

# **The Changing Nature of Financial and Professional Services in the City of London**

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# 1 Introduction

This report aims to draw together themes from recent research looking at the City of London, and how financial and professional services organisations are changing. This research primarily focuses on financial and professional services and changes in workspace design and layout, regulation, and technology. A number of strong trends have become apparent in these areas, and have caused some large and influential companies in the City to change their long-established working practices. Surveys were undertaken and leading City professionals were interviewed as part of the research process to test trends that had been identified through the examination of existing academic and journalistic research. This approach was used for each theme covered by this report (please see Chapter 7 for full details of the methodology).

Taking each theme in turn, the main observations at the outset of this research were:

- *Workspaces* are becoming increasingly more flexible, and many companies have adopted hot-desking and open-plan layouts.
- *Technology* has vastly changed the demands of clients and customers of financial and professional service providers: they demand faster responses in a faster moving, globalised environment.
- *Regulators* are encouraging financial services companies to minimise risk and ensure market stability more than previously, which has had a significant impact on the City.

Each of these themes presents challenges but also opportunities for the City. The next major change in the City is likely to involve the development and increasing prevalence of Financial Technology ('FinTech'). The open-plan collaborative spaces of tech start-ups in this new sector are presenting a model for larger corporate organisations in the City to adopt a more entrepreneurial atmosphere. These new firms are creating 'disruptive' waves within the financial services industry, and as they are often well funded through mechanisms such as crowd-funding or venture capital, they are able to innovate extensively.

This report aims to assess to what extent FinTech is a force that could strengthen the City from within, as the competition that it is beginning to create for existing institutions, and ensuing innovation, may amount to the disruption that London might need to maintain its position in today's sophisticated globalised marketplace.

## 2 How are workspaces changing?

There is a prominent trend in the City of London and in many workplaces in the UK towards collaborative workspaces and an open-plan layout, for reasons including the rise in agile working, changing technology, and the cost pressures on employers to be more cost efficient.<sup>1</sup> Large tech companies are leading the way with this change.<sup>2</sup> Facebook's new head office in Silicon Valley, designed by world-renowned architect Frank Gehry, is one mile long and contains ten acres of open-plan desks. According to Gehry, the Facebook Chief Executive Officer (CEO) Mark Zuckerberg did not want any sophisticated or complex design, simply a flexible and cost-efficient space that facilitated collaboration and could adapt to the continuous changes of the business.<sup>3</sup> Many City companies, over the past few years, have adopted more efficient, cost-saving design strategies and hot-desking in order to maximise the number of workers per square foot.<sup>4</sup> Hot-desking normally occurs in an open-plan setup, so the two often go hand in hand in the infrastructure of some companies. According to Martin Jepson, senior vice president at top office-owning company Brookfield, financial firms including banks want 'more efficient and flexible buildings'.<sup>5</sup> Other practical reasons for this shift to the open workplace include the fact that managers can supervise staff more easily and workers stay on task more where a supervisor is able to see employees' screens.<sup>6</sup> Workplace design in banks and financial services companies could therefore also be attributed to the pursuit of effective and compliant reporting lines, as well as saving costs.

There is a certain degree of criticism of open-desk setups, however. There is the risk to efficiency and productivity because employees may be distracted by activity within their line of sight or hearing; and employees may be apprehensive toward telling others who 'steal' their time that it is disruptive to their productivity.<sup>7</sup> Distractions reduce quality of performance, add to mental workload and cause stress and fatigue in the

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<sup>1</sup> David Ward; 'Beyond the Open Office', *HR Magazine*, published by: Society for Human Resource Management, Vol. 60 No. 3; April 2015 pp.30-35 (p.31).

<sup>2</sup> Patricia Brown, 'The future of London's workspaces', *Architectural Review* [Website], 11 May 2015; Available from: <<<http://www.architectural-review.com/view/overview/the-future-of-londons-workspaces/8681430.article>>>

<sup>3</sup> Oliver Wainwright, 'Step into Zuckworld: rollerblading and selfie stumps at the new Facebook HQ', *The Guardian* [Online]; 8 April 2015; Available from: <<<http://www.theguardian.com/artanddesign/architecture-design-blog/2015/apr/08/facebook-hq-mark-zuckerberg-frank-gehry-new>>>

<sup>4</sup> Tom Bill, Lionel Laurent, and Christian Plumb; 'Slimmed-down banks tighten belts on real estate', *Reuters* [Online], 22 August, 2012; Available from: <<<http://uk.reuters.com/article/2012/08/22/uk-banks-property-idUKBRE87L09120120822>>>

<sup>5</sup> Bill, Laurent and Plumb, 22 August 2012.

<sup>6</sup> Liam Ward-Proud, 'The open-plan office debate: pros and cons', *City AM*, 28 March 2014, Issue 2096, p.43.

<sup>7</sup> Edward G. Brown, 'Making Open Office Plans Work for Your Organization,' *Society for Human Resource Management* [Website] Available from: <<<http://www.shrm.org/hrdisciplines/staffingmanagement/articles/pages/making-open-office-plans-work.aspx>>>

workplace.<sup>8</sup> Open-plan offices can bring about other costs, such as loss of privacy, spread of germs, and drop in employee morale.<sup>9</sup> On the other hand, open-plan working and particularly hot-desking can allow people within an organisation to become more integrated. Mark Carney, Governor of the Bank of England, has his own office but also likes to hot-desk frequently, to get a better idea of how other teams are working, what they are working on, and also shorten the reporting line if something needs to be brought to the top.<sup>10</sup> Having management and senior people interspersed through the workspace could work to reduce hierarchies and encourage collaboration, so in that respect hot-desking can be very positive.

Responses to hot-desking are mixed, according to an extensive survey carried out for the Institute for Operations Research and Management Sciences. The general trend identified in this research was that hot-desking fosters affinity to an organisation, identifying more with 'the whole' than 'the team', whereas assigned desks, proximate to one's direct team sees greater identification of employees with that team.<sup>11</sup> Where employees had their own desk, they tended to be more positive, and where they had to hot-desk, they were more negative about an assigned desk. Some research accredits this trend to physiological reconciliation to arrangements provided for them by their organisation.<sup>12</sup>

One journalist suggests that office design specialists need to be able to create different types of areas to cater to different working styles.<sup>13</sup> This would indeed be a positive development. A hybrid approach is commended because it allows for the fostering of collaborative working but also allows for privacy and concentration, which is not always available in open-plan spaces. What is becoming a key feature of the City is the need to empower employees and give them control in order to create a successful workplace.<sup>14</sup> The main question now is whether architects and office planners can design physical spaces that combine modern management philosophies with new technology to foster 'healthier and more productive employees'.<sup>15</sup> The answer to this question is in the affirmative as regards the new development at 22 Bishopsgate

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<sup>8</sup> Liam Ward-Proud, 'The open-plan office debate: Pros and cons'

<sup>9</sup> David Ward; 'Beyond the Open Office', p.32; Mike Williams, 'Is hot desking all good?'; BBC iWonder [Online]; Available from:

<<<http://www.bbc.co.uk/guides/zgjmtr>>>

<sup>10</sup> James Ashton, 'Mark Carney: the hotdesking Governor of the Bank of England who runs to work', *London Evening Standard* [Online], 12 December 2014, Available from:

<<<http://www.standard.co.uk/business/business-news/mark-carney-the-hotdesking-governor-of-the-bank-of-england-who-runs-to-work-9920553.html>>>

<sup>11</sup> Millward, Lynne J.; Haslam, S. Alexander; Postmes, Tom, 'Putting Employees in Their Place: The Impact of Hot Desking on Organizational and Team Identification'; *Organization Science*, 1 July 2007, Vol. 18, Issue 4, p. 547-559 (p.556)

<sup>12</sup> Millward, Haslam, Postmes; 'Putting Employees in Their Place' p.553

<sup>13</sup> Pdraig Belton, How the tech industry is redesigning the future workspace; *BBC News* [Website] 1 May 2015; Available from: <<<http://www.bbc.co.uk/news/business-32523448>>>

<sup>14</sup> Donna Flynn and Melanie Redman; 'Balancing "We" and "Me".' *Harvard Business Review*. Oct 2014, Vol. 92 Issue 10, pp. 50-57 (p.57)

<sup>15</sup> David Ward; 'Beyond the Open Office', p.32

(previously referred to as the 'Pinnacle'), which is built around the needs of employees and enabling them to have more control. Sir Stuart Lipton, whose company owns the development, recently gave the following statement on the 22 Bishopsgate development:

*"Technically advanced with care for people at the heart of its strategy and taking new ways of working as its essence, the building will assist personnel to feel motivated and earn its place as the finest working environment in Europe."*<sup>16</sup>

This building is physical evidence of the fact that some workplaces are now being designed with employees in mind and contributing to competitiveness.

In summary, the workplace is used as a medium through which an organisation can show its values and culture to its employees and clients.<sup>17</sup> The open-plan office is a social place, and working in that environment can build trust that leads to effective collaboration, leadership and information-sharing.<sup>18</sup> Strategy, features and value are becoming more important than cost efficiency.<sup>19</sup> Employees are going to be given an 'ecosystem of spaces' to work, giving them power over their workplaces, and allowing them to find areas best for them to work most efficiently.<sup>20</sup> Companies are beginning to offer people choice about where and how they work, which is going to be 'the main defining characteristic of the office of the future'.<sup>21</sup>

## 2.1 Survey responses

The vast majority (80%) of the participants surveyed for this report either 'agreed' or 'strongly agreed' (with most responses falling in the latter category) that they preferred their own assigned desk. Of those surveyed, but not all of those who preferred a desk of their own, 80% did have their own desk, and 84% spent most of their time working at their desk; which supports, therefore, the theory of reconciliation to the setup they have been given, for the nature of the work that they are expected to carry out.

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<sup>16</sup> David Rogers, 'First images of new Pinnacle building', *Building Development* [Website] 15 June 2015; Available from: <<<http://www.bdonline.co.uk/first-images-of-new-pinnacle-building/5075958.article>>>

<sup>17</sup> Rob Harris, 'The changing nature of the workplace and the future of office space'; *Journal of Property Investment & Finance*; May 2015 Vol. 33 No. 5.

<sup>18</sup> Donatella De Paoli and Arja Ropo, 'Open plan offices – the response to leadership challenges of virtual project work?' *Journal of Corporate Real Estate*, Vol. 17 No.1 2015, pp. 63 – 74 (pp.70-71)

<sup>19</sup> Ben Waber, Jennifer Magnolfi and Greg Lindsay, 'Workspaces That Move People', in *Harvard Business Review*, October 2014 Vol 92 No. 10; pp.68-77 (p.72)

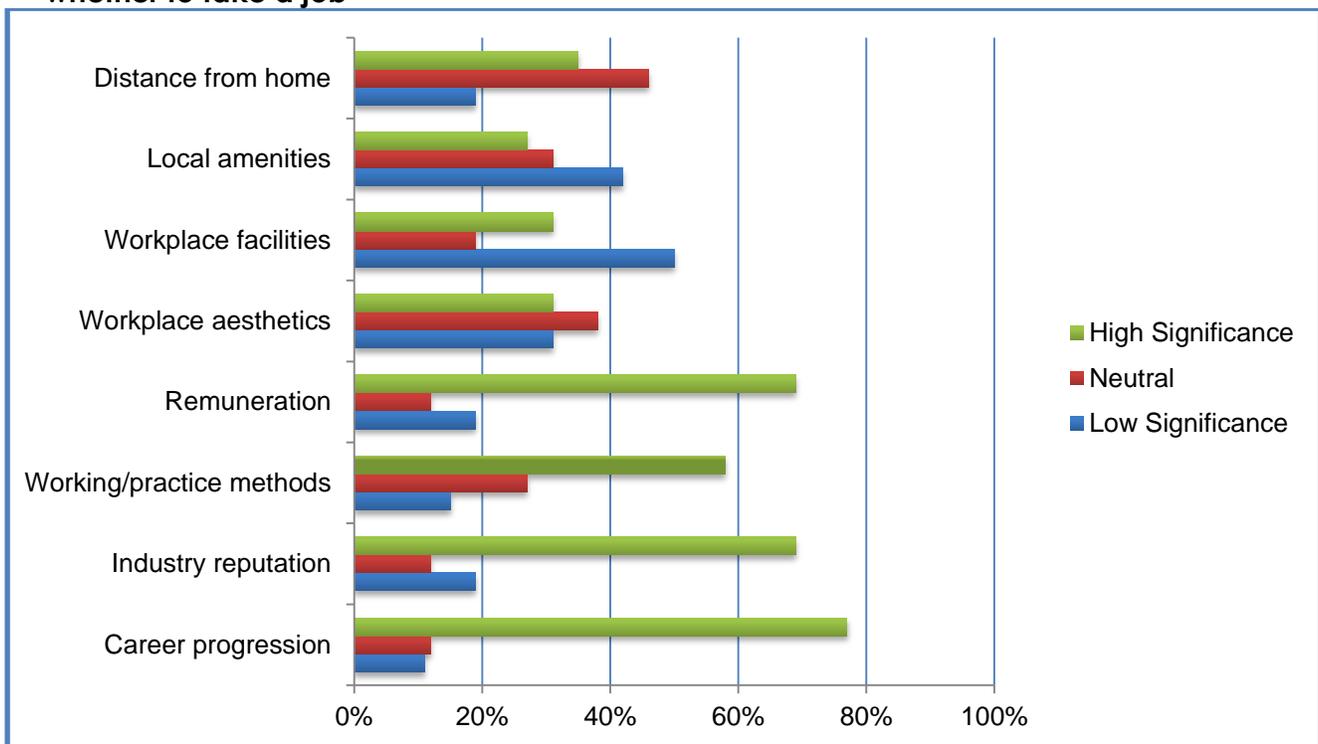
<sup>20</sup> Flynn, Redman; 'Balancing "We" and "Me"' *Harvard Business Review*. (p.57)

<sup>21</sup> Quote from Mark Eltringham, Matthew Jenkin, 'Robots, hot desking and heat sensors: meet the office of the future', *The Guardian* [Online], Available from: <<<http://www.theguardian.com/small-business-network/2015/apr/27/robots-office-technology-flexible-working>>>

What needs to be emphasised is that those who prefer to have, or who are given an assigned desk did not see much benefit if they worked in a solitary or isolated manner: 63% of respondents felt that they worked more effectively when they collaborated with others. This reveals that employees are willing to collaborate even though their desks are fixed. A respondent working in insurance stressed the importance of meeting with people from other teams to ask questions, for example, but stated that it is up to individual initiative to do that rather than perhaps send an email. Of the survey respondents, 58% use email at least daily because they do not feel they need to make calls or meet. This may have a lot to do with the culture of individual firms, however, and the way employees feel about approaching others. Even in an open-plan set-up, it may not feel like there is an 'open door' policy: certainly something for companies to consider.

Respondents also revealed to what extent they chose their current role based on their workplace in relation to other factors, by rating their significance. The responses were given on a scale of 1 – 5 where 5 was most important; though the best visual representation of this data has been gleaned through splitting the responses into three categories, 'low', 'medium' (referred to as 'neutral' in Figure 2.1) or 'high' significance; where ratings below or above '3' respectively signify whether there was little or greater significance.

**Figure 2.1: Significance of practical features of the office environment in determining whether to take a job**



It is clear from the data in Figure 2.1 that factors such as opportunities for career progression, reputation and remuneration are the most highly significant across all respondents (77%, 69% and 69% respectively rated as high significance). For both

workplace facilities and aesthetics, however, over 30% of respondents said these features significantly contributed to their choice of employer. Connected with this would be working practices and methods, which arguably would include the culture of the firm or organisation; 58% of people rated working practices as a significant factor for joining their current employer. This is a very interesting finding as it shows that more than half of the respondents considered the way their organisation works as a distinguishing element from other firms or industries. This question on the survey included a section for further comment, and of those who commented, culture or 'atmosphere among colleagues' was mentioned more than any other response.

## 2.2 Interview responses

On this topic, one interviewee made the following comment in relation to hot-desking:

*"It is a way of incentivising people to come in at 7.30am because everyone has to queue to sign up for the best desks".*

The reality with accountancy and consultancy, according to another interviewee, is that when a role involves working out of the office for the vast majority of their time, perhaps on audit or carrying out the implementation on a project with a client, there is no need for a desk. This means that the overall office space never caters for the full head count. This is an efficient initiative to save costs, and links can be drawn between such measures and those taken within technology companies. Tech companies invest money in creating new products and developing new systems, but, as confirmed by industry experts interviewed for this research, before banks can do the same, they need to cut their overheads. Several interviewees referenced that profit margins for banks today are smaller and the fixed costs associated with being located in London are rising; as a result, changes need to be made in order to maintain regulatory capital and a good level of distributable profits for shareholders.

Accountancy firms, notably PwC, use hot-desking almost exclusively, where even some senior consultants, as discussed by one interviewee, have not had a desk in over eight years, and only senior directors keep a private office. Open-plan also improves the physical supervision and oversight, which is required to be carried out by compliance workers. One interviewee said that on a trial of an open-plan space in their workplace, it was actually completely silent and the department had to play recordings of artificial 'white noise' in order to keep employees engaged. It appears therefore, that getting the desired balance between avoiding distraction, maintaining concentration and efficiency, and creating a positive, collaborative atmosphere can be challenging.

Industry experts who were interviewed for this research (based in their own or smaller shared offices) were almost unanimous in saying that, although it is possible for financial and professional services to move to an open-plan setup, the demands and creation of work in, for example, law firms and banks, requires intense levels of concentration that would not be achieved consistently in an open-plan environment. Most of these interviewees said that out of the two, it would be easier for banks to go open-plan than law firms, subject to confidentiality issues on certain deals.

CMS Cameron McKenna (CMS), is making a forward-thinking change to an open-plan setup in their new offices, and is one of the first major law firms in the City to make such a move. Another firm that has recently made this change is Addleshaw Goddard. As both of these firms have made the change very recently, interviewees were unable to give a view on the effect on workplace environment (the CMS staff had moved into their offices the same week the interviews were taking place), or how efficient it would be. One interviewee stated how great it was being closer to their team, and as they occupied a senior role, they felt senior lawyers are now also positioned in a way that junior lawyers were more encouraged to approach for help, increasing the potential for development in training. Seeing the offices first-hand made it possible to observe the active mobility between the teams, and there were several large quiet rooms available if a confidential call was to be made, or meeting to be held. These responses strongly support the theory of 'reconciliation' with one's office environment.

Another positive feature noted on a visit made to CMS as part of the research process was the number of places where employees could go to meet or work, and many charger-points so they could take their tablets (each lawyer is provided with one) or laptops with them. The library, unlike those within many modern law firms, also presented many spaces to read, discuss, or work in either an open area or an entirely closed-off room. This correlates with the academic literature that argues for more flexible arrangements for working, and 'ecosystems' of spaces that allow employees control over where and how they work.

All interviewees mentioned culture to a significant extent in their experiences of the workplace. An interviewee who occupies a senior position in a major bank noted the value of having a culture in companies where employees move around the workplace and talk to different people who would not necessarily work directly with their team, thus building a more cohesive organisation. Hot-desking certainly falls under the scope of this. What is made clear by the research on this area, and the responses from interviewees, is that there needs to be a 'blend' of spaces in the workplace. Due to societal and political pressures, companies have begun to develop more collaborative, customer-focused cultures, with a focus on strong community values, according to one interviewee who occupies a senior financial services role. The culture is reflected in the way teams are structured and the way they work together. Interviewees in strategy implementation roles within their firms echo this sentiment; one interviewee stressed that the culture of the firm is integral to its internal environment.

It was almost unanimous among interviewees that the best workplaces were open in terms of culture. This is a point that the academic and journalistic literature did not generally expand upon. Open-plan spaces feed into the development of an open culture, but is not a necessary change to make within offices if the people themselves are willing to be open to collaborative working, and maintain an 'open-door' policy.

### 3 What is the impact of technology on organisations?

Technology has drastically changed the City: not only has it brought about opportunities for, and ease of communication in an increasingly globalised world, it has increased what is demanded of clients and customers. London is renowned as a global hub that connects America to Asia. As a result, professional and financial services firms and employees have to create capacity and resources to provide for their international clients. Many journalists have noted a challenge for financial services firms, particularly major banks, because they are so large they are less agile than some national and international competitors as regards their information technology (IT) systems. In the articles relating to technology in the City considered for this report, some overlooked the fact that the UK's broadband infrastructure is not yet at the highest standard globally, which creates data handling concerns across all types of companies in a financial hub as vital as the City. The diversity and complexity of businesses enabled by technology can also make businesses harder to manage, due to the 'proliferation of digital channels'.<sup>22</sup> The major banks' size in general poses internal challenges, as the IT network needs to be consistent across thousands of employees, costing billions every year to update and maintain. Therefore tech start-ups with less than 100 employees, for example, are at an advantage, as it is far easier for them to adjust to a change in IT infrastructure, and to resolve technical faults. According to Bain & Co, the main frustrations in this area are due to the clash between the expectations of companies about how to deliver market leading digital customer experiences and the failure of IT teams to fulfil these expectations.<sup>23</sup>

Another significant challenge for City companies with regard to IT is 'Big Data': one study highlights that the continuing need to put more data into IT systems with bad processes could lead to systems breaking down.<sup>24</sup> If systems break down, there is also a risk to the security of that data. As seen in the case of a recent RBS technical glitch that caused 600,000 payments to go missing, companies could now face fines and enforcement action if they do not have adequate mechanisms in place to process data and comply with regulation.<sup>25</sup> There is also significant reputational risk, as clients and customers may no longer trust their bank if such a glitch caused them to lose money. As switching banks is now easier, there is a risk of losing customers. This means, therefore, that not only must the IT systems employed by companies be fixed to meet capacity, but IT chiefs must also ensure that cyber-security capabilities must be improved to combat ever more sophisticated threats, according to Bain & Co.<sup>26</sup> IT

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<sup>22</sup> Jason Heinrich; Sean O'Neill; Neal Goldman: 'Cutting through the complexity of Compliance', published by Bain & Company, 2015 (p.1)

<sup>23</sup> Mike Baxter, Steve Berez and Vishy Padmanabhan; 'Rebooting IT: Why financial institutions need a new technology model', published by Bain & Co; September 2014.

<sup>24</sup> Cutting through the complexity of Compliance; p.1

<sup>25</sup> Martin Arnold and Tom Braithwaite, 'Banks' ageing IT systems buckle under strain', *Financial Times* [Online], June 18 2015; <<Available from: <http://www.ft.com/cms/s/0/90360dbe-15cb-11e5-a58d-00144feabdc0.html#axzz3fCFkMMLX>>>

'Cutting through the complexity of compliance' p.1

<sup>26</sup> 'Rebooting IT' Bain.

frameworks must support access at all times from anywhere, and also be able to deliver on mobile and Web. IT is likely to prove integral to shaping the future of the banking industry, and therefore requires significant investment; but although this may be expensive, it is a better alternative than potentially losing clients through unreliable IT frameworks.

Systems like Apple Pay (which remove the need of a bank, a card or even cash at all) have been identified by some as the main threat to financial services, as the tech giants shape customer expectations they have already tapped into the 'experience economy' with the products they offer.<sup>27</sup> The official rollout date of Apple Pay was 14 July 2015, with most of the major banks adopting the new technology on this date, but also hundreds of retail outlets of companies including Starbucks, Transport for London, Waitrose and Boots.<sup>28</sup> Apple, in launching this technology, 'impinges on the business and fledgling technology of not just PayPal but the banks'; and some see its aim as to render obsolete the need for cash, cards and tickets.<sup>29</sup> The first advantage above using a contactless debit or credit card is that Apple Pay allows consumers to buy items worth more than £20 on this method, whereas until September 2015, there is a £20 cap on contactless spending. This explains why some of the major banks have started collaborating with Apple on this new payment method, allowing Apple to support their customers' accounts. There is, however, a limit as to who can access the technology, as only customers who own one of the latest Apple products (iPhone 6, Apple Watch, iPad Air 2, and iPad Mini 3) can access this new payment method.

FinTech offers opportunities as the incumbent banks can partner with the 'disrupters', and smart technology can be used to provide greater security and put the customer in the centre of technological development to enhance their experience and make banking far more convenient.<sup>30</sup> The Financial Conduct Authority (FCA) has also made arrangements so that FinTech firms can be regulated quickly and easily, subject to meeting all necessary requirements. This also solves the problem identified by several interviewees, that due to investment in maintenance of existing technology, and in ensuring compliance with or paying fines to the regulator, there is not enough capital on top of what is paid to shareholders to invest in their own research and development of new products. This change is mutually beneficial, as the banks' need and desire to change their IT systems creates opportunities for FinTech start-ups; and as an internationally renowned financial services hub, London is the best place to be located.<sup>31</sup> Barclays, for example, through its 'Accelerator' programme has shown how

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<sup>27</sup> Wisniewski, Mary; 'Banks' New Digital Battlefield: The Customer Experience'; *American Banker*, 15 June 2015, Vol. 180, Issue 91

<sup>28</sup> Jimi Famurewa, 'Time is money', *London Evening Standard*, 14 July 2015, pp.26-27 (p.26)

<sup>29</sup> Jimi Famurewa, 'Time is money'; p.26

<sup>30</sup> Matt James, 'NatWest banks on fintech change; 9 March 2015, *Tech City insider* [Website]; Available from: <<<http://www.techcityinsider.net/natwest-banks-on-fintech-change/>>>

<sup>31</sup> Caroline Baldwin, 'Can UK fintech startups survive outside London?', *Computer Weekly* [Website], 3 Jul 2014; Available from:

<<<http://www.computerweekly.com/news/2240223885/Can-UK-fintech-startups-survivi-outside-London>>>

banks are willing to invest (via an intermediary such as Techstars) in an 'ecosystem of start-ups'; and through the success of its PingIt system, has also shown agility.<sup>32</sup> In addition, changes to the regulatory system have increased the need for banks to develop initiatives to transfer information and processes to stable digital platforms: real-time access to data will mean better transparency for regulators.<sup>33</sup> Technology is likely to be a central component of attractive alternatives that banks can offer to customers, and will make the banking market far more competitive.

This change in the market has a parallel change in the workplace. There is a far higher demand for IT talent within businesses, and IT and business support teams are becoming far more central to organisations, meaning that IT people need to also be versed in business strategy and project management.<sup>34</sup> New tech roles, or roles of renewed importance are becoming available, such as 'chief digital officer', 'head of user experience', 'head of analytics', 'head of engineering' and 'head of talent and culture'; this is in order to make banks more 'transformational'.<sup>35</sup> IT professionals also need to be familiar with compliance issues and processes; this includes data protection, and ensuring that information is collected in a secure and cost-efficient manner, as well as being able to identify opportunities to make better use of technology.<sup>36</sup> It is clear that IT is changing the workplace in a way that means that IT employees are more closely integrated into the company rather than simply a feature of the 'back office'. An example of this is the recent decision of Deutsche Bank to move 4,000 (predominantly IT) workers from five separate locations to one building in Canary Wharf, scheduled for 2016.<sup>37</sup> At JP Morgan, where outsourcing support staff regionally is a cost-saving measure which is employed, only the IT staff that are directly involved with operations including the trading floor will be kept in Canary Wharf. In 2017, 350 of 4,500 JP Morgan IT professionals will be moved to Bournemouth and Glasgow, where there are already 1,000 and 800 staff respectively.<sup>38</sup> A prominent change in the City therefore is the greater integration of IT within the organisation, and the strategic placement of IT within the properties occupied within organisations.

Finally, as is discussed in more detail below, it has been highlighted that the amount of technological access employees have to their work can create a heightened sense of stress, because there are far more situations where working can be possible in a 24-hour

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<sup>32</sup> Caroline Baldwin, 'Barclays launches fintech startup accelerator'; *Computer Weekly* [Website]; Available from: <<<http://www.computerweekly.com/news/2240222386/Barclays-launches-fintech-startup-accelerator>>>

<sup>33</sup> 'Cutting through the complexity of compliance' p.8

<sup>34</sup> 'Rebooting IT: Why financial institutions need a new technology model'; p.5

<sup>35</sup> Stefan Stern, 'Banks become wise to the age of data'; *Financial Times* [Online]; Available from: <<<http://www.ft.com/cms/s/0/5f1168a2-15a1-11e5-be54-00144feabdc0.html#axzz3fCFkMMLX>>>

<sup>36</sup> 'Cutting through the complexity of compliance' p.7

<sup>37</sup> Thomas Atkins, 'Deutsche Bank to move 4,000 workers to Canary Wharf', 18 June 2015, *Reuters*; Available from: <<<http://www.reuters.com/article/2015/06/18/deutsche-bank-london-idUSL5N0Z41MU20150618>>>

<sup>38</sup> Rachel Bishop, 'JP Morgan to move Canary Wharf staff in tech roles to Bournemouth and Glasgow' *The Wharf* [Online], Available from: <<<http://www.wharf.co.uk/news/business/jp-morgan-move-canary-wharf-9509741>>>

world that is moving to adopt flexible working practices.<sup>39</sup> Flexible working, including having the option to work from home, is wholly seen as positive.

### 3.1 Survey responses

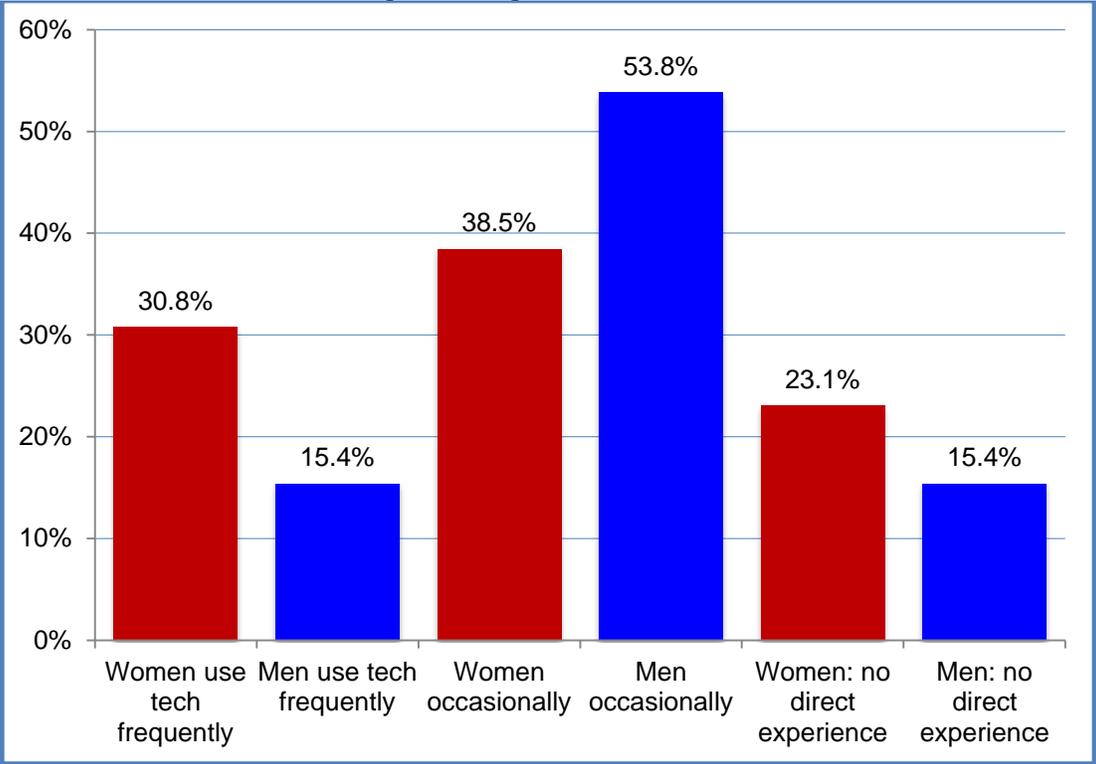
Of those surveyed for this report, 23% used virtual meeting technology frequently, at least daily, instead of meeting face to face. This is a clear minority.. 69% of all the respondents occasionally do use such technology to meet, but this is the exception, not the rule. It appears that more women than men use technology to conduct meetings, the figures for which are 31% and 15% respectively (there were an equal number of male and female respondents). The proportion of men using technology occasionally is significantly higher than the proportion of women using this occasionally. This proportion could reflect variables such as age, experience, industry and type of role. 19% of respondents did not have any direct experience conducting meetings over a medium such as video-conferencing; which implies that they meet almost exclusively in person. These responses are reflected in Figure 3.1 in the categories of 'frequent use', 'occasional use' or 'no direct use' of technology to conduct meetings.

Those who used video conferencing and similar technology (69%) often had major clients in London, where their offices were also based. This reveals a tendency to use this technology as a means of meeting, either as a company's preference or individual preference; despite the fact it may not have been difficult to meet face to face. As can be expected, a large number of people who had overseas clients (44%) or clients elsewhere in the UK (27%) tended to use video conferencing and similar methods: 72% in total. It is clear from these responses and the interview responses in section 3.2, that meetings are still a preferred mode of communication, and technology has not made meeting in person less desirable or convenient.

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<sup>39</sup> Corinne Mills, 'Is flexible working the best option for your job?', *The Guardian* [Online], 10 July 2014; Available from: <<<http://www.theguardian.com/careers/careers-blog/six-steps-find-out-flexible-working-best-option>>>.

**Figure 3.1: Experience and use of technology, including video conferencing, as an alternative means for conducting meetings**



A question regarding use of email in lieu of phone calls or meetings presented some interesting findings with 73% of respondents often or occasionally using email instead of meeting. This reflects a high number of the interviewees' responses, that people are 'too quick to email' instead of contacting each other to talk. Of the female respondents who use email instead of meeting or making a phone call, 90% do so frequently, at least daily; compared to only 40% of men, i.e. more female respondents choose to use email than to meet or talk directly. As for respondents with clients based overseas and elsewhere in the UK, 62% of respondents chose to email rather than meet or call, likely to reflect differing timezones and the use of technology to overcome geographical barriers. However, 32% of respondents based in London with clients in London emailed them above meeting or phoning, likely reflect faster expected response times even with the lack of timezone/geographical constraints.

Email is surprisingly less popular (by a margin of 4%) than video conferencing according to the respondents for this report, as regarding communication with clients overseas and in different cities; but email is overall the most popular method of communication, likely because, as identified by the interviewees, it gives people more 'thinking time'.

### 3.2 Interview responses

An effect of the present 'saturation' of technology on City employees unanimously stated by interviewees (particularly lawyers), is that response time is limited, because clients want an answer right away. This results in leaving very little 'thinking time' on some matters. Several of the interviewees stressed that technology creates an environment in many companies in the City that effectively enables 24-hour work. This is good for business, as international clients are constantly sending large deals and complex work through London, but places a certain degree of strain on employees. One interviewee in the banking sector had experienced that it is not only the City of London but the investment banking industry globally that requires a 24-hour capability, so someone in the US or Japan is equally required to be available for London hours as City employees are for other jurisdictions. Constant connectivity is a feature of both national and international work, and a symptom of the fact that people are technically always available on their smartphones or tablets. It is accepted by City professionals that there is an expectation from clients that matters be addressed as quickly as possible, and although it is sometimes stressful, many interviewees emphasised that, to their knowledge, there has been no corresponding drop in morale.

Will Self in a recent essay stated that human interaction is still prized above technological correspondence, implying that technology does not eradicate the need for meetings.<sup>40</sup> This was a point supported by interviewees who said that, although meetings are not essential anymore, a lot of clients and certainly a lot of practitioners prefer them. This extends to collaborative working styles. According to one interviewee based at CMS, the support staff are all on one floor in their new building, instead of split through the floors; which the interviewee felt makes them a much more cohesive team. There is a 'buzz' and a positive atmosphere as they can work collaboratively far more easily. Another new initiative at CMS is that IT staff walk around the office to make sure there are no issues with anyone's PC or tablet, meaning they are more visible within the workspace. This is very positive as it takes IT out of a 'back-of-house' role and enhances the relationships IT personnel have with other staff, being a familiar face rather than someone who they only contact when there is a technical problem.

Interviewees also spoke about how IT systems are sometimes 'clunky' at the major City banks, at which they have had experience. All interviewees agreed that there is a need for investment and change within those systems in order to make the banks more competitive, echoing current journalism and academic literature. Santander UK, for example, has over 15,000 employees – the size of the server that enables them to be connected and provide them with the resources and capabilities to carry out their work quickly and efficiently is enormous. Furthermore, the IT personnel who need to assist on technical difficulties are often stretched for time to accommodate every issue that arises, for example adding new joiners to the system, according to one interviewee. Several interviewees also mentioned that banks that have made acquisitions or

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<sup>40</sup> Will Self, 'Our Primal fear of boredom ensures we won't down tools'; *Work Magazine*, Published by CIPD; Summer 2015; pp.16-17 (p.16).

merged in the last ten years have encountered issues with competing or parallel-operating IT systems from the banks that have extended their groups.

Technology is changing workspaces by taking a much more central strategic role, both for development of new products and services, and also in operations and efficiency. Companies are also moving toward ensuring that teams are closer together geographically when working on the same tasks, and therefore can work collaboratively if need be. IT has become much more important to City companies' strategies, therefore IT workers have received much more thought in recent years as to where they are placed, and how they can best serve the needs of the company. While some commentators have suggested technology could take over the workplace, or displace headcount and staff, it is likely that technology skills and capabilities are going to become increasingly important to companies' future success.

## 4 What is the impact of regulation on the City?

A feature of financial services companies at present is unprecedented complexity in their regulatory and risk environments.<sup>41</sup> According to research carried out by Michael Page recruitment, 54.5% of compliance specialists believe that there is 'too much regulation' and that this is a major challenge facing the compliance departments of UK-based banks.<sup>42</sup> The most prominent recruitment growth area in 2014 was within the regulatory field, with many candidates moving from regulatory bodies into banks.<sup>43</sup> Robert Walters forecasts that regulatory reporting and policy skills will be in demand throughout 2015, due to the impact of new regulation on the products that banks can offer.<sup>44</sup> Budgets for compliance are also growing, with JP Morgan, for example, almost doubling its expenditure in 2014 to a total of \$2 billion.<sup>45</sup> The position for compliance spending is more challenging in smaller institutions, for example foreign banks that have small branches in London to hold UK assets or manage client affairs.

Chief Compliance Officers need to be able to demonstrate that they know the business and understand the strategy, enabling them to be a trusted senior adviser on the board.<sup>46</sup> As with IT, regulatory and compliance employees need to be fully integrated within the company's core strategy, as without adequate systems and controls in place in financial services companies, they would not be able to function as efficient businesses. When the Basel III regulation is in force (from 2019), the Accord includes measures intended to strengthen the financial system as a whole, with regulatory capital requirement for banks increasing to 8%, putting even more pressure on banks' profit levels.<sup>47</sup> For banks, the cost of compliance is currently high so the impact of any fines plus the increased Tier 1 capital requirements could affect the amount returnable to shareholders in the next five years.

Compliance teams must have clear initiatives and processes in place to ensure everything is done correctly. A survey carried out by Michael Page revealed the following key steps for success in compliance teams in UK banks, according to senior compliance professionals:

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<sup>41</sup> 'Cutting through the complexity of compliance' p.1

<sup>42</sup> Sumrana Saleem, 'If you're not compliant, you're not in business'; *Michael Page* [Website]; Available from:

<http://www.michaelpage.co.uk/our-expertise/banking-and-financial-services/compliance/if-youre-not-compliant-youre-not-in-business>

<sup>43</sup> Banking and Financial Services Salary 2015, *Robert Walters* [Website], Available from: <http://www.robertwalters.co.uk/banking-financial-services/salary-survey-banking-and-financial-services.html>

<sup>44</sup> Banking and Financial Services Salary 2015, *Robert Walters*

<sup>45</sup> 'Cutting through the complexity of compliance' p.1

<sup>46</sup> 'Cutting through the complexity of compliance' p.6

<sup>47</sup> Cory Howard, 'Basel III's Corporate Governance Impact: How Increased Banking Regulations Pose Challenges to Corporate Compliance While Simultaneously Furthering Stakeholder Objectives', *Journal of Business Systems, Governance and Ethics*, Vol. 9 Issue 1. August 2014. pp.39-49

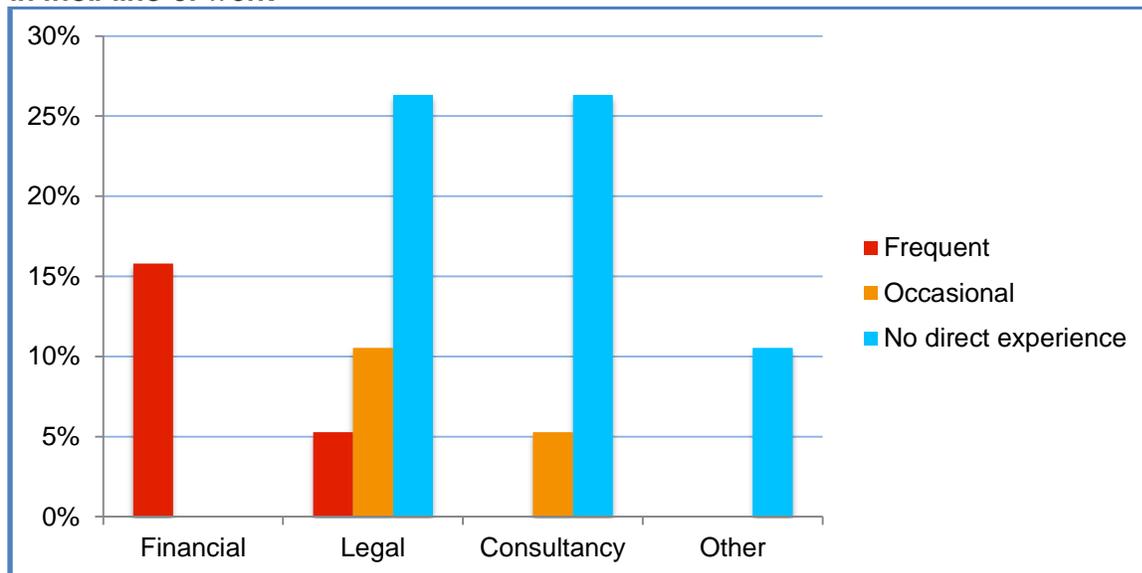
- Enhance compliance culture by enforcing ownership and accountability within senior management;
- Be more vigilant and ask more probing questions within organisations; and
- Understand the organisation in which they operate its clients, products, the regulatory environment both in the UK and other jurisdictions, and legislation due to be implemented.<sup>48</sup>

Therefore, it may be recommended that compliance teams in professional services employ similar steps in order to keep teams more streamlined in light of compliance across different industries and jurisdictions.

#### 4.1 Survey responses

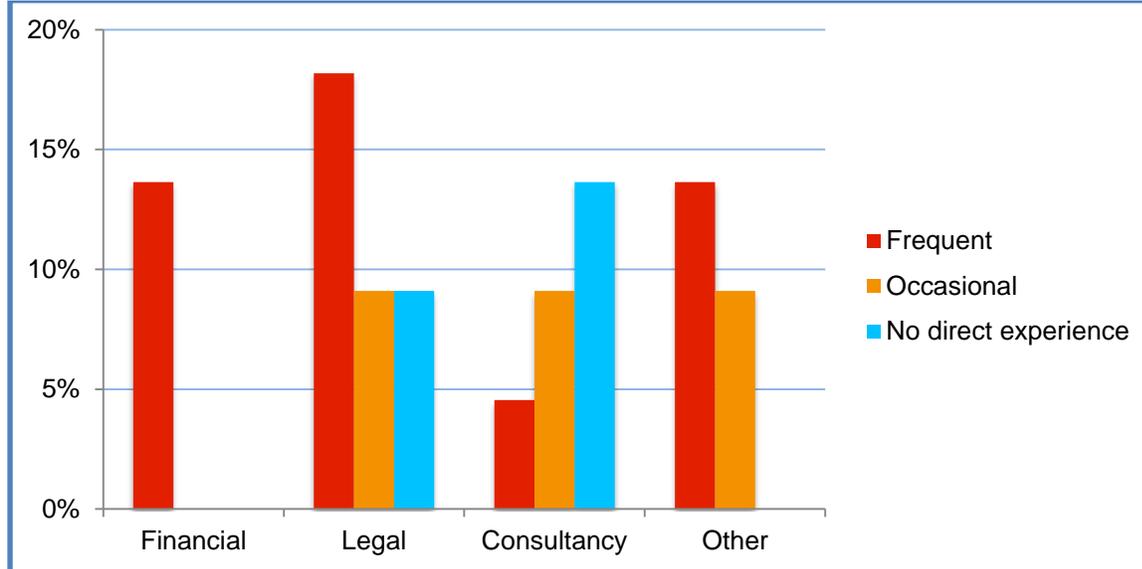
Almost all respondents had encountered regulation, which has made for some useful findings. Figure 4.1 and 4.2 show the proportion of the total number of respondents who had dealt with regulation in their working lives, both in relation to financial services regulation and compliance in general, and how much in relation to their work that this was the case.

**Figure 4.1: Respondents who identified increasing regulatory control in financial services in their line of work**



<sup>48</sup> Sumrana Saleem, 'If you're not compliant, you're not in business'

**Figure 4.2: Respondents who identified an increasing need to show compliance in their line of work**



The respondents in 'Other' industries than Financial, Legal and Consultancy (who made up the majority of respondents on this survey) were in Oil and Gas, Government and Education. This indicates the growth of compliance across sectors. All respondents in financial services frequently deal with regulation and need to show compliance, 'frequently' being at least once daily. Regarding respondents in the legal sector, who indeed need to comply with the rules of their regulator, the Solicitors Regulation Authority (SRA), the fact that 88% of respondents to the survey were in the 18 to 30 age-bracket may mean that they do not have direct compliance roles yet within their reporting lines in different firms and departments. Legal services firms have separate compliance teams, which undertake reporting on solicitors' behalf. This could provide a partial explanation to those who said they had 'no direct experience' yet of needing to show compliance. Another explanation could be that they interpreted the question to be regarding regulatory work explicitly, in which case not all lawyers would be carrying out work for their firm's regulatory departments. An explanation for those in the legal industry who did not directly have any contact or experience with increased regulatory control in financial services is similar, as not all lawyers will represent financial services firms in their work, or some may not have had experience in or with financial departments yet. Consultancy as a profession is dependent on what clients' consultants are doing work for. This can sometimes be on a month-to-month basis, so once again exposure to financial services work and regulatory work is not consistent through the profession. This report benefitted greatly from further explanation from interviewees on how regulation has impacted their work, as discussed in section 4.2.

## 4.2 Interview responses

A senior financial services employee who was interviewed for this report stated that the level of regulatory change in the last ten years has been 'extraordinary'. This increase explains a parallel increased demand for compliance jobs. According to an interviewee employed in compliance, salaries within the function are increasing and compliance jobs are taking a higher profile within businesses. One interviewee in a senior position in financial services noted the increased presence of compliance and risk directors on boards of financial services companies. This suggests the view that compliance is becoming more central to companies' strategies. To test this theory, it is helpful to review advertisements for compliance jobs.

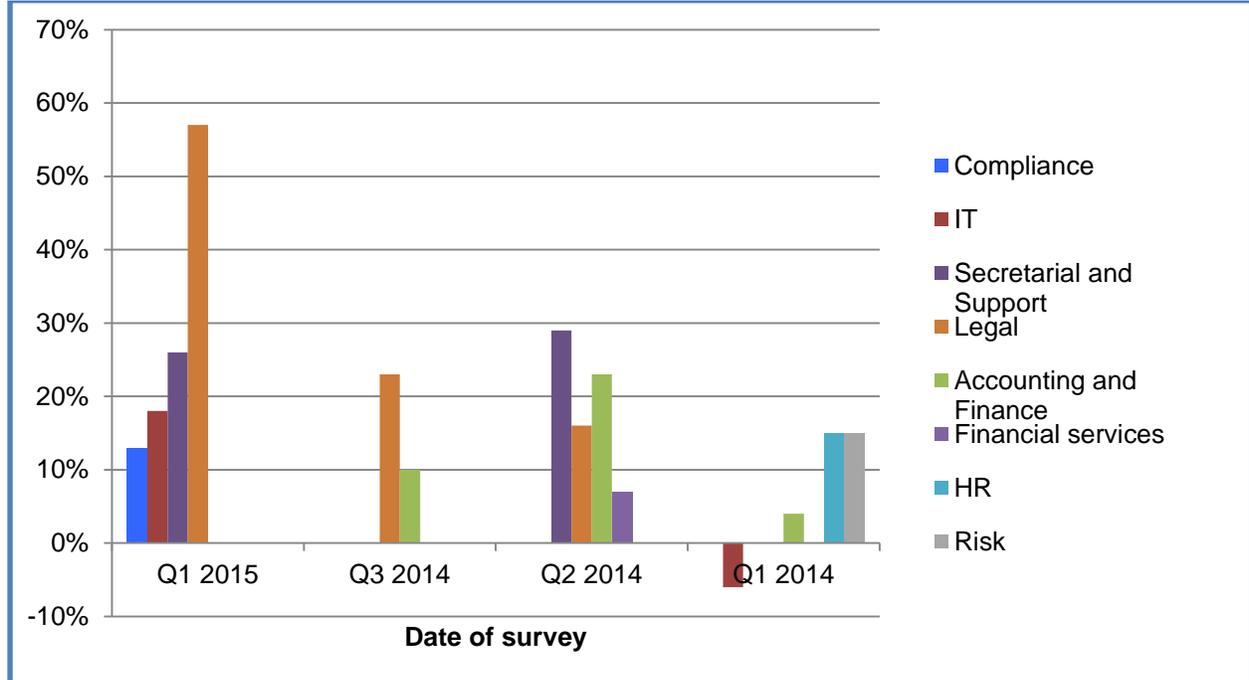
Robert Walters' recent UK Job Index data reveals the most demanded roles in London according to advertised opportunities, and is consistent with what interviewees have said regarding an increase of compliance jobs.<sup>49</sup> As can be seen in Figure 4.3, which incorporates data from the most recent surveys, compliance has recently become very highly sought after, increasing by 13% in the last two quarters.

Interestingly, legal jobs have also been extensively advertised, with a massive increase of 34% within the last two quarters. This is likely to coincide with the legal graduate recruitment cycle; but is a huge increase from Q1 2014. Another explanation may be, as according to one interviewee, that the future of the legal profession is in regulatory law, so this may be a parallel connection.

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<sup>49</sup> Recruitment Intelligence, *Robert Walters* [Website]; Available from: <<<http://www.robertwalters.co.uk/recruitment-insight.html>>>

**Figure 4.3: Percentage change in the most popular jobs in London, Robert Walters' 2014-2015 UK Job Index**



An interesting development is the decrease in job adverts for IT at the start of 2014 in contrast to a significant increase just one year later. This reflects the current market trend of increasing importance of IT professionals within large organisations. To develop Figure 4.3, some jobs including 'treasury', 'logistics' and 'marketing' were discounted as they were not relevant for the purposes of this report.

A regulatory and compliance expert interviewee raised several important issues regarding regulation and compliance. They stressed the importance for compliance staff to be interspersed throughout the workplace, as with that being the case, they are in sight and thus more effective. A challenge facing compliance teams in major law firms, as opposed to major banks, is the fact that law firms have hundreds of staff where banks have thousands: there is sometimes not enough capacity. The impact of this on compliance teams in law firms is increased stress and pressure.

Failure to meet regulatory and compliance requirements has the potential to expose companies and individuals to civil claims and criminal enforcement, and puts profit at risk – as stressed by several interviewees. Enforcement action can be taken against not only those companies that fail to reach appropriate regulatory standards; but also those which do not have effective systems in place to implement regulation. According to one interviewee who is an expert in the banking industry, the weight of regulation and reporting here was becoming so burdensome on smaller financial services firms, even pre-financial crisis, that they had to withdraw altogether their London branches. The cost of capital and the cost of compliance coupled with the fact there were no substantial profits meant that they had to leave the UK altogether.

To ensure that they are compliant, companies have had to change to incorporate more 'policing' and monitoring to ensure that compliance procedures are followed – this requires job creation and investment. Businesses also ensure through internal communication, such as posters and newsletters, that there is a heightened awareness of good governance. One compliance expert stated that a sensible standard of governance means that the workforce knows what to do and who to turn to if there was a regulatory or compliance problem. Another compliance expert who was interviewed stated that there are other compliance issues to be considered if companies are affiliated with the US, for example the Foreign Account Tax Compliance Act (FATCA) must also be considered and of course, complied with. This can create administrative burdens for compliance staff as Internal Revenue Service (IRS) compliance forms are long and complex. According to a senior lawyer at management level, professional services providers such as law firms need to be able to also demonstrate compliance across the jurisdictions in which their clients base themselves and operate. This means, therefore, putting their systems and security on par with their American banking clients, for example. The regulators also want to speak directly with management, not just the compliance officers; which is another insight into how compliance is central to the business and strategy of City companies. UK regulation has changed to ensure that any regulatory breaches or obligations which arise must be communicated to the regulator as soon as possible. Compliance teams, as a result, need to be both bigger and well-structured in order to deal with regulatory demands, both here and in other jurisdictions.

With the increased levels of competition in the City today, interviewees have identified slight concern, as their responses point to vastly increased and tighter regulation. Whereas one recent argument was that the success of the City of London has been based upon supportive and competitive regulatory requirements, which corresponds with what interviewees have noted.<sup>50</sup> However the interviewees who have been based in the City since the late 1960s and early 1970s agree that the City adapts to change and re-invents itself constantly, so increased regulatory obligations placed on the banks will not hinder growth or efficiency. The City's institutions will develop and adapt as they always have. With the increased importance of regulatory teams within the strategy of companies, further growth and success is a likely outcome as workplaces are being geared around ensuring that regulatory and compliance employees are best positioned for effective regulatory implementation.

### **4.3 Job advert analysis**

Upon examining three job adverts selected at random for the roles of Compliance Director, Officer and Associate (companies were not mentioned on recruitment websites), there were three key themes in compliance teams requirements: first, market knowledge and understanding of the organisation's products and strategy; second,

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<sup>50</sup> Leila Simona Talani, 'The Impact of the Global Financial Crisis on the City of London: Towards the End of Hegemony?', *Competition and Change*, Vol. 15 Issue 1, February 2011, pp.11–30 (p. 28)

skills in analysis and identification, to assist in implementation; and thirdly, collaborative working and on-the-job learning and training. These aspects and requirements for compliance staff at all levels show the importance of compliance as a feature of the industry, as market-knowledge is integral to effective implementation, as well as the importance given to collaborative working styles and communication within teams in the City. The advert for the Compliance Associate described the level of change in the sector as 'exciting'; likely as the team wants to recruit younger and more dynamic staff. At Director level, the phrases 'specialist knowledge' and 'seasoned professional' were used, clearly representing that the person they require will need to have had long-term experience in the City to enable more effective monitoring. Seniority in experience will also ensure that the team is headed up by a figure with status and influence within the organisation, as this individual may be placed on the board. Interviewees at senior level in the banking industry emphasised that risk and compliance leaders sitting on the boards of banks is a recent change that is becoming ever more common, because the strategy of a company is intertwined with regulatory compliance and conformity. At Officer level, the role description appears to be more general but focused on 'facilitating', 'investigating' and otherwise taking action to implement regulatory policy. The hierarchy of the team is clear but the three core skills identified for compliance show the importance of being able to implement a strategy that assists their organisation's market position.

## 5 How is FinTech changing the City?

George Osborne recently declared that the UK could be the 'epicentre' of FinTech innovation globally.<sup>51</sup> The industry is worth billions worldwide, there are roughly 4,000 FinTech start-ups currently active globally, and more than a dozen of them are worth over \$1bn.<sup>52</sup> TransferWise and Nutmeg are two successful and well-known FinTech companies which are London-based. TransferWise has in fact proven helpful to other start-ups, as its business-model is such that individuals and small businesses are able to transfer money between international accounts for rates that banks can't match.<sup>53</sup> From the perspective of a founder of a FinTech company which recently raised \$40 million from venture capitalists, London is the global centre of financial services and a hub for technology, which means that there is an enormous pool of talent here to develop products, implement compliance policy and efficiently sell new products.<sup>54</sup> There is also a substantial platform of willing investors, and existing financial services companies that, as has been discussed, partner with FinTech companies to find mutually beneficial outcomes.

In October 2014, Fidelity offered Betterment (a wealth management start-up) to 3,000 financial advisers within the institutional wealth services division, so that apps and simple web tools could be offered to their clients: an effective method of attracting a younger market of savers.<sup>55</sup> This deal marks a trend where FinTech companies are encroaching on the market of banks and financial services firms to a considerable extent. A major reason for this is that the internet has become the most popular way to bank, according to the British Banking Association.<sup>56</sup> These disruptive forces are welcome, however, according to much of the academic literature. FinTech is an efficient and strategic way for banks to be able to invest in new technology and offer new products, by partnering with the companies that are agile enough to develop them, due not only

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<sup>51</sup> JD Alois, 'Chancellor George Osborne Calls UK the "Comeback Country" as He Touts FinTech, Innovation & More', *CrowdfundInsider* [Website], March 18 2015; Available from: <<<http://www.crowdfundinsider.com/2015/03/64623-chancellor-george-osborne-calls-uk-the-comeback-country-as-he-touts-fintech-innovation/>>>

<sup>52</sup> S. P. 'The Economist Explains: Why fintech won't kill banks', *The Economist* [Online], June 15 2015; Available from: <<<http://www.economist.com/blogs/economist-explains/2015/06/economist-explains-12>>>

<sup>53</sup> Sally Davies, 'London's 'fintech' start-ups aim high', *Financial Times* [Online], 13 April 2014; Available from: <<<http://www.ft.com/cms/s/0/112c6932-bf37-11e3-a4af-00144feabdc0.html>>>

Jon Card, 'Fintech revolutionaries storm the barricades of traditional banking', *The Guardian* [Online], 24 April 2015; Available from: <<<http://www.theguardian.com/small-business-network/2015/apr/24/fintech-traditional-banking-tech-investors>>>

<sup>54</sup> Ismail Ahmed, co-founder of WorldRemit, in Sally Davies, 'London's 'fintech' start-ups aim high'.

<sup>55</sup> Camilla Hall and Stephen Foley, 'Fidelity to offer Betterment wealth management platform', *The Financial Times* [Online], October 15 2014; Available from: <<<http://www.ft.com/cms/s/0/05a3467e-53d6-11e4-80db-00144feab7de.html>>>

<sup>56</sup> Emma Dunkley, 'Atom Bank approved as UK's first digital-only lender', *Financial Times* [Online], 24 June 2015; Available from: <<<http://www.ft.com/cms/s/0/d44266e4-1a60-11e5-a130-2e7db721f996.html>>>

to their smaller infrastructure but also their appeal as excellent investments for venture capitalists. The banks, therefore, do not need to invest significant capital into funding or supporting their FinTech partners in such deals, and FinTech companies may be prepared to be more flexible because partnering with a major international or national financial services organisation would be excellent publicity for their products, as seen with Fidelity and Betterment.

Atom Bank is the first digital-only lender in the UK and has recently been given approval by the Bank of England. This is positive for the economy as the government will use 'challengers' such as Atom to 'inject competition into retail banking'.<sup>57</sup> Not only will FinTech help competition but it will also stimulate innovation, and create jobs for talented young people who have experience in the industry and come up with ideas which could benefit it. One such example is Alex Hearn, a former broker and founder of insurance social network Slipcase, which aims to produce a platform whereon everything an insurance professional might want on a day-to-day basis could be found.<sup>58</sup> What is becoming a trend is young professionals starting in City industries, finding a niche and then joining or starting a start-up that can fill a gap in the market. FinTech stimulates increased entrepreneurship, which will likely result in more jobs and more business in the City, and therefore be a further opportunity for the City's global success.

Another factor which makes London attractive as a FinTech hub is its urban cluster location, primarily in Shoreditch and Hoxton. 'Silicon Roundabout' is the UK's trendy counterpart to Silicon Valley in California. Office spaces such as Containerville, directed specifically at entrepreneurial ventures, provide flexible and unique accommodation for businesses that are changing and developing quickly, but which are also quite 'different' and stylish.<sup>59</sup> A key feature of this fast-developing industry is that it is new, exciting and fashionable. It has an appeal beyond opportunities for good investment and growth for the young and talented people that are drawn to work within it. This is one area where the banks have an opportunity; they can redesign the methods by which they market themselves to graduates to capture the spirit of FinTech firms in the way they advertise mobile digital banking roles.

Upon looking at the graduate recruitment platforms on the websites of a number of the main UK banks, there is much effort made to engage a young and inspired audience. This is therefore another opportunity, where tech and web design can be combined to create dynamic and interactive platforms to encourage young people to work there. Based on a quick one-off assessment, Barclays' and RBS's websites appeared to place an emphasis on being interactive, and RBS draws attention to technology being important and exciting for the future. Lloyds' website is also very interactive and clear, and there is a section that emphasises the importance of technology to the same

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<sup>57</sup> Emma Dunkley, 'Atom Bank approved as UK's first digital-only lender'.

<sup>58</sup> Alex Hearn, 'How I pivoted my digital startup Slipcase', 16 June 2015, *The Guardian* [Online]; Available from: <<<http://www.theguardian.com/media-network/2015/jun/16/how-to-pivot-digital-startup-alex-hearn-slipcase>>>

<sup>59</sup> Containerville website <<<http://estateoffice.com/containerville/>>>

extent as it emphasises other sectors within its group, such as management and customer service. Santander places technology at the top of the list of their opportunities for graduates. The incumbent banks must attract new talent from within London's substantial talent pool to retain their market position and compete on technology platforms with challengers and FinTech firms with whom they have not chosen to partner or work.

FinTech might also be the future of regulation. The FCA recently set up 'Project Innovate', which among other functions, helps companies understand the regulatory framework in the UK and how it applies to them. The Government Office for Science produced recent research stating that EU and UK regulation 'could benefit from being structured to respond dynamically to the rapidly changing international financial landscape'.<sup>60</sup> The significance of data as a regulatory tool is likely to expand, and if FinTech can find ways to simplify data processes, or harmonise financial regulation across multiple jurisdictions, it will be embraced within the regulatory field.<sup>61</sup> One way of achieving commercial success on this substantial opportunity would be the integration of FinTech start-ups, regulators, and universities or education providers. This would engage youth and innovation, provide resources for research and development, and therefore provide productive and commercially focused solutions to issues faced by regulators in the world of 'Big Data'. Big Data presents both an opportunity in terms of enhancing knowledge, combined with the challenge of storing and housing huge amounts of data. Boris Johnson, at London's Technology Week, reiterated that London is the most attractive place in Europe for tech companies to establish their presence.<sup>62</sup> This would make it the primary focus for 'RegTech' development and the creation products that would cover the UK and the EU's regulatory framework.

## 5.1 Interview responses

Interviewees often noted the disruptive forces of tech companies and the FinTech sector, and the fact that this would be a welcome trigger for change in the City. One interviewee in the banking sector stressed the importance of technological development to retain customers, as already 40% of transactions at some of the major banks are being done digitally or via a mobile app. Other interviewees stated that they rarely use branch banking anymore and often prefer the convenience of mobile apps. FinTech firms have the potential to develop user-friendly interfaces to supplement their products for consumers.

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<sup>60</sup> Mark Walport, 'FinTech Futures: the UK as a World Leader in Financial Technologies', Published by the Government Office for Science, 11 March 2015. (p.47)

<sup>61</sup> Mark Walport, 'FinTech Futures: the UK as a World Leader in Financial Technologies' p.47 and p. 49

<sup>62</sup> Barney Thompson, 'London tech hubs evolve to challenge Silicon Roundabout', *Financial Times* [Online], 16 June 2015; Available from: <<<http://www.ft.com/cms/s/0/876bcd12-140a-11e5-9bc5-00144feabdc0.html#axzz3fOehJxqd>>>

Tech giants and FinTech firms operate in a cost effective and collaborative way, which has contributed to and incentivised financial services companies to move towards an open-plan and collaborative set-up. The culture of tech start-ups is also very attractive to young professionals; two interviewees for this project mentioned that they left firms in the City to work for small FinTech start-ups, based outside of the Square Mile, as they felt the culture was more creative and collaborative. One interviewee also mentioned that he felt his potential for career development in a smaller company was much higher than within a larger firm because he is able to show his work more frequently to his senior managers, and feels that he is able to discuss points with them more. Another factor was that there were only 15 people in the company at the date of the interview, so he felt more 'visible' than in his previous City job. An interviewee who went straight from University into a tech job said that the atmosphere was 'dynamic' and 'fresh' which distinguished their current company from other City firms that were considered. This supports the decisions of banks such as Lloyds, Barclays and RBS to use very interactive and engaging graduate recruitment websites.

Technology and investment is the disruptive factor that separates the FinTech firms from the major banks; and investors appear more willing to put funds into these young and dynamic companies than into established institutional banks. Several interviewees commented briefly on the fact that these new tech start-ups are fashionable investments and they are attractive to venture capital firms. Regulation is a sector to watch as regards FinTech and industry experts forecast much investment and development in the regulatory sector. There is a significant opportunity for the development of the 'RegTech' industry, to simplify and assist compliance teams within the City and beyond. Interviewees in compliance noted the fact that technology needs to be improved to deal with 'Big Data', so there is huge scope in the data protection and security industry for FinTech firms. Interviewees' responses here therefore match the Government Office for Science's views that technology and regulation has a huge scope for development.

## 6 Conclusions and implications for the City of London

Workplaces in the City are increasingly more open-plan, with some companies incorporating hot-desking. This is a cost saving measure, but also helps managers monitor their staff, as teams are more visible. Although employees may be distracted in open-plan setups, collaborative working occurs more organically. Collaborative working has become far more important, so workplaces are being designed with open spaces to create a variety of environments for employees to work in. This is evidenced in new office spaces, such as 22 Bishopsgate, which are being designed with employees in mind. Employees in the City are generally happy with their office layouts, but the research and responses assessed within this report reveals that if an organisation makes a change, affinity to the organisation makes employees positive toward change in the office setup. This shows that employees are willing to adapt, but also accept and reconcile to the setup they are given. Therefore organisations that are hoping to change their space to open-plan should be encouraged, provided the space fosters collaborative working, accounts for privacy and confidentiality, and contains a blend of different internal environments.

Technology has begun to take a more strategic role within City organisations. IT teams are placed in areas that best suit companies' needs, and are increasingly being consolidated into the same building or buildings, rather than separated into smaller groups across several locations. Big Data provides an impetus for companies to invest in improving their internal IT infrastructures, to protect client data and also their profits in the instance of any technical fault that the regulator sees as harmful. The increase in technology in the workplace puts pressure on employees to work faster, but has increased the organisations capacity for work, which is good for business in today's stabilising economy. Technology has also begun to fill gaps in the financial sector, particularly retail banking, and could pose a threat to incumbent financial services firms. As seen in the case of a number of the major banks, success can come from strategically advantageous partnerships with FinTech firms. Technology presents attainable opportunities for City firms to invest in and retain or improve their market position.

Over the last ten years, there has been an unprecedented development of regulation in financial services and companies have higher standards of compliance to meet. This is compounded by the fact that information is being handled more quickly, and there is more and more data in companies' systems. Professional services companies need to increase compliance efforts in parallel to ensure the safety of financial clients' data. Across financial and professional services, there is increased demand for compliance roles, as compliance becomes more central to organisations' strategy.

FinTech provides some explanation as to the drivers for changes to City workplaces, in terms of the way that technology is having an impact on City workers, and how regulation is developing to keep pace with technology. FinTech start-ups are a refreshing and relatively new way of doing businesses that presents 'fashionable' opportunities for both graduates seeking work and investors seeking returns. Technology is shaping the future of banking, and FinTech is inciting creativity in the major financial

institutions in the UK. Regulation is a complex field but it has been suggested that FinTech can work with regulators in the UK and EU to create streamlined programmes to contain the challenge presented by Big Data, and maximise the opportunities these developments bring.

The future success of the City of London, as has been the case for many decades, will depend on firms continuing to adapt and evolve to the challenges of a changing commercial and regulatory environment. The current developing landscape is more dynamic and technologically adept. Firms' success will come from how well they are able to represent employees' working styles in modern office environments, and whether they are able to produce creative new products and services and working styles to invigorate competition. The City is prized on its ability to re-invent itself, and this report has explored several opportunities upon which further development could be based.

## 7 Methodology

The data used for this report was a mixture of qualitative and quantitative primary research and existing evidence from secondary sources. Collecting information from a range of sources was the best approach because the report covered a wide scope, and the timeframe to complete the collection of data was only four weeks in total. All names and companies of individuals surveyed were anonymised, as were the companies mentioned by interviewees and respondents (unless permission was obtained). The data was gathered in such a way that no individual could be identified from the responses given.

Quantitative data was collected by way of two separate surveys: one formal survey with a diverse range and format of questions published to a wider audience, and a brief informal survey to a small pool of the author's contacts (16 people in total). The surveys were designed on SurveyMonkey.com, a secure online platform, and the links were published to respondents via closed channels. Both surveys were useful because they presented evidence in relation to many of the points raised by interviewees and the academic literature. The surveys were designed in the latter part of the four week period once preliminary information was gathered. The respondents targeted were a mix of junior and senior professionals in the City, with ages ranging from 18 to 60. The short timeframe posed some limits, for example a smaller pool than was anticipated responded to the formal survey, 35 was the target but 26 people responded. This did not limit the results, however, as a diverse spectrum of employees responded in not only the 'core' City industries of finance, law and consultancy, but also government, energy, marketing and education. The responses were plentiful enough to identify trends and correlate with the responses of interviewees and the academic and journalistic literature. The informal survey was useful but did not feature prominently in this report as it informed to a large extent how to formulate the formal survey. The quantitative data was used to represent trends pictorially in the graphs and charts featured in the report. The responses from the surveys were collected into themes and were handled as percentages rather than as according to the number of respondents. Percentages were rounded to the nearest whole number.

Qualitative data was the most useful to this report, as it not only explored whether or not people had, for example, a certain office layout and whether they worked well within it, but also explored reasons behind their views in ways that the survey could not. It was useful starting with open-ended questions and seeing where different interviewees took their responses. It was also possible to see whether experts in different industries responded to the same issues. The questions for the interviews were tailored specifically for each interviewee and for their specific area of expertise. This meant that the most useful responses could be gleaned and, for example, in contrast to the surveys, avoiding situations where some respondents felt they had to answer 'not applicable'. Designing questions specific to each interviewee was also useful as they were very pleased to be given an opportunity to talk quite generally about their field of work. This made for positive and interesting discussions, and interviews usually ranged from 30 minutes to just over one hour. In addition, almost all of the people contacted for interviews responded positively, so a face-to-face discussion had a much higher

success rate than those asked to complete the online survey; 15 people were contacted for interviews and 13 people agreed to take part.

Academic journals were consulted, as well as publications such as The Financial Times, The Guardian and The Economist for up-to-date secondary commentary and context. This was useful in establishing an overview of the issues to allow the development of interview and survey questions. The secondary material also presented opportunities to collect data to prove and disprove themes and theories that the literature revealed. The graduate recruitment websites of a number of the major UK banks were consulted, as were popular job sites such as Robert Walters and Michael Page to obtain the job adverts analysed for compliance roles.

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