



APPG on Challenger Banks and Building Societies

Coronavirus Survey 2022

Report

In 2020, the APPG on Challenger Banks and Building Societies conducted an anonymous research survey into how the coronavirus pandemic and the actions of government, regulators, and customers had impacted smaller institutions in the Challenger Bank and Building Society sectors. One year later, the APPG decided to reprise the survey to see what had changed as the pandemic progressed.

Both surveys received a strong response from a wide range of institutions across the sector. The key findings from the survey were:

The pandemic had a profound effect on remote working and a shift to digital transactions.

More than half of firms responding said that they have increased online service availability as a direct result of the impact of the COVID-19 pandemic. 60% of firms reported changed working hours as a result of the pandemic.

This was a result of both the COVID 19 protocols but also a major shift in consumer behaviour and employee behaviour with staff moving to remote working.

The FCA and the regulators

Broadly speaking, two thirds of institutions felt that the advice they had received from the regulator was helpful and clear. While just under a third through the opposite.

71% felt that the regulatory community had provided helpful and clear advice, with only minority reporting that it was incomplete or vague. This compared favourably when compared to our 2020 findings.

In terms of specific regulators, the PRA and the Bank of England came in for particular praise as did trade associations such as UK Finance. Of those who were critical, it was the FCA which bore their ire. However, even this was balanced by some very positive commentary around the FCA's work demonstrating that they had improved their response over the pandemic. It is interesting to compare this to the 2020 survey where respondents reported that the FCA had received specific criticism especially with regard to its understanding of small firms.

Ultimately, when asked to rank the FCA, the Bank of England and the Government as giving the best guidance the respondents were evenly split between the Bank of England and the Government with the FCA slightly further behind.

The public reaction to the crisis

The public reaction to the pandemic had resulted in more contact and requests for advice as the Omicron wave broke. However, a quarter of respondents reported less contact than during the 2020. Respondents put this down to customers having changed their behaviour and also concern about the transmissibility of the Omicron variant.

In terms of the public reaction to advice from the Government and regulators, three times as many who expressed a preference felt that the advice from the government was positive. Whereas the regulators and Government were perceived equally.

2022 view of the pandemic overall and the future

Overall, firms felt the Government had dealt well with the pandemic. However, there were some strong views expressed to the contrary. The view of most respondents who expressed an opinion was that the vaccine programme had been very strong

The APPG specifically asked whether the so-called ‘party-gate’ incidents had an impact. Interestingly, it had not in the view of our respondents.

Recommendations

Back in 2020 our report’s recommendations included:

1. A call on the Treasury and other government departments to engage earlier and closer with challenger institutions on future crisis management policies and their financial services policies more generally.
2. In 2020 we suggested that the FCA needed to issue guidance that is specifically targeted at smaller financial institutions.
3. Finally, we called on the Government to introduce a package of measures to help support smaller financial institutions that may struggle in the coming 12 months and beyond.

Over the last two years the regulators appear to have raised their game on the pandemic in the opinion of our respondents. Government too has come in for praise from many.

Therefore our 2022 recommendations look forward to the post-pandemic future and include:

- 1 The regulatory community needs to adjust to the new realities of remote and flexible working. These have clearly become large features during the pandemic and in many ways may be here to stay. They will have a profound effect on both the experience of staff working for firms and customers accessing services;**
- 2 The pandemic has resulted in a huge shift to digital transactions as more normal life returns Government and regulators need to make sure that vulnerable customers and those who depend on traditional cash based transactions are not unduly disadvantaged; and,**
- 3 Government needs to adjust regulation where necessary to take account of pandemic changes to work patterns and business models.**

Chairman’s Comment:

Responding to the findings of this report, the Chair of the APPG on Challenger Banks and Building Societies, Rt. Hon Karen Bradley MP, commented:



“We were fascinated to see the change in perception towards the regulators compared to our 2020 work. There were criticisms from some, but overall firms seem far more satisfied with the Government and the regulators now than they were at the start of the pandemic.

”The pandemic has had a huge effect on businesses and working patterns across the economy. Although restrictions have now ended it looks as if many of these effects from remote working to increased digital transactions will be permanent changes. Government and regulators need to be fleet of foot in monitoring the effect these have on our economy and on firms’ business practices.”

A note on our Methodology

The APPG on Challenger Banks and Building Societies conducted this survey anonymously with a wide range of Challenger Banks and Building Societies invited to submit their responses to some or all of the question summarised in this report.

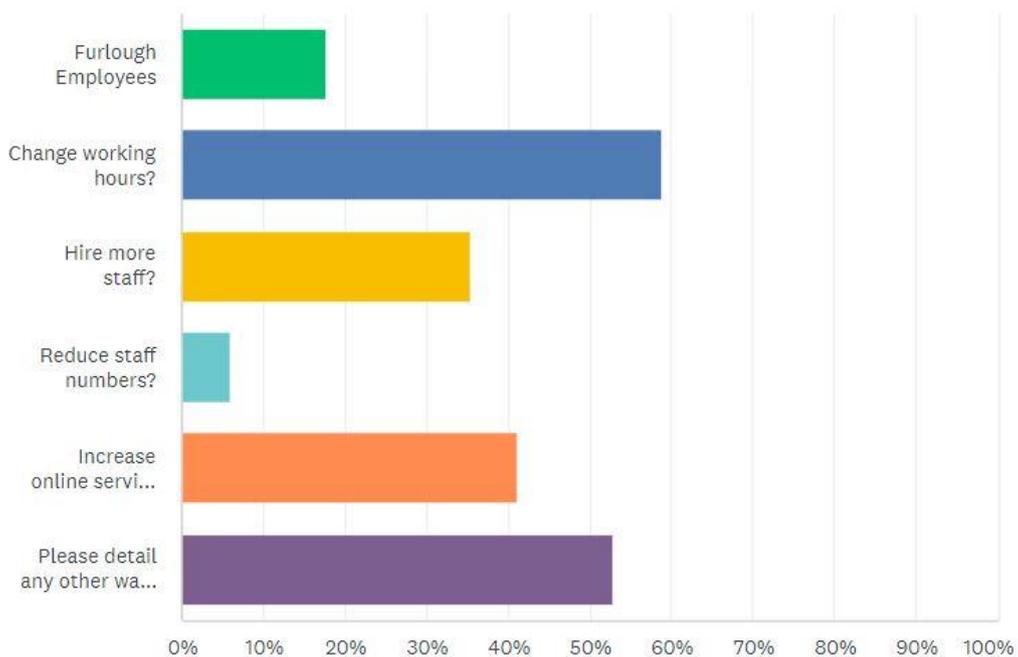
The survey was conducted on an explicitly anonymous basis so that institutions could feed back to parliamentarians in a full and frank manner. The APPG has decided to keep all responses and comments anonymous in perpetuity.

Responses were not limited to one answer per question, with some respondents choosing to skip some questions and other giving more than one response. This is why the percentage responses do not always add up to 100%.

APPG Challenger Banks and Building Societies – Coronavirus Survey 2022 – Detailed Responses

Please answer as many of the following questions as are applicable to your organisation:

1. As a result of the coronavirus crisis has your organisation had to:
 - Furlough Employees during the furlough period 18%
 - Change working hours? 59%
 - Hire more staff? 35%
 - Reduce staff numbers? 6%
 - Increase online service availability? 53%

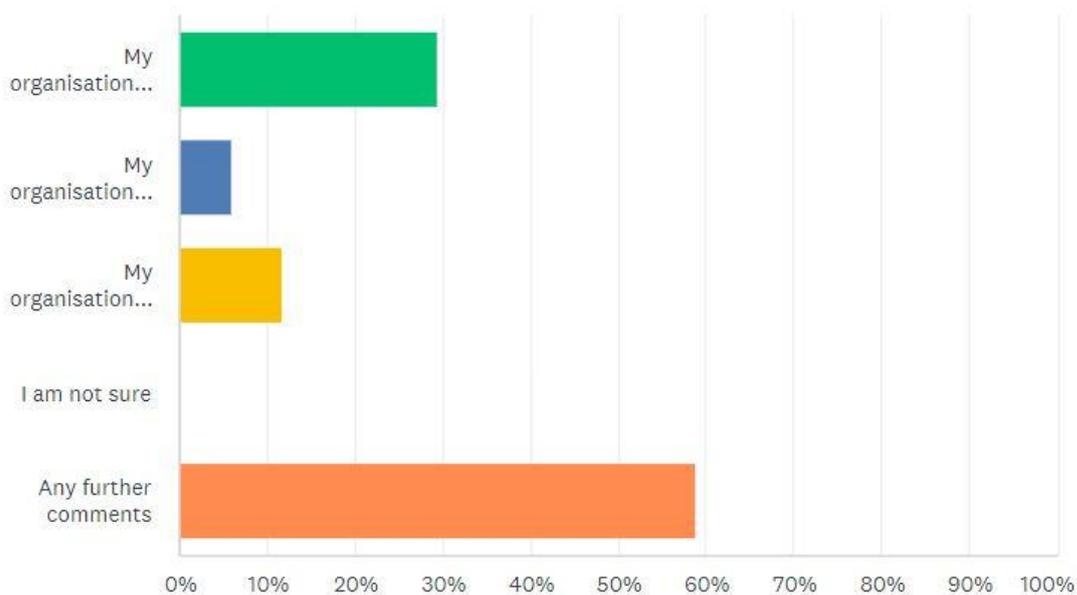


Firms also detailed other ways the coronavirus crisis has affected operational aspects of your business:

- Hiring more staff due to growth as a result of the pandemic rather than due to the impact of the pandemic and subsequent regulations.
- Implementation of home/hybrid working across the business.
- Employing COVID 19 protocols to maintain safety of colleagues and customers and investing further in IT security and facilities
- Cut backs on marketing and expenses.
- Mortgage payments holidays resulting in a significant increase in administration work.

2. Which of these statements is true about your organisation?

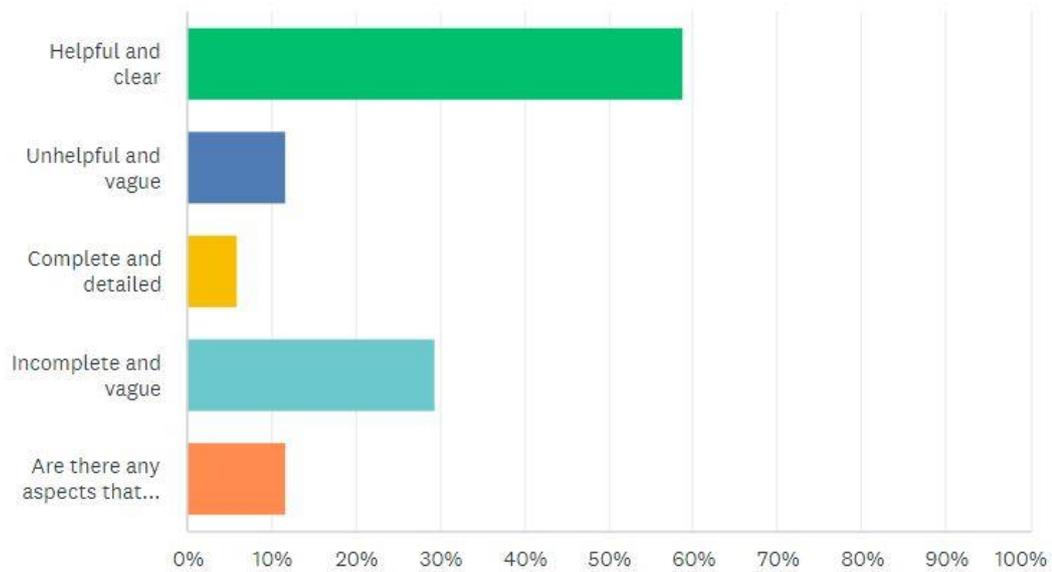
- My organisation has received more applications for business support since the coronavirus lockdown began? 29%
- My organisation has received fewer applications for business support since the coronavirus lockdown began? 6%
- My organisation has received about the same level of applications for business support since the coronavirus lockdown began? 12%
- I am not sure 0%



- **Any further comments:**
- Building Societies reported supporting members more through Mortgage Deferral Schemes
- Building Societies also reported receiving more applications for support from Members due to them facing financial challenges.

3. Over the last 2 years, how would you describe how your organisation has found the guidance coming out of central government for financial institutions?

- Helpful and clear 59%
- Unhelpful and vague 12%
- Complete and detailed 6%
- Incomplete and vague 29%



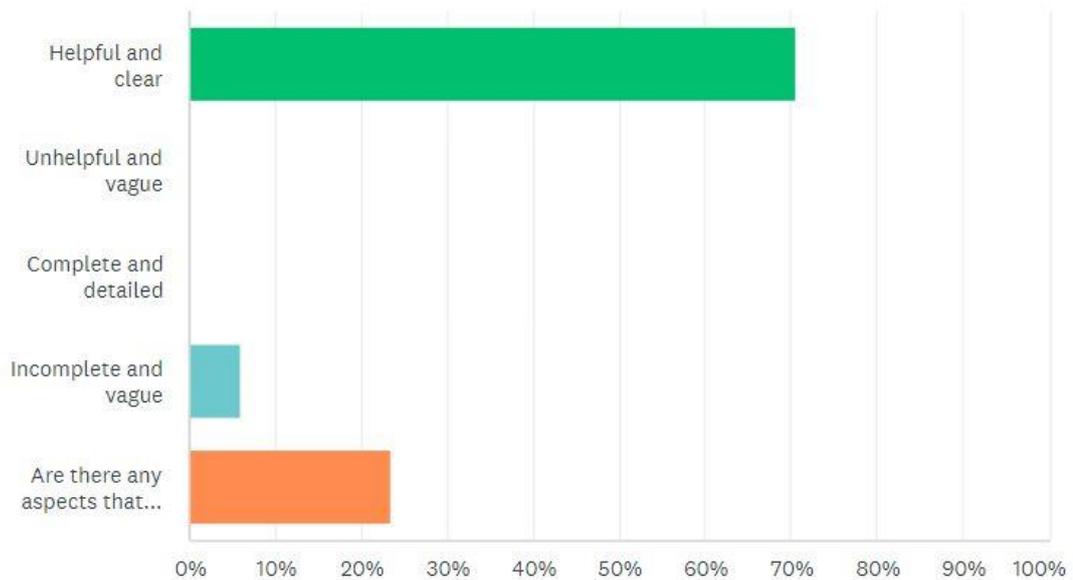
- **Are there any aspects that have been good or particularly helpful?**

Responses included:

- Guidance around Covid secure working environments for offices and branches was very thorough.
- The Government guidance has been wide ranging. The challenge has been in some areas of interpretation although industry bodies have helped in ensuring a consistent approach. As laws were reduced to recommendations implementation became more difficult.

4. Over the last 2 years how would you describe how has your organisation found the guidance coming out of the FCA and the Bank of England?

- Helpful and clear 71%
- Unhelpful and vague 0%
- Complete and detailed 0%
- Incomplete and vague 6%



- **Are there any aspects that have been good or particularly helpful?**

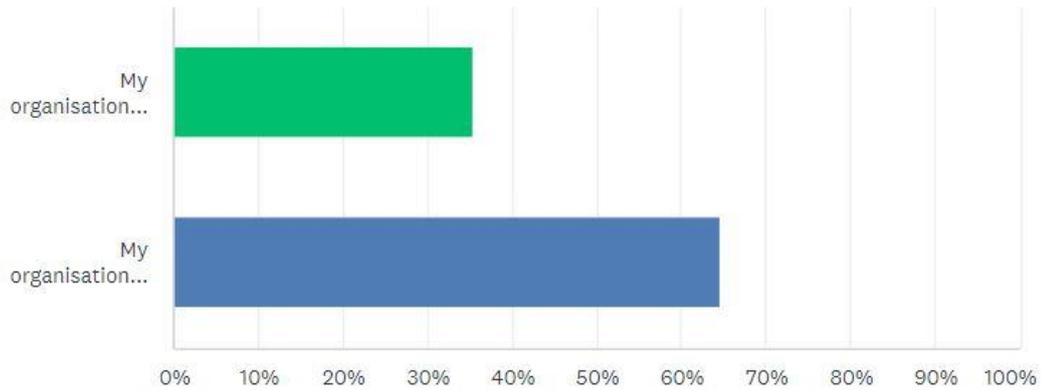
Responses included:

- Engagement with PRA very clear and helpful
- The Bank of England has been helpful and clear - FCA has been incomplete and vague
- I believe that the role played by the UK Finance in clarifying areas of uncertainty and in helping deliver a consistent interpretation has been extremely valuable.
- FCA guidance appears to have focussed on an increased reporting overhead around e-money and COVID risks. But general guidance has been clear and well run - especially around developments for open Banking

5. Which of these statements do you agree with?

My organisation has experienced a difference in approach between government and regulators? 35%

My organisation hasn't experienced a difference in approach between government and regulators? 65%

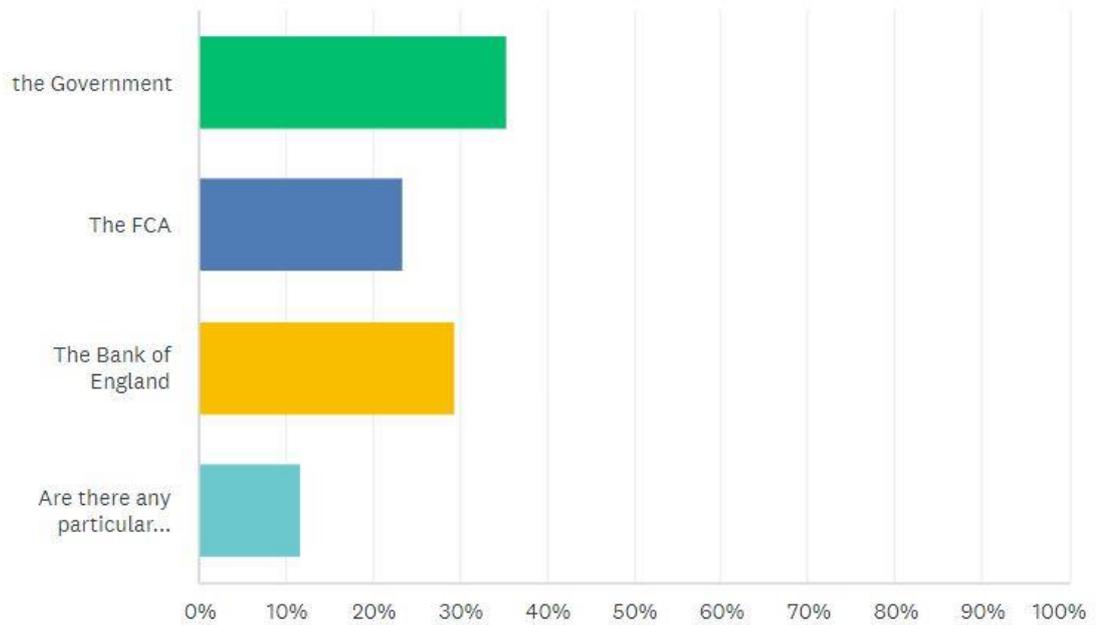


Further responses included:

- Government guidance was more directive, whilst guidance from the regulator involved more interpretation. UK Finance was very helpful in this regard.
- Government and regulators have not contradicted each other. Our dialogue has been primarily with the regulators.
- Government and regulator do seem to be aligned on pursuing the benefits of open banking.
- The PRA especially have remained clear and consistent in their communications. This is largely due to monthly update meetings with the PRA which allowed for greater understanding on both sides of the factors impacting institutions.

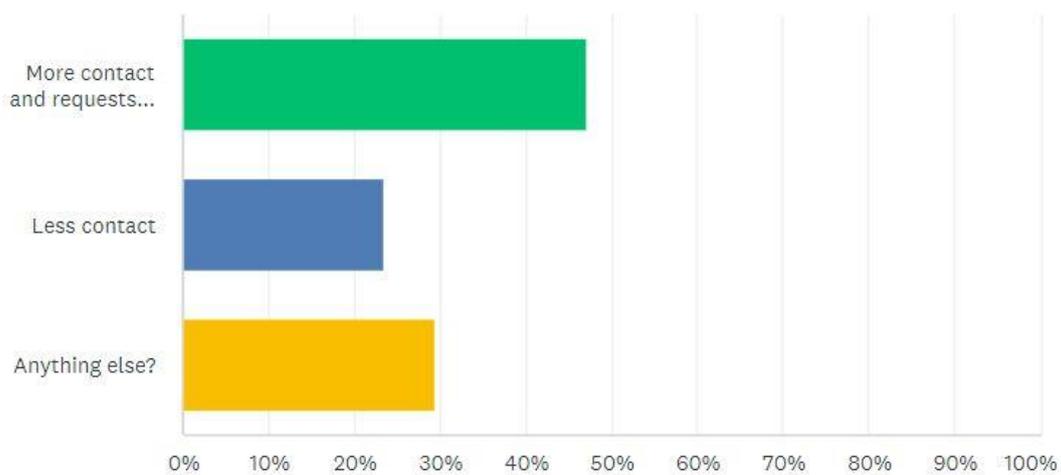
6. Who has provided your organisation with the better guidance

- the Government 35%
- The FCA 24%
- The Bank of England 29%



7. How have your customers reacted to the crisis, particularly the Omicron wave?

- More contact and requests for advice 47%
- Less contact 24%

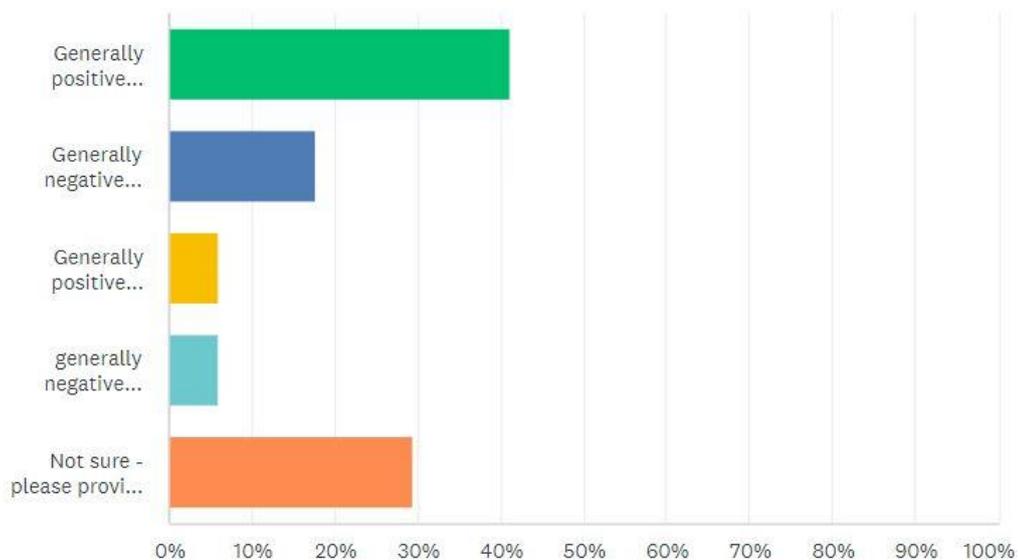


Further Responses included:

- Customers used branches less often, which increased call centre volumes.
- There was a heightened demand for colleagues to provide mortgage support due to Mortgage Payment Deferrals
- Less contact with customers initially but it normalised thereafter
- The widely held view of Omicron posed fewer health risks meant that on the whole, customers were less likely to restrict their usual behaviours.

8. If you have received feedback from customers on the advice from government and regulators, how would you describe it?

- Generally Positive in terms of advice from the Government - 41%
- Generally Negative in terms of advice from the Government - 18%
- Generally positive in terms of advice from Regulators - 6%
- Generally negative in terms of advice from regulators - 6%



Not sure - please provide details:

Typical Responses included:

- Mortgage customers reacted positively to the payment deferral scheme, as evidenced by the take up.
- Customers were generally not aware of advice from government or regulators pertaining how our institution operates.
- This was dependent on where people sit on the political spectrum.

9. Do you think the UK government have dealt well with the pandemic? Are there ways the response could have been improved? Do you think the revelations about the conduct at number ten influence your response?

Typical Responses included:

- It has been difficult for most governments around the world and no doubt most will have lessons they have learnt. Support for businesses was good, but again no doubt lessons have been learnt. It has been and continues to be an unprecedented situation
- On balance, the Government has dealt well with the pandemic from both a public health and economic perspective. Whilst it could have acted quicker at the onset of the pandemic, hindsight is a powerful tool.
- There was a reactive response at the start of the pandemic. Not sure lessons have been learned.
- The biggest issue has been the different approaches of the UK and Scottish Governments.
- Accountability for significant COVID-19 expenditure could have been better.
- There has been little coherent policy consistency, instead seeming almost entirely reactionary and there had clearly been little contingency planning. Expectations on financial services institutions regarding systems and controls (SYSC) are significantly higher than those demonstrated by central government.
- On conduct, the evidence of the potential breaking of guidance/laws would indicate behaviour that would not be acceptable in a regulated financial services firm or by regulated individuals.
- It has been variable with some successes (vaccinations) but many errors (test and trace, uncommercial contracts on protective equipment, damage to economy through unnecessary lockdowns).
- Conduct at Number 10 has not influenced my response but does impact on my opinion of the PM and government integrity.
- Government were quick to announce support for businesses & individuals, although unfortunately adequate controls were not in place which has led to severe misuse of the system.
- Fairly good in the main, but whilst they acted at speed, the timings between announcements and implementation weren't realistic
- Parts of response have been good and others not so good - revelations about Number 10 conduct has damaged confidence
- Over time, there has clearly been a level of fatigue amongst people which ultimately makes ensuring compliance increasingly difficult to achieve over the longer term.
- Travel guidance was very poor with advice changing daily, government and employed scientists pushing opposing views in the media, destroying confidence in the travel sector, and hitting all related industries.
- In the main, the Government have reacted well to the challenges that the pandemic has posed, however, the rate of deaths in the UK compared to other parts of the world may suggest a strong counter to that view.

Final question

10. The pandemic has gone on a lot longer than many expected. With this perspective, what does the future look like?

Typical Responses included:



- Uncertain, and full of surprises, no doubt! Hopefully we will have learnt from the painful lessons we have gone through.
- Covid-19 accelerated the move towards digital financial services and cashless transactions, reducing the volume of international business travel and changing the shape of many workplaces.
- We increased our efforts to diversify our revenues, reducing the reliance on interchange and international travel and developing tools and services to facilitate consumer adoption of digital financial management. Our revenue growth through the pandemic reflected the increasing relevance of our product mix, the attractiveness of subscriptions and our continued customer growth.
- Around the world as countries recover from COVID-19 we are excited at the opportunities to bring our firm services to customers in the US and to further European and Asian-Pacific markets.
- Challenging.
- Until there is a coordinated approach to the wider (global) vaccination program, it is likely that new variants will emerge that will result in temporary periods of disruption dependent on their severity.
- The near future will be tough with the cost of living increasing.
- Inflation and rising interest rates will be the longer term concern
- Concerned about training and development of younger staff who have been working from home for so long.
- Fiscal pressures are now considerable and combined with pressures on the cost of living, this will place a burden on individuals and businesses.
- Challenging over the medium term due to the marketplace and economic conditions.
- Flexible working and greater digitisation of customer services so they can self-serve.
- The pandemic has shown firms a new way of working, with hybrid operating models an inevitable result.
- Covid and Brexit will result in a re-calibrated economy.

**APPG Challenger Banks & Building Societies
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Further Information and Media Enquiries

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