic actors or dimensions within the organisation that will be impacted.**

b. Estimating the (direct and indirect) financial impacts of climate risk scenarios. Once a clear idea of the consequences of climate change on the variables defined in step a. have been identified, then the overall cost and benefits of a given scenario can be quantified: **this second step relates to the level of the impact in terms of cash flow and balance sheets for economic actors** and integrating this into macroeconomic forecasting and stability monitoring.

c. Finally, translating scenarios into credit risk worthiness **by computing all cash flow and balances sheet expected changes.** Credit ratings will be derived from the probability of default and loss related.

APPROX. 25% OF INSTITUTIONS ARE WORKING ON INTEGRATING CLIMATE RISKS INTO THEIR SCENARIO ANALYSIS, ACCORDING TO THE IACPM.

PREREQUISITES

Unfortunately, this process is confronted with 2 main issues:

- Firstly, the limitations of current data (known as "past" data) means that data is a poor indicator of future climate changes. As many scientific reports show, climate change is happening in a non-linearly manner: it would be inaccurate to base scenarios on patterns or observation of past events; but one could take the assumption that countries will keep to their agreement to limit global warming to 1.5°C above pre-industrial levels for instance. Moreover, current data sets usually lack the microeconomic granularity necessary to lead a thorough assessment of impacts, asset resilience levels and flexibility of a given entity (household or business). The cost for accessing such granularity is today too high in comparison to the overall cost of the assessment process although technology might solve this issue soon.

- Secondly, time horizons of credit risk models must integrate extended periods of time. Indeed, anticipating risks from one to two years will not suffice to grasp the potential risks posed by climate change (more likely 10 to 20 years). Long-term planning is a key component of ESG considerations as we will see later.

2 INSTITUTIONALIZING CLIMATE-RELATED RISKS

WITHIN FINANCIAL INSTITUTIONS

Financial institutions must consider incorporating climate related risks into their enterprise resource planning within their:

- **Operations** as some bank units' may be more exposed to alterations in climate change policies, hazards and technical evolutions meaning they could be subject to reputational or even strategic risks given their focus and activities
- **Investment portfolios** and loans which would translate as credit risks for the banks

Additionally, banks may consider climate-change as an opportunity to rethink their strategy and build a sustainable economy that is ESG-compliant (see next article).

WITHIN THE FINANCIAL ECOSYSTEM AT LARGE

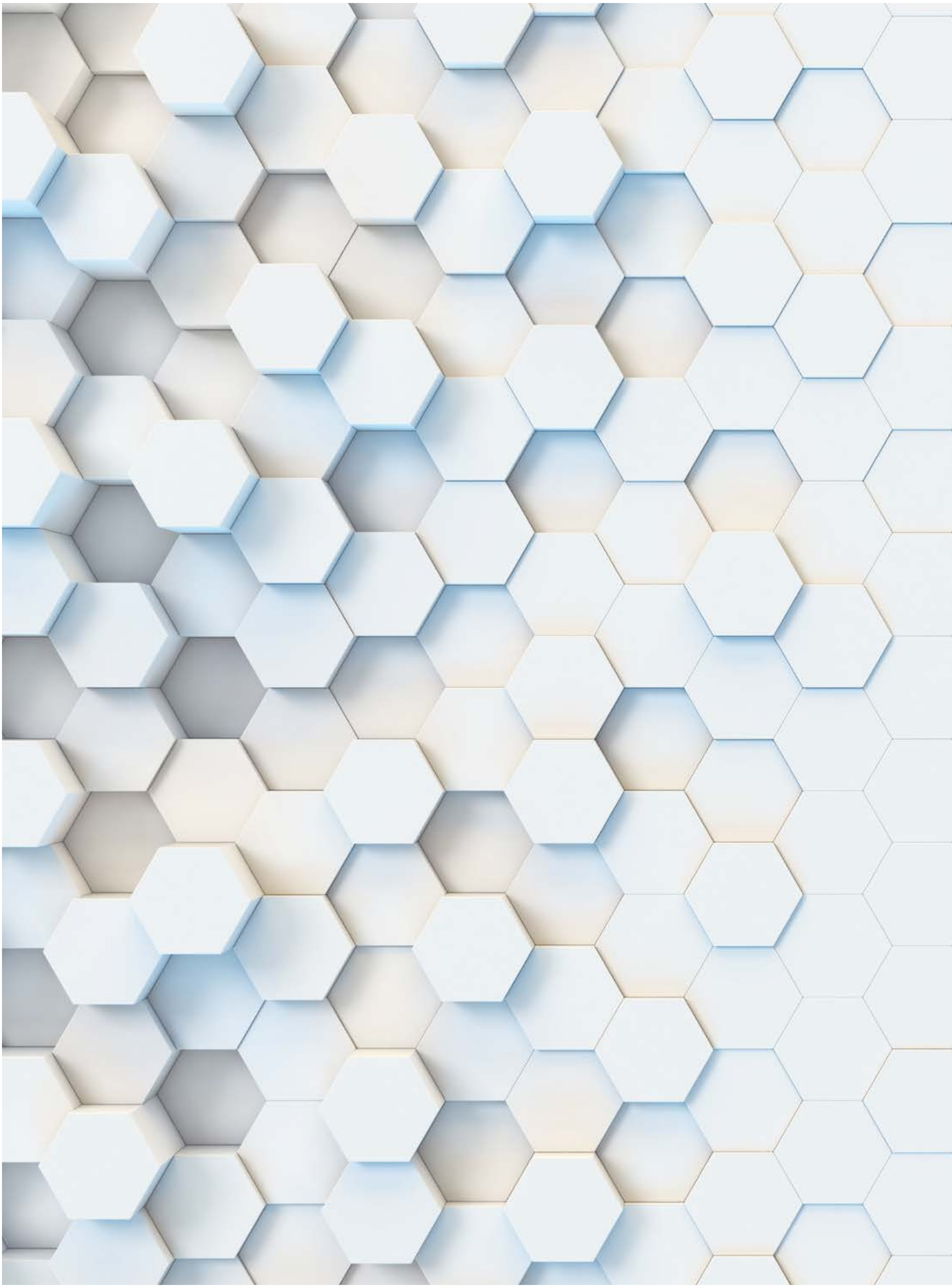
Climate-change risks are already being incorporated into risks assessment models thanks to central banks and financial regulators' support and directives. A few examples:

The Network of Central Banks and Supervisors for Greening the Financial System (NGFS, launched in 2017 during the One Planet Summit in Paris and active on

three items: supervision, macro-financial risks and the mainstream of green finance) has been working alongside the International Monetary Fund (IMF) since September 2019 on the inclusion of climate related risks and their monitoring within financial models and the development of a dedicated analytical framework.

In Europe specifically, the European Banking Authority (EBA), as part of its Action Plan for Sustainable Finance, may suggest to a number of volunteering banks a sensitivity analysis for climate risks, as well as guidance regarding qualitative and quantitative criteria for different severity level scenarios in the 3rd and 4th quarter of 2020.

Whilst banks fulfil their first objective of dealing with climate-related risks, the second (financing a sustainable, greener economy) can also be achieved using similar frameworks and methods. ESG appears to be the "positive" side of climate change in the sense that it encourages organisations not only to reduce their carbon footprint, but also contribute to projects that will publicly matter in the long run and build an more sustainable society. Changes required for the integration of climate-related risks by a financial institution will contribute to its corporate mindset and own transition towards being a purpose-driven organisation that is environment, social and governance-friendly and compliant.



IN THE FACE OF CHANGE, CIBS MUST DRIVE THE TRANSITION TOWARDS SUSTAINABILITY

The June controversies over Boohoo, a fast-fashion UK retailer which was accused of sustaining poor working conditions within its supply chain, sparked the ESG debate with yet another scandal that resonated a lot with greenwashing.

Rated highly above industry average in supply chain business standards in the June edition of the rankings for online retailers by MSCI, a global provider of market indexes and ESG focused analysis for the financial market, the fast-fashion company was accused of paying its workers below the minimal wage. This recent controversy embodies the discrepancy of the post-covid-19 ESG market, as one still wonders how a fast-fashion company can legitimately resonate with ESG scrutiny.

The fact is that ESG funds' performance was comparable to non-ESG funds' performance from 2004 to 2018[6]. ESG ETFs experienced a record of €3.7bn inflow in June 2020, setting the asset class to a total of €14.3bn for the first two quarters of 2020[7].

ESG's trump card is that assets offer a lower risk of declining in value if market conditions change. Hence for risk and volatility-averse investors, ESG funds may provide a safer investment as the Dow Jones Sustainability Index's evolution testifies: it lost 8.4% of its value from March 3rd to April 16th 2020 while the S&P Global Broad Market Index fell by 12.4% during times of extraordinary volatility[8]. Second, the doubts over ESG returns have been cast out by profitable investments: in the U.S., the biggest ESG funds outperformed the S&P 500 Index last year and posted gains of over 35%. In Europe, sustainable funds hit a record of €120 bn in 2019 which was more than twice the amount of 2018[9].

The necessary weighting of ESG factors

The three elements work as a whole to provide insights into a company positioning with regard to ESG-related risks.

Take a manufacturing company and a FinTech. The first will probably be put under increased scrutiny for its environmental outputs (pollution, natural resource utilisation); whereas for the latter, social and governance factors will be insisted upon. The other factors are not disregarded but weighted less in the screening process. Corporations are not assessed using identical weightings across the three factors. Moreover, financial institutions screen these corporations using in-house criteria as there is no institutionalised framework. Evaluation results are thus dependent upon in-house objectives (e.g. focused on environment, social dynamics, or governance principles). For example, among the well-known ESG funds, some are focused on social considerations (Vanguard) and others on environmental considerations (Pax Global Environmental Markets Fund Institutional Class PGINX).

In recent years, ESG related risks have become part of this assessment and have recently been propelled to top considerations.

What **ESG** encompasses

With the Covid-19 crisis, ESG has been pushed to the front stage in the financial services industry. With new social dynamics (inclusion and gender equality for instance), geographical concerns (natural hazards), investment banks have been pushed to review their capital allocation and long-term strategies on the basis that the recovery should be favourable to a more sustainable economy.

Despite financial volatility and uncertainty, investment banks appear to be in a position not only to drive the recovery but orient the transition towards sustainability using investment portfolios and indexes. And this does not stem merely from an altruistic point of view, it is also profitable for them to redirect capital to ESG-friendly businesses.

1 IN THE ABSENCE OF AN INSTITUTIONALISED FRAMEWORK, THE CURRENT ESG MARKET YIELDS MANY SHORTCOMINGS THAT MAKE IT DIFFICULT TO NAVIGATE

THE PERFORMANCE DEBATE: HOW ESG NATURALLY DISCRIMINATES AGAINST LOW-PERFORMING INDUSTRIES IN THE COVID-19 CONTEXT

The recent surge in ESG investment opportunities can be explained by client demand from both retail and institutional investors for ESG mandates, alternatively supporting the growth of investment banks' portfolios. According to Bank of America's analysis, another $20 trillion will be directed to ESG funds over the next 10 years making it a crucial part of investors' agendas. In terms of demography, the arrival of millennials on the market accelerated this trend, as they are twice as likely to invest in alternative funds than other individuals[10].

Another important catalyst was of course the pandemic which propelled shareholders' concerns to the frontstage as well as social and working conditions. No wonder investors rewarded companies which reviewed their practices and long-term strategies to align to societal considerations. In any case, the crisis crystalized the trend and brought to media attention some controversies financial markets had to react quickly.

Another interesting correlation stems from the performance of ESG funds and tech companies: according to RBC, Microsoft was the top owned stock (appearing in 55% of funds), followed by Alphabet (47%), Visa (42%) and Apple (35%). In ESG funds, among the top 20 stocks, 75% outperformed the S&P500 in 2020[11]. Hence, the success of these ESG funds can be explained by the fact that they are overweight with over-performing big tech and underweight with industrial and fossil energy companies (which registered a severe loss of more than 30% this first quarter), in part due to the negative screening technique used by some investment firms. Indeed, investment firms sometime shun companies with poor ESG practices but that does not always tell the truth in terms of positive ESG engagement.

Recent controversies over Amazon ratings highlighted another problem: the relativity of ratings. Let's take the Amazon example: although corporate stocks qualified for social inclusion in large ESG funds, it was rated poorly for labour conditions (according to Sustainalytics) with high production targets undermining safety procedures.

Recent controversies over Amazon ratings highlighted another problem: the relativity of ratings. Let's take the Amazon example: although corporate stocks qualified for social inclusion in large ESG funds, it was rated poorly for labour conditions (according to Sustainalytics) with high production targets undermining safety procedures and employee well-being. Sustainalytics downgraded the company from neutral to negative in response to social movements and judiciary complaints.

The diversity of funds' criteria as to what is considered ESG stock triggers these market discrepancies and controversies. Most of all, it harms the legitimacy of institutions trying to differentiate from traditional greenwashing.

The traditional assessment techniques need to evolve as the market matures

The various assessment techniques undermine the legitimacy of ESG analysis, since several methods are used today to measure ESG performance across the market.
Commonly, negative screening is applied to measure sustainability in investments (evaluated at approx. 2/3rd of all investments). However, by excluding organisations from investment portfolios based on ESG criteria, this technique fails to integrate considerable nuances between factors depending on a given sector, geography, or practice. More and more screening practices now take a positive approach by searching for explicit ESG factor integration which is commonly referred to as "positive screening". This alteration was also made possible by the new availability of ESG data on the market and also the enhanced engagement towards ESG that goes well beyond CSR initiatives.

THE ESG FRAMEWORK DRAWBACKS

The lack of a conceptual understanding of ESG increases the risk of greenwashing

Whilst Europe holds the highest amount of ESG assets (totalling $14.1trillion[12]), there is a global surge in investments in this space especially in the US and Asia. This probably can be correlated with the European regulatory context and the European Securities and Markets Authority's (ESMA) announcements on ESG investments: investors must integrate ESG risks and opportunities.

Worldwide, several frameworks have been created but differ in approaches and objectives: for example, the Sustainability Accounting Standards Board (SASB) addresses investors' needs whilst the Global Reporting Initiative focuses on stakeholders' ones. In the US, despite initiatives to harmonise ESG investment rules (the Securities and Exchange Commission fall 2018 petition for example), no consistent framework has been enacted to enforce ESG metrics and rules in annual disclosures yet. In Asia, with the exception of Singapore, ESG compulsory disclosures have been pushed forward for large companies in selected markets in a race-to-the-top fashion to encourage foreign investments.

Although there may not be a one-size-fits-all approach to ESG investing, we see that, in the absence of a standard framework, ESG fails to get to grips with business realities, thus undermining investment firms' credibility. The creation and industrialisation of a unique ESG framework across financial and regulatory institutions would be helpful in terms of setting market standards.

The way such a framework would be applied though should differ according to financial institutions' objectives and risk appetite with varied factor weights. Again, a manufacturing company cannot accurately be assessed in the same way as a FinTech.

The shortcomings of quality metrics when measuring the S ang G factors

As we dive into more detail about the three underlying factors of ESG, it appears investment firms face another challenge : the S and the G factors are difficult to grasp whereas the underlying impacts of the environment factor (E) are relatively material and visible in terms of cost and/or revenue. Whilst they have big immaterial consequences on business opportunities and talent attractivity, Social and Governance factors are difficult to measure.

Addressing environmental factors often involves pushing for vertical integration, cleaner production lines and a more local integration. Not only does this reduce greenhouse gas emissions associated with transport, it also reduces general production cost by moving production closer to suppliers for instance or paying less fines in case of polluted production waste.

Social factors involve dealing with immaterial considerations related to people in the organisation and have very valuable outcomes: revenue generation derived from increased productivity and enhanced customer satisfaction. In terms of reputation, the social factor is probably the most impactful of all considering today's worldwide concerns over diversity, gender equality, and employee well-being.

Governance factors relate to the decision-making process, accountability and organisational control frameworks, from the distribution of responsibilities and tasks to the inclusion of internal and external stakeholders in policymaking, and the rules and decision-making procedures. Within an organisation, governance can encompass, for example, the composition of the board, the inclusion of shareholders as well as the operational hierarchical structure. In recent years, transparency and cyber security have become two major considerations in the G factor[13] , to which covid-19 added additional risk management practices like emergency responses, qualitative indicators of organisational well-being, etc.

Given the overlaps between all three factors, it is important to establish what each factor covers and assess organisations bearing in mind their background and similarities in terms of context and activities.

THE HISTORICAL DATA CONUNDRUM OF ESG

Given the expected **surge in the ESG data market of $1 bn by 2021[14]** , with 60% of ESG spending in Europe (asset managers will be required to integrate ESG into their fiduciary duties) **33% in North America and 7% in Asia**, data remains the biggest issue for investment banks.

It is extremely difficult to predict corporate behaviour and identify clearly the strategy an organisation will wave in the long run. It is even more complex to pin down its positive or negative impacts in terms of sustainability. How can we build a predictive framework for investments based on historical data?

For the moment, most funds have to work with "static" data points. It is almost like gazing up into the night sky using a telescope and looking into a star: the image is not real-time (star might be extinguished by the time one sees it) nor accurate.

Currently, ESG data is provided to banks according to their in-house criteria and organisations' reporting habits, but very little is shared with clients (especially retail clients). Adding technology to the equation could change prospects in terms of information collected and systematic reporting; and this is precisely the value-proposition of analytics companies specialised in ESG screening. Although technology has many advantages in terms of mass screening and operational cost savings (increase in productivity too), focusing on the collection of information misses the importance of an objectivised framework – that is to say, if one does not know what to look for, one may end up buried in mass information.

Another evident shortcoming is the fact that quality of data used for screening may be poor, especially if it comes from the corporation itself. In echo to the aforementioned examples of Amazon, ESG assessment should have the advantage of delivering a comprehensive vision of the corporation screened that goes beyond financial performance and standalone CSR initiatives. Given the disparity of funds and ESG criteria, the banking sector appears ill-defined in driving capital towards a more sustainable economy.

Where does ESG data come from?

What is interesting is that merely 35% of data used to consolidate a corporation's ESG rating comes from the corporation's disclosed reports (according to MSCI data). Organisations are thus no longer the sole authors of their own narratives. Many ESG screening companies have risen in the last few years in response to the market demand, all having different objectives and positioning with regard to the ESG factors (integrating UN Global Compact core principles verification, tracking of ESG-related performance over time against the Sustainability Accounting Standards Boards, etc.) in the absence of a formalised framework.

2 BY IDENTIFYING AND MAXIMISING THE APPROPRIATE ESG LEVERS, CIBS CAN BECOME FRONT-RUNNERS OF THE TRANSITION

USING AI CAPABILITIES TO SCALE UP ON ESG SCREENING

To solve the data problem, one could look at market solutions although no one currently offers a functional "predictive models". Today, organisations are assessed on a multitude of historical data points that are derived from many different sources. To address the quality and the backward-looking limitation of historical data, technology can help.

> THE DECISION STILL BELONGS TO THE ASSET MANAGER IN CHARGE OF THE SCREENING, THE "AUGMENTED ASSET MANAGER". WE CAN'T CALL IT A PREDICTIVE MODEL AS SUCH.

We have worked with our partner La Javaness, who built a PoC about the optimisation of screening processes **using artificial intelligence (AI)**. A model built for screening with flagging capabilities on behavioural shifts or strategic turnarounds is what financial institutions are currently looking for.

Our research shows that the use of AI addresses two key challenges:

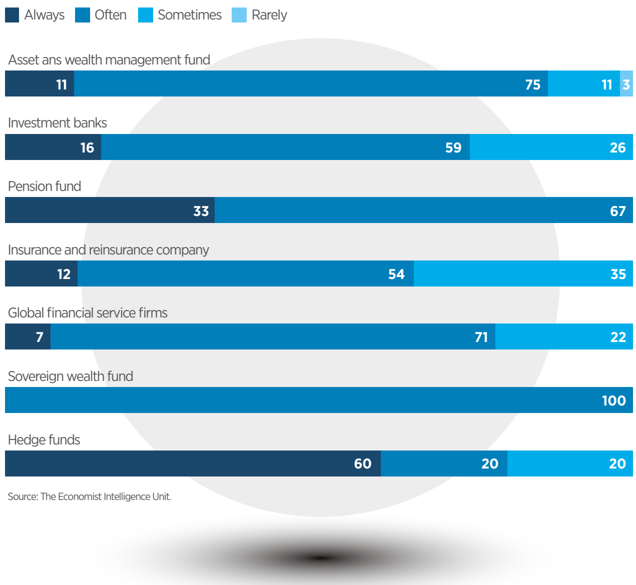
- First of all, AI technology is able to screen a huge amount of information from diverse sources in record time. It feeds the data pool with a large amount of information in a small amount of time and is able to detect distinct data set across networks (social media in particular). This technology therefore solves the availability issue and partly the quality concerns.

- Secondly, AI technology can access and consolidate new pools of unstructured data from scattered and concealed sources of information (e.g. clients, subcontractors, employees). This information sometimes proves more valuable and relevant than the information disclosed by the organisation itself and is a testimony of what is brewing at the present time.

ASSET MANAGERS ARE NOT THE ONLY ONES USING AI FOR ESG INVESTING:

The tool was designed to increase productivity within the asset manager team and leave them to focus on the complex tasks that require human intervention. In this case, technology remains a tool at the service of human decision, the novelty comes from the collection and analysis of data which both help asset managers extrapolate predictive insights.

How often is AI being used specifically for ESG investing? (In %)



Source: The Economist Intelligence Unit, 2019

AI analysis thus provides additional contextual information which is useful to understand the environment and the nuances that a key word search would not grasp. Prior to the screening, financial institutions must first decide on the KPIs to monitor and their associated weighting. From there can be derived score cards that asset managers can follow. For our client, it meant that the 8 asset managers could follow approx. 10,000 corporations, while staying in charge of the criteria and objectives of ESG screening. They could also focus on the top 100 corporations they had chosen to monitor closely.

Bringing ESG and AI together can unlock true potential of a traditionally backward reporting procedure.

PROGRESSING THE CIB TRANSITION TO BECOME PURPOSE-DRIVEN INSTITUTIONS

As a ripple effects of Covid-19, we have seen some of our CIB clients question their strategies and long-term contributions to the economy and society. We believe there is an opportunity for CIBs to become drivers of the transition and design a sustainable framework for

How La Javaness proprietary Gedï tool works to optimise investment decisions

Gedï uses web-scrapping technics to collect information using natural language processing and to fill the gaps in the data standardly reported by organisations and third parties.

Once the asset manager has established objectives and measuring targets, Gedï automatically does the research and screening on the basis of the defined criteria.

Presented as an optimised document manager, Gedï can unleash the information potential of data sources using automatic reading functions, automatic recognition, optical character recognition, image recognition and labelling functions to autonomously index and extract content. When extracting big data from external sources, the tool has proved to be accurate and time saving. With regard to ESG, it is also capable of sourcing external information that is related to geography, environment and social context and linking it to the organisation's location (the frequency of natural hazards for instance can now be integrated into risk rating models). Based on this pool of information, Gedï can launch its Insight Search function of cognitive research to extract key trends of the vast pool of unstructured data it has sourced.

future capital allocation. In the meantime, some players will reinvent themselves as sustainable banks to gain legitimacy in the ESG investment market.

We have drafted below a 3-stage roadmap banks can embark on with the appropriate use of technology (AI and Machine learning) as a prerequisite to accelerate data collection and facilitate predictive analytics.

A Develop an impact investing unit

Leading financial institutions have all deployed "green" teams within their investment division, although it takes different forms: dedicated ESG teams such as Deutsche Bank, HSBC with its ESG unit in its new Strategic Solutions Groups (in Capital Financing and Investment), dedicated units like Citigroup which created a Sustainability & Corporate Transitions service within its CIB division. The degree of structure and visibility given to the teams in charge of ESG-related service offerings varies across the spectrum but there is a global tendency of growth.

In this first stage, ESG remains within the operations realm of the bank but is based on a positive open strategy with new clients and innovative actions meaning the bank is deploying an active innovation culture to constantly adapt its ESG offers to the market. The offer is usually integrated with the other products and services and benefits from a progressive enrichment thanks to the client demand and technological advances. At this stage, there is usually a reallocation of resources to provide for the new ESG demand.

B Develop an ESG focused sub-brand

The bank integrates ESG-related service offering into its core offers and has identified a high potential in the development of a specific brand. This materialises through formalised units and teams dedicated to impact investing. The institution may have developed a distinct legal entity simultaneously to the launching of a new ESG brand. Performance is still monitored like other operations and integrated into the continuous improvement cycles developed within the group. External communication significantly upscales to market the benefits of green portfolios and employees are trained to accompany and advise corporate clients with their own transition and are able to navigate the complex ESG market landscape. Financial authority recognition as an ESG-focused institution could help assert positioning within the market against greenwashing allegations.

C Redefine the bank as a purpose-driven organisation

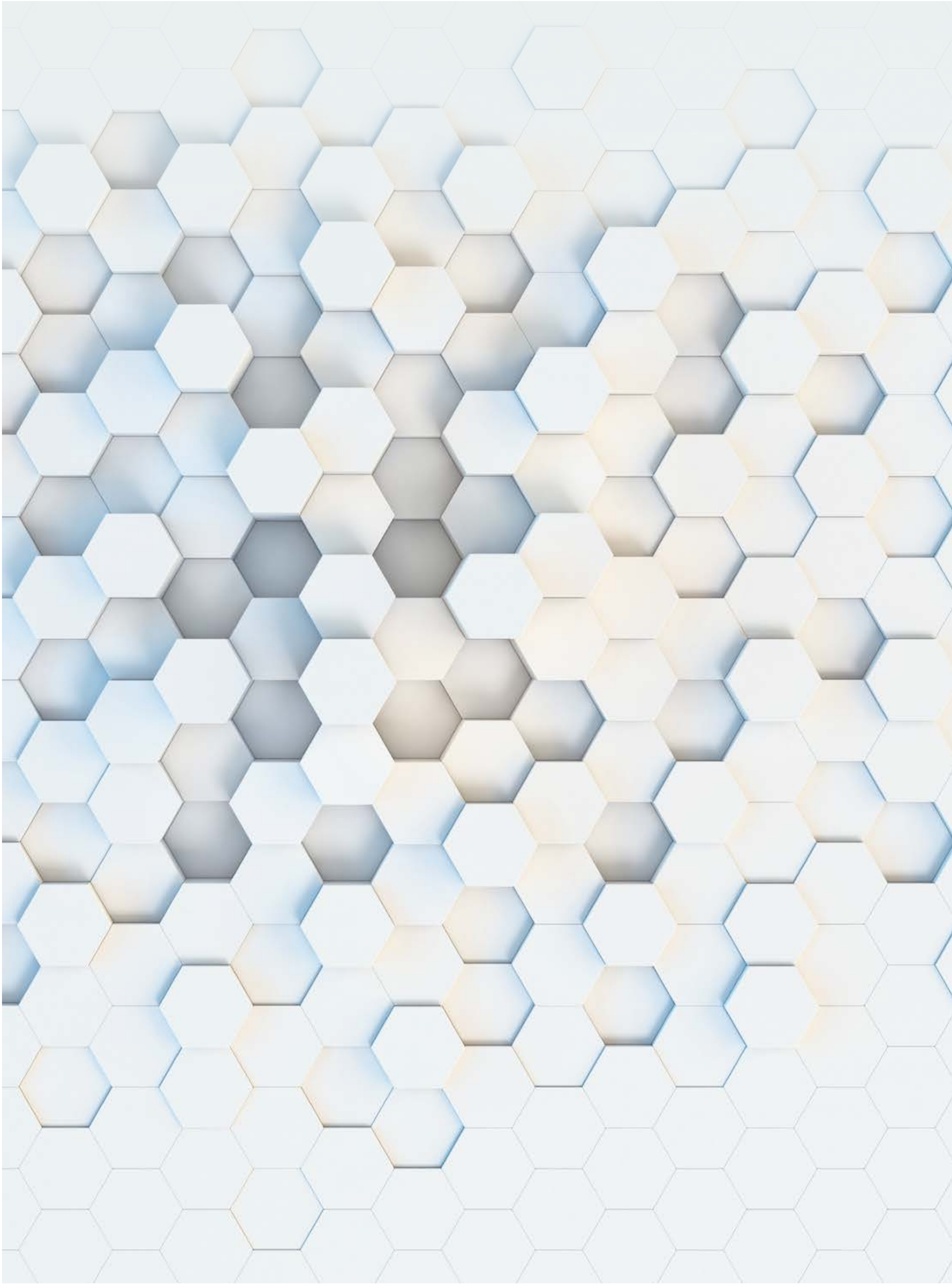
This is the most ambitious stage. It implies a revision of the business strategy and redesign of portfolios and service offerings. As part of a long- term strategy, it targets the role investment banks can play when dealing with ESG: advisers or doers?

In this third stage, financial institutions would be « purpose driven companies » with the power to become not only players of the global transition but also drivers.

By drawing attention to a number of criterial topics and putting into question unsustainable consumerism, ESG has taken centre stage within our economy and financial markets championed by the European announcements on its climate agenda. The good news is it is also known to be profitable as an investment. **80% of asset managers believe they could improve client service by coupling ESG impact and financial performance for one given investment[15] .**

Financial institutions have a great role to play in building, structuring, and offering investment portfolios that pay off beyond financial returns. What we used to call positive or negative "externalities" has become "internalities" in the sense one cannot disregard environment, social and governance factors when investing nowadays.

The potential of ESG is considerable from an organisational perspective: business models will be affected by the alteration in offers and will adapt to regulatory constraints and incentives. The same is true for CIBs themselves: how can they legitimately and proactively promote ESG?



HOW CIBS CAN LEVERAGE APPLIED LABOUR RESEARCHES TO CREATE RESILIENT BUSINESS MODELS

Within the applied labour research community, two visions of management contrast each other: the Mechanist Approach (management is responsible for task delivery), and the Systemic Approach (both managers and employees are responsible for task delivery). The Systemic Approach emphasises the fact that a company is a dynamic and evolving system. Employees must be flexible to adapt to the constraints of the organisation and the company must be prepared to make some adjustments in return. This dynamism is present in the actual work, as long as the relevance and precision of the prescribed work remains the key to the proper execution of the task. In a world where companies are overwhelmed with external prescriptive measures and tasks (regulations such as BALE, MIFID 2, GDPR...), even top managers receive orders from external actors, which has drastically reduced the time dedicated to strategic reflections, design thinking and collective dynamics.

An additional and unexpected external factor, Covid-19, has also widened the gap between financial institutions that have been able to leverage on collective dynamics on a daily basis (the resilient ones), and the one that have been suffering from traditional working methods, in a reactive state of mind, preventing it to quickly adapt to remote working. Above and beyond, the health crisis forced the distinction between companies with a purpose-driven strategy and the others. For employees, the impact of the transition was substantial in terms of challenging their corporate affiliations with their own values and life expectations – what we refer to as "mental schemes"[16] . It is through those that an organisation defines itself and evolves. As a matter of fact, a "cultural" diagnosis is mandatory before activating any kind of transformation plan.

Unfortunately, many companies have jumped on the opportunity to use "value washing" – on the example of greenwashing - as part of their employer branding, which ultimately sapped their communication strategy in times of crises and damaged the trust and teams' relationships which are so important when overcoming a global crisis. The "Care" must be prioritized over the "Do" in most banks' strategies: in order to achieve more ambitious and long-term objectives, a company should embrace its employees' uniqueness and encourage individual initiatives, which will ultimately foster innovation in a sector crippled by legacy structures and traditional mental schemes.

On the other hand, efficient cooperation and teamwork originate from collective dynamics and best practices. Although CIBs are known to reward their employees with high salaries and bonuses, the industry is facing high turnover rates, and, with recurring headcount reduction and restructuring plans, CIBs' employees are subject to a lot of stress and insecurity – ultimately impacting overall job dissatisfaction. To solve the attractiveness problem, CIBs can inspire themselves from other industries' best practices and leveraging on their own strengths to retain talent.

However, the way CIBs monitor employee performance undermines this dynamic, as the system focuses on quantitative goals and data-backed assessments (as conditions for bonuses). These metrics do not take into account the path leading to that goal (including process understanding, efficient team cooperation and mutual assistance). Measuring performance on an activity (by definition, the type and volume of effort engaged to achieve a goal) is that much more complex than measuring the achievement of a task (by definition, the completion of a single action). Hence, what we see today is a contradiction between management practices, that promote employee freedom and development and organisational performance systems which undermine the former by applying ill-designed frameworks. The rationalisation of work and processes, inherited from rational management, is preventing individualities from developing themselves, fostering innovation and applying creativity in their work, relationships, and collective workshops.

For innovation generation, digital transformation is not sufficient. Rather, it should be considered one of many transformations CIBs must embark on to achieve their performance targets. Teams must be involved on the corporate journey towards the achievements of those goal. Ultimately cooperation practices should stem from motivated teams that have the leeway to work without crushing their individualities. For a successful transformation, CIBs must find the balance between monitoring and encouraging employees and create management structures that encourage or better generate cooperation at a larger scale. What we sometimes call "Collective Intelligence" should be both the main root and driver of individual engagement and collective performance inside the bank.

Bearing in mind the so peculiar times we are experiencing, how can CIBs create the space for employee fulfilment and meet their performance targets in such constrained financial environments?

Cooperation may be the answer. Labour sciences come to help when considering leads to increase cooperation within the workplace and building cooperative models specifically for CIBs. From "teamworking" to cooperation on the long-term in a uncertain environment, we have identified key tactics that could help both leaders and employees take corporate elasticity to the next level.

INDIVIDUALS AND MANAGERS CAN BE PROACTIVE IN HELPING WARD OFF DECLINING SATISFACTION BY FINDING WAYS TO REDESIGN WORK TO MAKE IT MORE MOTIVATING AND MEANINGFUL.

Dr Shoshana Dobrow Riza, assistant professor of management at LSE

1 WITHIN THE BANK, IDENTIFY THE CONTRADICTIONS BETWEEN CULTURE, LEADERSHIP AND TEAMWORK DELIVERY EFFECTIVENESS

Back to basics: CIBs must be able to identify their double binds, in relation to their ecosystem. This means understanding the mandatory process, features and devices to coordinate all actions leading to success while taking into account collective dynamics. How do we go from individual success to collective performance? Labour sciences provide a solid framework that CIBs could leverage to foster cooperation and increased collective performance.

The traditional top-down management approach has long been challenged by new-entrants (competitors and millennials) and is currently being questioned by employees as well who are trying to find a balance between complying with internal procedures and seizing the opportunity to upskill and innovate.

On the model of the infamous start-up culture which advocates "people-first", being transparent and giving the opportunity to Millennials to change the "Old World" appeals to a generation in search of purpose. Some corporations have tried to implement that type of culture and often failed because it was not rooted deep enough in the company's daily ways of operating.

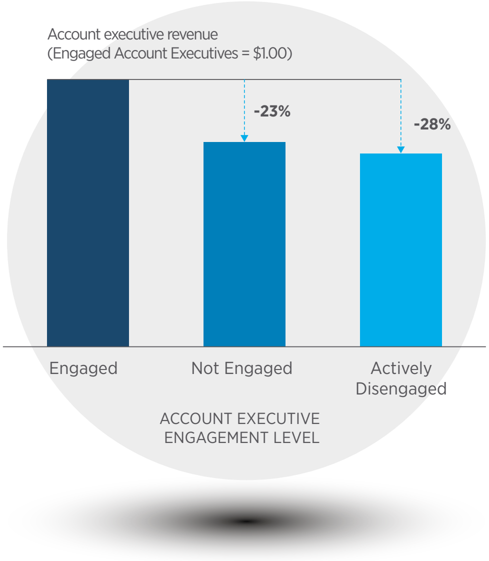
Moreover, CIBs' hierarchical legacy structures does not suitably equip them for the new aspirations of new joiners. Although Covid-19 helped CIBs challenge themselves and realise that talent attractiveness, acquisition, engagement, and retention could only be addressed when considering employee individually and creating an environment that will enable them to create team bonds. Performance monitoring and productivity measures will have to evolve too.

For a purpose-driven strategy, profits should be one of the many positive consequences of the company's activity, not the sole goal. Bonuses should remain an incentive but reward collective efforts, rather than discriminating against low performers.

The time has come for CIBs to rethink their incentives models, in a world where basic needs are threatened by uncontrollable external factors such as pandemics, geopolitics or macroeconomics. Among major banks, Citi has been able to showcase rising compensation expenses in its investment banking division for 2020 Q1, as it did not have to compensate for its other divisions losses unlike Crédit Suisse or HSBC[17]. Salaries and bonuses are not the only incentives banks should provide: individuals are starting to expect authentic cooperation with their employer and management structure.

When looking back, we find many examples of companies which succeeded in overcoming a crisis with a workforce strategy centred on cooperation (including collective intelligence and rewarding policies). Following the Great Depression, Kellogg's for instance invested both in advertising and recruitment. The cereal manufacturer altered its working habits by reducing working hours by 25% (to a 6-hour workday), while giving workers a 12,5% raise in hourly wages. Worker productivity soared within 2 years; workers could achieve the same amount of work within 30 hours (instead of the 40 hours). Investing in workforces is important and extra-financial aspects do positively affect motivation, productivity, and hence profitability.

Finally, CIBs should think about their culture and their uniqueness: why do people work for us? What is the particularity of teams? What are we known for by third parties? The company's ecosystem is comprised of several entities whom employees work with: clients, suppliers, partners. There are also stakeholders that directly or indirectly impact their work (competitors, market regulators or shareholders). A bank's cultural habits used to transcend outside to external stakeholders, and were either beneficial or detrimental to the relationships developed with key clients or suppliers on the long term. The most difficult thing to grasp about corporate culture is that there is no magical solution to create a brilliant working dynamic; it originates from the people. Skills are important but the way employees perform together and interact is usually inherited from all employees' past teamwork experiences: working behaviours are sometimes very difficult to align and, when they do not match, there is no opportunity of creating a sustainable corporate vision. Culture is created and evolves according to the people that make it or change it: individuals bring their personal beliefs and education, which usually differ from one employee to the other. Therefore, assessing a corporate culture is very difficult: there is a thin line between what is personal and professional, and culture originates from both.



Source: Gallup Management Journal, "Engagement Drives Results at New Century", September 2003

2 LEVERAGE YOUR INTERNAL RESOURCES TO PROPEL TEAMWORK PERFORMANCE: INCREASE TALENT DENSITY AND IDENTIFY THE ONES WHO STAND OUT IN INTERACTIONS

CIBs should consider their own employees as investment opportunities: each individual represents a pillar and an ambassador of the overall corporate culture. When Torsten Slock, top-ranked economist at Deutsche Bank for 5 years, officially left the bank for Apollo Global Management, the bank's share price dropped overnight (from €8,55 to €8,48)[18] . Indeed, human power is a competitive advantage for CIBs to ensure client best-in-class service and performance in the long-run. In the industry, "talent density" is also quite important: the ratio between the number of employees, and the amount of hard skills each person has is supposedly very high as CIBs are known to hire top talent. However, the recruitment system is ill-designed to assess an individual's ability to collaborate with his or her peers. There is always a risk that culture gaps widen over time, ultimately undermining cooperation performance.

In a "talent-war" environment, recruiters are having to compromise between a rise in demand for hard skills (technological skills, data analysts, developers… that are polyvalent), fewer open positions and fewer adequate candidates. In comparison to their tech-native competitors, their acquisition approaches seem inadequate. How can they compete with companies that promote flexible remote working, modern headquarters around the globe and a "no vacancy policy" like Salesforce, Google, or Netflix?

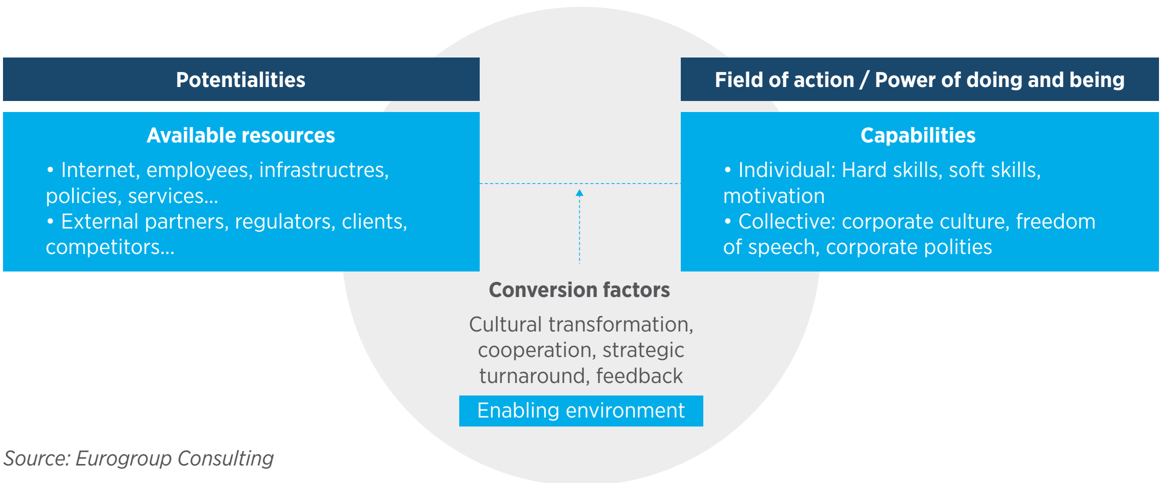
A shift in recruitment and retaining strategies is key for banks wanting to adjust to an emerging market of individuals with new expectations regarding their job's purpose and motivation triggers.

In our client experience, we have seen the efficiency of the Motivator model: "Motivators" are identified within the workforce and regularly challenge existing explicit or implicit corporate rules to better align them to the collectively defined purpose. These specific employees can be quickly identified through their impact: they seem to be able to create mobilization within the employee group. These people are the ones that deeply understand and share corporate values, as well as its "raison d'être". That is why they are the best ambassadors. Although these "motivators" may not be the most well-paid employees, nor with the highest responsibilities, they have an extraordinary influence on the workforce and are able to trigger some form of collective performance.

In summary, skills are no longer the only factor CIBs should consider when hiring talent, the ability of an individual to self-develop is also key, especially in a short time frame. The bank can put resources at his or her disposal, and afterwards, it is the employee who has to "perform" (not in the traditional understanding). This leads us to our final key finding: without providing an enabling environment, CIBs will not uncover the rough diamonds it hires.

3 PROVIDE AN ENABLING ENVIRONMENT TO YOUR EMPLOYEES, TAKING INTO ACCOUNT YOUR COLLECTIVE INTELLIGENCE CAPABILITIES, THAT WILL CONSOLIDATE INTERNAL COOPERATION PRACTICES, AND HELP SCALE THEM TO EXTERNAL INTERACTIONS

Combining Amartya Sen's (1998)[19] and Pierre Falzon's (2009)[20] academical work, we are now able to grasp the full potential of what they called a "facilitating environment". Indeed, without that type of environment, being highly skilled does not suffice to outperform. The facilitating environment is crucial and should be outlined by the leadership of a company, to give space to work groups and create the optimal conditions to maximise the potential of their available resources. As explained by P.Falzon, the concept of "enabling environment" is the operational way of providing employees with the room to be able to develop autonomously their know-hows and new skills, open their fields of action and their level of control on daily tasks. This enabling environment is the conversion factor between the available resources inside the company (talents and current skills) and the freedom given to the employee.



Source: Eurogroup Consulting

Netflix is the perfect example of a company that integrated labour sciences in daily management: the "Freedom & Responsibility" culture developed since its creation has helped the company become the entertainment market top player. Obviously, one cannot standardize this culture across industries given regulatory standards and social considerations (especially for the CIB industry). Although, what's at the core of this kind of culture is understanding that one individual cannot excel unless one believes to be at the origin of something big and is irreplaceable to do the job. Every employee should feel that she or he is unique, useful and recognized, by colleagues and management.

> IN FACT, IN AN ENABLING ENVIRONMENT, THE MANAGER IS NO LONGER THE DECISION-MAKER, BUT THE REFEREE WHO CAN DECIDE WHETHER OR NOT THE GAME IS GOING THE RIGHT WAY.
>
> **Ibrahima Fall, Director and Doctor in Management at Eurogroup Consulting**

WHEN ONE IS CONFIDENT ON ALL POINTS REGARDING HIS OR HER WORK DELIVERY AND LEGIT PLACE WITHIN THE COMPANY, ONE IS ABLE TO EXPOSE HIS OR HER UNIQUENESS WITHIN THE GROUP AND ACCEPTS CONSTRUCTIVE CRITICISM.

O.Piazza, Découvrir l'intelligence collective

By accelerating the transition from expected "Future of Work" to "New Ways of Working", the Covid-19 crisis has suddenly unlocked the autonomy of CIBs employees. Remote working has indeed become HR teams' main pain point with its intricacies: new digital tools, new compliance standards and also new management practices. Ironically, what we call "New" ways of working have just become "Different" ways of working – but it is what the industry needed to unlock individual's potential through the new enabling environment. And, by doing so CIB started acknowledging that, by trusting employees, remote working can actually work quite well.

Providing an enabling environment means liberalizing work, not accepting chaos. Trusting an employee is beneficial for CIB profits. A Stanford University case study from 2015 highlighted that when a random group of employees of a Chinese travel agency was assigned remote working for 9 months, their productivity went up by 13%, and even higher on the longer term[21] . This example teaches us two things for CIBs regarding remote working results expectations: first, corporations must work on increasing cooperation strategies during non-crisis times, to prepare for potential disruption that could occur during a crisis (and it could take the form of remote working for example). Second, corporations will have to be patient to start reaping the benefits of workforce investments; it can take 2 years at least. According to a 2019 Gallup study, if employees were happier at work in the 1st year, they would tend to be more engaged at work and even happier in the 2nd year[22] . Motivation should then be a KPI to be closely monitored at the individual's level.

A 2019 recent study showed that managers play a role in stimulating performance and helping avoid unethical working behaviours when giving to their teams ambitious learning goals, instead of result-oriented goals (whether ambitious or easy to achieve)[23].

15%

Greater likelihood that direct reports will be thriving in wellbeing when their manager is thriving in wellbeing

Source: Gallup Study, "Employees Need High Wellbeing for High Performance", 2019

This type of semantics should be incorporated into the communication roadmap for leaders to address properly the individual self-fulfilment duty they have towards their teams. It is one kind of what we call "inclusive management type". At Netflix, the concept of feedback with positive intent is key to generate constant improvement and freedom of speech at all levels. The feedback with positive intent culture helps increase mutual assistance behaviours, as well as increasing work groups dynamics and innovation opportunities.

Giving employees a voice, in a democratic type of model, is also another way to help legitimate managers' decisions as the community will better understand the efforts needed to achieve business goals. Authenticity, communication, and transparency thus prevail, and failures and difficulties encountered by top management must be shared too. Empowering employees in the business model transformation that follows the implementation of the bank's purpose definition can definitely improve the company's performance and sustainability.

Such practices can take various shapes:

- Giving employees the opportunity to develop entrepreneurial or internal projects
- Integrating shadow committees (mix teams of young/mature employees, IT/financial/business expertise, cultural mixes…) to build transversal strategic decisions
- Organising regular Hackathons/Makeathons to foster innovation in management

- Challenging structures and organisations ("break" habits)
- Developing a recurrent feedback culture and perpetual improvements at every level (customer feedback/employee feedback/partner feedback/supplier feedback...)
- Increasing transparency on decision making (prepare, explain, listen to and understand reluctant behaviours)
- Better monitoring lower-performers (track different KPIs: time-to-productivity instead of time-to-market for example) to identify the origins of this
- Encouraging in-house mobility through training and individual's skills mapping
- Integrating motivation to annual reviews

> AT NETFLIX, IT IS TANTAMOUNT TO BEING DISLOYAL TO THE COMPANY IF YOU FAIL TO SPEAK UP WHEN YOU DISAGREE WITH A COLLEAGUE OR HAVE FEEDBACK THAT COULD BE HELPFUL. AFTER ALL, YOU COULD HELP THE BUSINESS-BUT YOU ARE CHOOSING NOT TO.
>
> **Erin Meyer – No rules, rules (Netflix and the culture of reinvention), 2020**

In terms of profitability, such projects do not necessarily generate a visible increase in profits as already mentioned previously. However, it will help retain talent in the long run, integrate corporate values and purpose in daily activities and ultimately generate agile and effective responses to market shifts.

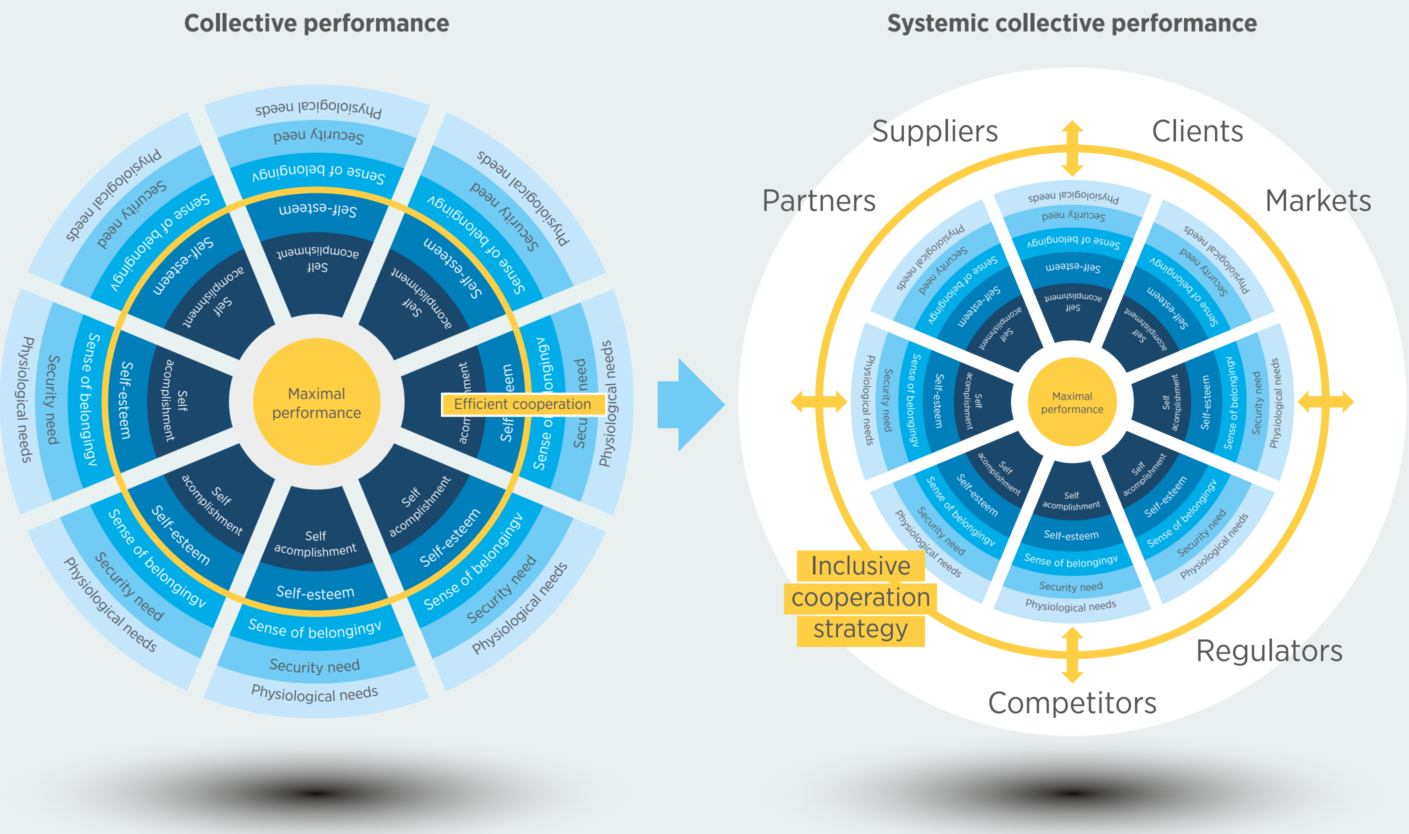
Consequently, collective intelligence goes beyond the corporate frontiers. The example of Lego illustrates how work groups could also be a mean to successfully overcome a crisis (the 2008 financial crisis in this example). In addition to its restructuring plan, Lego differentiated from competitors by creating an online community of engaged fans to feed the website with design and projects ideas (which resulted in 130,000 recorded clips on Youtube in 2009[24]). The community provided top management with an exceptional intelligence database on potential innovations and novelties to be taken forward by its R&D department. Another example of the maximization of external collective intelligence practice comes from the public realm, the recent French "Grand Débat National"[25] launched in 2019 to help the French government address the "yellow vest" uprising through collective innovation ideas. The previous examples help illustrate the idea that if a company fails to consider its ecosystem, it cannot leverage on its most important assets – people.

What's in it for CIB's? Previous crises have shown that the financial sector usually gets hit later than the rest of the economy. That means CIB innovation teams have no time to rest, they need to stay alert and open to environmental interactions. Ecosystems, mutualizations and relevant partnership strategies have proved to become the main assets to leverage during crisis times. For example, Santander has been one of the rare survivor of the subprime crisis as it deployed an aggressive acquisition strategy, taking advantage of the market downturn to acquire competitors and then extend its international network and footprint on the consumer credit market. Although it was hit by the eurozone crisis a few years later, its international diversification helped consolidate its position.

The current European legislative context encourages mutual and coordinated initiatives from banks and banks have already started deploying coordinated communication efforts to respond to that trend. There are an increasing number of business lines for which banks are ready to join forces. For example, at the end of February, the SWIFT network launched an initiative to collect customer data in order to pool the banks' anti-fraud efforts. In research, brokerage and wealth management, the movement began several years ago: in 2004, Exane joined forces with BNP Paribas and in early 2018 Natixis joined forces with Oddo BHF.

Those coordinated efforts can also be introduced between the regulator and banks. For example, the FCA, Prudential Regulation Authority and the Bank of England launched a joint open consultation on the Financial Regulators' Complaints Scheme in July 2020 and ask complainants about the scheme's language improvements in order to make it more accessible to consumers. It also clarifies the policy process on making ex-gratia compensatory payments.

As a matter of fact, the more actions are undertaken by banks to cooperate with their ecosystems, the better it is for their attractiveness on both the talent and client side through increased visibility of their smart and purpose-driven strategic moves.



Source: Eurogroup Consulting

The systemic approach of a strategy integrating collectives and cooperation models will help transformation project owners (and HR) achieve more ambitious corporate performance goals maximizing elasticity and innovation generation.

Having the best talents and resources is not sufficient to become a top performer in the CIB industry: the enabling environment should also be provided by the company, to help employees evolve from a good element to an irreplaceable colleague. A bank's "raison d'être" might be formalised in a chart, but employees' authentic commitment is the only way to bring it to life. The key ambassadors are the "Motivators", who are able to share their positive energy with the rest of the group and should be recognised within the company. Building a workforce strategy that has strong feedback culture should be a top priority as it is also a way to show employees how much their critical judgment is valuable for the company. In fact, reward does not mean bringing indicators and budget KPIs on each profile; CIBs must tackle the complex challenge of integrating human complexity in their systems and reports.

CONTRIBUTORS

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NOTES

1. We have decided to keep our 18-bank panel anonymous; for any questions, please reach out to the Eurogroup Consulting team.
2. Eurogroup Consulting quarterly Financial Newsletter
3. source WHO as of 28 July 2020
4. Source WHO as of 28 July 2020
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