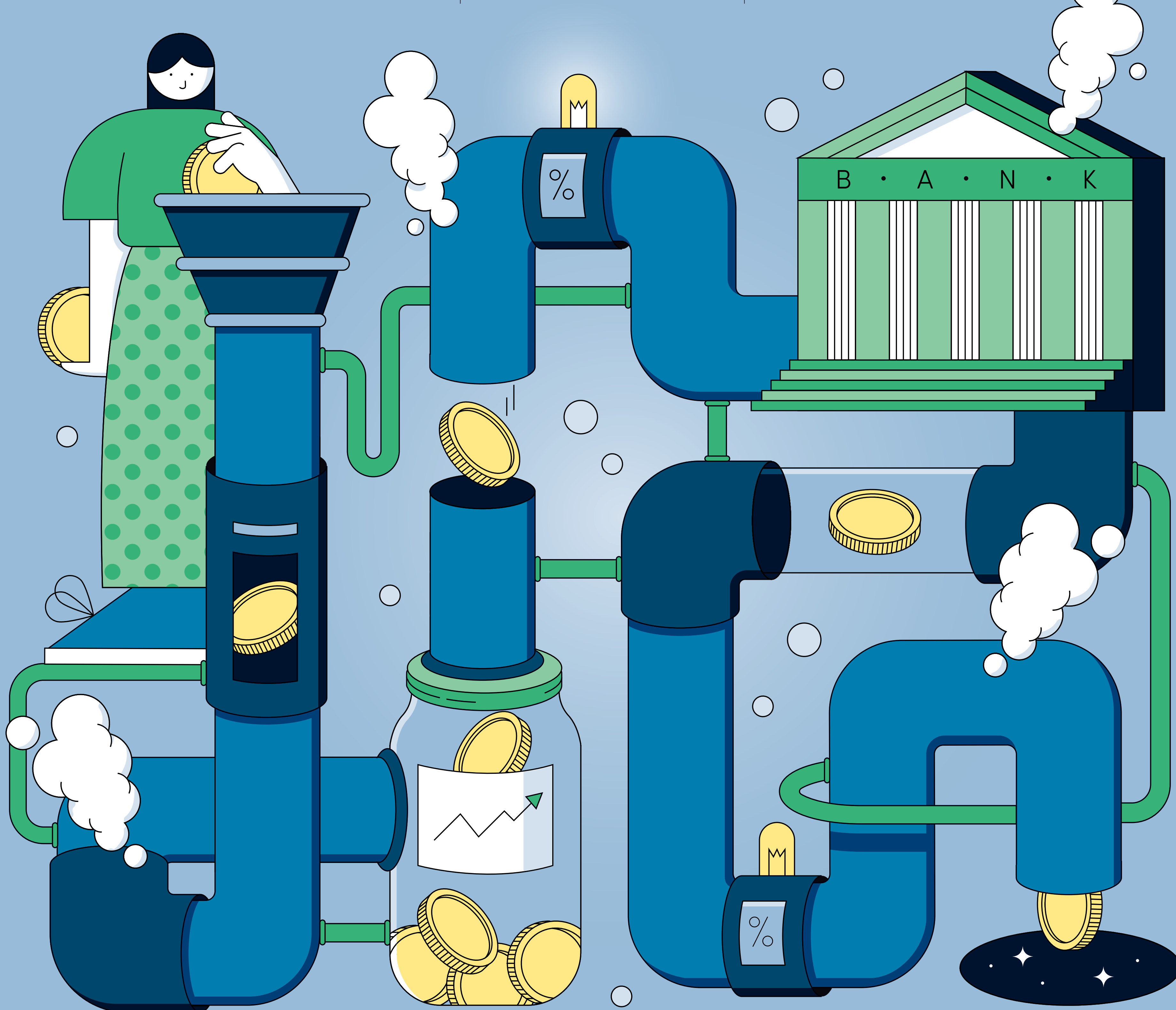
FUTURE OF FINANCE



FUTURE OF FINANCE

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CAREERS

Burn and churn: why CFOs have become hard to retain

The average tenure of a finance chief is getting shorter, putting boards under pressure and posing tough questions about the increasingly demanding and stressful nature of the role

Simon Brooke

As is the case with any member of the C-suite, finance chiefs come and finance chiefs go. But they've been going a lot more often over the past few months, which should give all employers pause for thought.

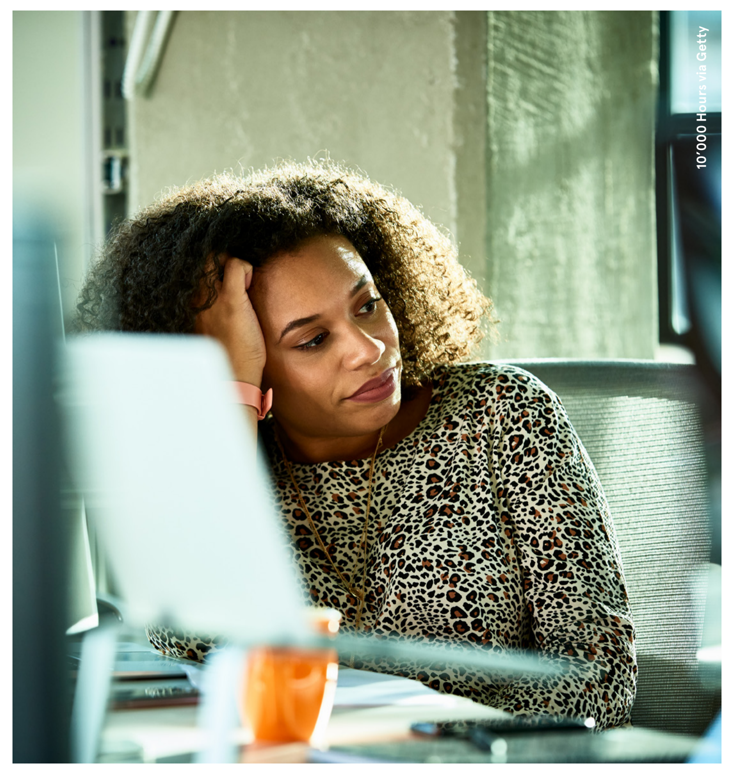
Recently, the CFOs of blue-chip companies including BAT, Disney, FedEx, InterContinental Hotels, Nestlé, Prudential and Unilever have handed in their notice. The churn rate in this job has been increasing across the board reaching a four-year high in the FTSE 350 and the Euronext 100, according to a study by leadership advisory firm Russell Reynolds. Its research has found that well over half (57%) of CFO posts have changed hands since 2020.

Meanwhile, an FTI Consulting survey covering EMEA, Asia Pacific and North America revealed that the average tenure of a CFO was less than five years in 64% of the responding companies. The churn rate was highest in EMEA, where 73% of firms reported that their finance chiefs typically stayed in post for no more than five years.

Russell Reynolds also found that 61% of the newly appointed CFOs it polled were first-timers in that role. While some might find it pleasing to see an influx of fresh talent at this level, the figure also raises questions about the amount of experience the current crop of CFOs has clocked up – an important consideration during a period of particular economic stress.

What factors are behind the high churn rate? For one thing, finance chiefs are coming under increasing external pressure. Westminster's plan to stiffen the financial reporting regime and make board members more individually responsible for figures provided to auditors – known as UK Sox because it's based on the US Sarbanes-Oxley Act of 2002 – may have been delayed, but the greater scrutiny it proposes is a reliable indicator of the direction of policy-making travel. The growing number of vociferous activist shareholders is also putting finance chiefs under stress.

Moreover, as well as producing the accounts, CFOs are increasingly expected to play their part in forecasting and business development. They are also taking on more responsibility for tackling and disclosing ESG issues – a task that will only become more burdensome.


10'000 Hours via Getty

Advanced digital technologies such as artificial intelligence will, in the medium to long run, relieve finance teams of some laborious tasks and provide them with more accurate, timely information. But, as these systems develop at dizzying speeds, implementing them promises to be a challenge in itself in the shorter term.

"The pressures on CFOs have intensified in recent years as their role in the critical decision-making of the C-suite has grown," notes Ralph Geertsema, senior managing director at FTI Consulting and co-leader of the EMEA office of its CFO practice. "In addition, there are external factors such as the increased demand for CFO talent – in private equity, for instance – and the growth of other opportunities, including interim positions."

Mark Freebairn is a partner at headhunting firm Odgers Berndtson and head of its board and financial management practices. He believes that the appeal of the traditional role of finance chief is diminishing, prompting talented professionals in the field to rethink their options, especially those feeling burnt out by the stresses of steering their businesses through the Covid crisis.

The most capable CFOs have the scope to start portfolio careers before 50 years of age "and still have very attractive and engaging jobs. They are working three or four days a week with long holidays and still earning £250,000 a year," Freebairn reports. "A lot of finance chiefs are exhausted from working through the pandemic and they're seeking a change. Many of them are financially secure, so they don't want another executive role."

Dr Randall Peterson, professor of organisational behaviour and academic director of the Leadership Institute at the London Business School, points to another reason for the shortening tenure of CFOs. He suggests that many employers are failing to develop their existing financial managers adequately, meaning that there's a dearth of suitable internal candidates to replace a departing finance chief.

The high CFO churn rate "speaks volumes about how poorly most organisations have managed their talent pipelines. Recruiting externally for a finance chief ought to be a rare event, because outsiders always pose a greater risk by not understanding the local culture and processes initially," Peterson explains. Even when they bring in valuable perspectives, external appointees "must still find a way to get things implemented, which hinges on their ability to work with their new company's culture".

Firms wishing to avoid the cost and inconvenience of hiring and onboarding a new CFO every few years will have to work harder and smarter on retention, then. And that process needs to start at the very top, as Geertsema explains.

Apart from factors such as "competitive compensation, professional growth opportunities and work/life balance, the unique dynamic between the CFO and the CEO is crucial to retaining the former", he says. "The relationship is built on transparency, trust, respect and a shared commitment to the success of the company. If this breaks down, the CFO will often question their place at the top table."

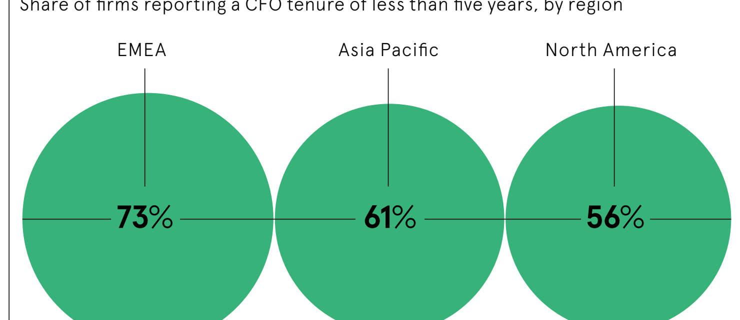
Support from the rest of the leadership team is also key. The burden of ensuring regulatory compliance may be growing, for instance, but it needn't rest solely on the CFO's shoulders, according to Fairbairn.

Pointing out that "you can employ people who can support CFOs or do it for them", he advises engaging with regulators and other stakeholders in the longer term to "discuss the growing dissatisfaction with the role and try to find a more balanced approach to regulation".

Similarly, investing in labour-saving finance technologies and ensuring that all board members pull their weight in areas such as ESG reporting can make it more likely that the CFO will stay put – and do a great job – for longer.

MOST FINANCE CHIEFS AREN'T STICKING AROUND

Share of firms reporting a CFO tenure of less than five years, by region



FTI Consulting, 2023

Commercial feature

Financial services industry predicts a positive year ahead

Rapid innovation across financial services continues to transform the industry, both for customers and colleagues. Here, **Simon Paris**, CEO of Finastra, explains the company's latest research into the future of the financial services landscape

There's an optimism in the air around financial services as we approach the end of 2023. After a tough year of high inflation, increasing interest rates and choppy economic waters, those working within the industry are increasingly hopeful, rather than fearful.

According to research by financial software company Finastra, many working within the sphere expect the first half of next year to see a return to full investment in technology; this would enable transformation and future-proofing.

Finastra's study was carried out across August and September 2023 with a cohort of 956 managerial-level professionals in financial institutions and banks based in the US, UK, France, Germany, Hong Kong, Singapore, Saudi Arabia, Vietnam and the UAE.

It found a positive outlook in various areas, from the scale of upcoming funding streams to the adoption of banking as a service (BaaS) and the imminent adoption of greater levels of artificial intelligence (AI).

Simon Paris, CEO of Finastra – which has its HQ in London – sees 2024 as a critical inflection point. "Despite ongoing geopolitical and macroeconomic uncertainty, it's encouraging to see such a positive outlook," he says.

Here, Paris reflects on seven of the key findings from the research and offers his view on what each one means for the day-to-day reality of financial services.

The pace of change is exciting, not scary

- Nine in 10 respondents (87%) are personally excited about the pace of technological and cultural change

"Among senior-level decision makers, there was an expression not just of a high level of optimism, personally, but also for their own institution (83%) and for the financial services sector more widely (81%). Change is often portrayed negatively, so this reminds us that there are humans behind the decisions, and it shows us what they are all seeing as opportunities."

The rise of embedded banking as a service

- Nearly half (48%) of financial institutions have either deployed BaaS or improved their capabilities in this area in 2023

"For me the key takeaway from our 2023 survey is that, if 2022 was a year of exploration and interest, 2023 was a year of action. This is evident in institutions' adoption of BaaS. Last year, one in three (35%) had adopted this transformational open-banking model, now it's nearly one in two. Primary use cases at a global level include buy now, pay later and embedded cross-border payments."

Firms are riding high on AI

- Globally, 37% say that their financial institution had improved or deployed broad AI technology in the last 12 months

"With the meteoric impact of generative AI, one might be momentarily distracted from the significance of more-traditional AI applications across the industry. These include automation, personalisation and transaction monitoring. Since 2022, our research shows a seven-percentage point increase in the deployment or improvement of AI, proving a commitment to ongoing innovation."

> If 2022 was a year of exploration and interest, 2023 was a year of action

Generative AI is leading the conversation

- Eight in 10 (83%) decision-makers say their institution is interested in generative AI, with a quarter (26%) having incorporated it in some form

"The biggest surprise in our findings was the pace and scale of generative AI's impact. Never, in the history of our annual report, have we seen the launch of a technology that was also integrated in some way within the same 12-month period. I believe this is testament to the innovative culture and technological readiness across financial services. Just six per cent of those surveyed expressed no interest."

Customers seek greater personalisation

- A third (32%) of those interested in generative AI technology say they will be using it to deliver personalised experiences

"Our report shows that institutions have a need to focus on improving the tailored and personalised customer experience – this has never been more pressing. Using generative AI for this purpose comes from the higher expectation on the part of the customer."

Open finance is bringing positive impacts

- Eighty-five percent of respondents agree that open finance is continuing to make financial services more collaborative

"An overwhelming majority of institutions believe open finance to be a force for good in the industry. Nearly half of those questioned (46%) said that more than half of their customers were using it. We will continue to see progress and widespread adoption thanks to the uncapped socio-economic and sustainability benefits open finance can offer."

Investments in technology will rise in 2024

- Seven in 10 (69%) expect their investments in technology to resume in full before the end of H1 2024

"Financial services has weathered 2023's geopolitical and macroeconomic storms well, so I am comforted by investments in technology remaining a priority. Nearly eight in 10 (78%) institutions found such investment was constrained in this year's tough climate. My belief is this will be money well spent amid the increasingly customer-centric lens being applied to the industry's future."

Looking ahead into 2024, Paris notes that while full investments had yet to resume for the majority of countries surveyed, BaaS, embedded finance and AI (including generative AI) are the critical areas expecting tech investment.

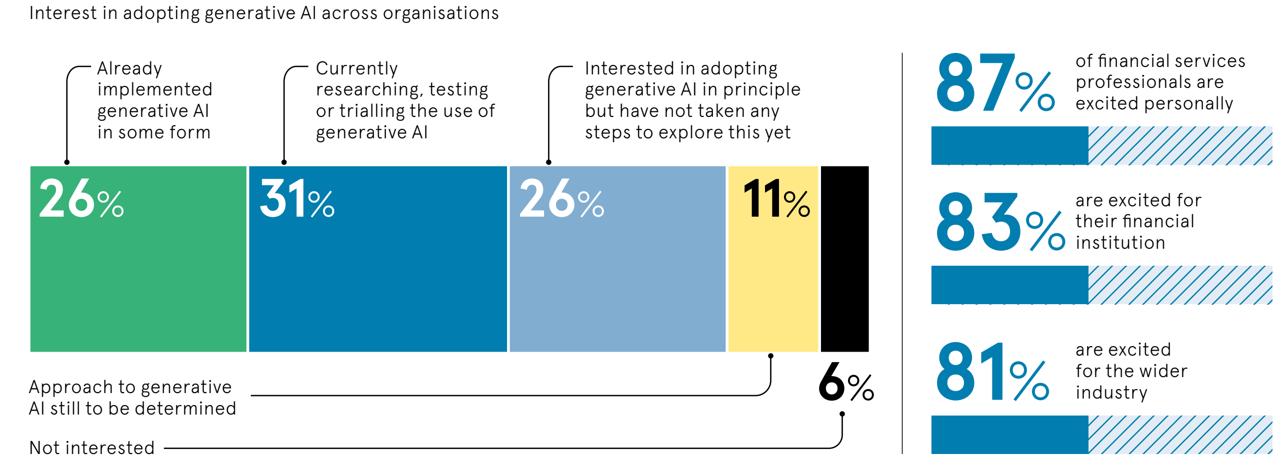
"Interestingly, one of the most frequently cited use cases was generative AI in the context of ESG, harnessing its potential for data classification and decision-making in this area," says Paris.

He adds: "Despite the cautious approach, we are seeing a move within financial services towards the customer context as the industry seeks to further enhance and personalise the customer experience. This is likely behind the renewed investment focus for next year.

"Generative AI could bring personalisation at scale to those that move quickly to grasp the opportunities ahead. It's so encouraging to see such a positive outlook for the future of financial services from those within the industry."

FINANCIAL SERVICES PROFESSIONALS ARE EXCITED BY THE PACE OF TECHNOLOGICAL AND CULTURAL CHANGE

Interest in adopting generative AI across organisations



Finastra, 2023

To download a copy of the report, please visit: finastra.com/financial-services-state-nation-survey-2023

FINASTRA

BANK BORROWING

How to ride out the cost-of-doing-business crisis

The increased cost of borrowing is curbing investment and leaving many firms in financial distress. What can businesses do to weather the storm?

Daniel Thomas

While the UK's cost-of-living crisis seems to be easing at long last, all the signs are that its cost-of-doing-business crisis is deepening.

Many firms, a significant proportion of which have been heavily indebted since the pandemic, are struggling with high energy and materials costs while consumer demand remains low.

A steady increase in the cost of borrowing has been squeezing margins and putting more and more companies in financial distress. The Bank of England has raised its base rate of interest 13 times in two years in a bid to control inflation. The rate as this report goes to press is 5.25% – up from a mere 0.1% between March 2020 and November 2021.

The cost of raising loans and refinancing has shot up, therefore, so businesses that took on a lot of debt at rock-bottom prices are facing a "financial reality check", says Julie Palmer, managing partner at turnaround specialist Begbies Traynor. Consumer-facing industries including hospitality, retail and leisure have been hit especially hard, along with interest-rate-sensitive sectors such as construction, she reports.

This is generally manifesting itself as a chill on investment and growth, according to the Federation of Small Businesses (FSB). The trade body says that would-be borrowers increasingly report being asked for personal guarantees even for relatively small loans, which is preventing a significant proportion from going ahead. It has also found that 30% of small firms seeking finance in the third quarter of this year had their applications rejected.

"Many small businesses are waiting until interest rates start to fall again before investing in anything that isn't core to their business," says Tina McKenzie, chair of policy and advocacy at the FSB. "There is likely to be a good reserve of pent-up demand for investment."

More worryingly, the number of businesses struggling to repay their debts is rising. This year's total of company insolvencies in England and Wales looks on track to be the highest since 2009, when the global financial crisis resulted in the so-called great recession.

We haven't yet got to the stage where many creditors are aggressively chasing firms for late repayments, according to Palmer. But underperforming firms are hitting the wall and there has been an increase in so-called director fatigue, whereby owner-managers close or sell their businesses to relieve the stresses of self-employment.

While the Bank of England has warned that it's unlikely to be able to drop the base rate until H2 2025, there are certain basics that firms can do to help ease their situations.

Palmer would advise firms to keep a close eye on margins, but "not obsess about increasing turnover at all costs", as tempting as that may be.

"As the saying goes: turnover is vanity, profit is sanity and cash is king," she adds.

Companies should instead focus on finding efficiency savings. Those in particularly cyclical industries, for instance, should review their balance of permanent and temporary workers to ensure that they aren't overstaffed. And every firm should review its energy consumption and tariff to check that it isn't paying too much.

It's essential to have a proper understanding of all your business costs, so you can see where savings can be made and plan for potential problems, stresses Owen Bassett, a risk underwriting manager with expertise in insolvency at insurance firm Atradius.

Bassett points out that proactive financial planning – including "diversifying your supply chain, insuring trade credit agreements, preserving cash flow and increasing liquidity" – can have a massive positive impact on the viability of any business, whatever its size.

Preventing a cash flow crisis is particularly important. Millions of small businesses still struggle with late payments, for instance – a problem that has worsened as interest rates have risen. But hiring a credit controller and/or adopting the right tech can help. For instance, there is software on the market that uses predictive analytics to offer users a clear overview of such risks.

French company Quadient is one developer to offer such a platform. Sarah-Jayne Martin, a director at the firm, explains that its offering uses "key performance indicators such as the percentage of late payers, unreconciled items and monthly write-offs to give a company's leaders a better understanding of its financial health".

For businesses facing a cash flow crisis, invoice discounting may help. This is when a specialist firm covers your company's unpaid invoices up front, enabling you to keep planning and investing in people, plant and materials while you wait for customers to pay. The task of chasing debts remains with you, but companies can go one step further and resort to factoring, in which a third party takes full responsibility for retrieving what's owed.

Meanwhile, for those struggling to raise growth capital through traditional channels, alternatives may be available. McKenzie points out that there are several more types of funding out there for businesses than loans and overdrafts.

> Seeking advice early is always the best course of action. It allows you many more options to turn around your business and more time to decide the next steps

"Asset finance might be a good way for small businesses to get the equipment they need without a big initial outlay, for example, or they could even make a pitch to the public via a crowdfunding site," she suggests.

If a firm gets into real financial difficulties, it should seek help sooner rather than later, says Nicky Fisher, president of R3, a trade group for insolvency practitioners. That could mean calling in a turnaround specialist, as hard as that may sound.

"Seeking advice early is always the best course of action," she says. "It allows you many more options to turn around your business and more time to decide the next steps."

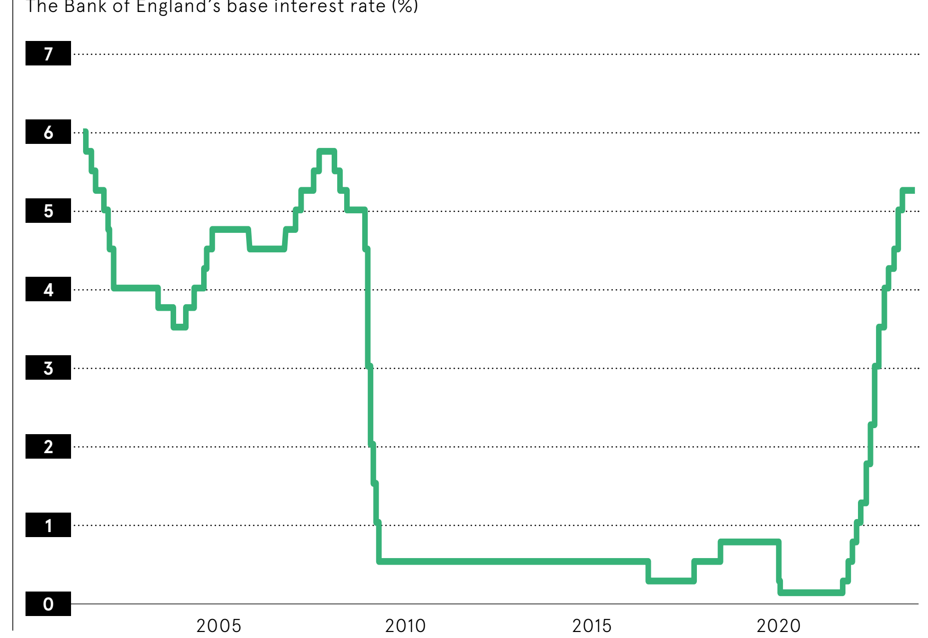
Despite the gloomy outlook, this period of higher borrowing costs may yield opportunities for some businesses. As weaker firms drop out of the market, better-capitalised ones should be able to pick up their market share. And, once interest rates do eventually recede, these businesses should be well placed to capitalise on the shift.

"It can be hard to look to the future in difficult trading times, but small businesses need to keep up with developments in their fields and be aware of trends or technologies that could be useful to them," McKenzie stresses. "They should make plans now. Then, when interest rates do fall, these firms will be in a position to move swiftly and grow."

Illustration by Sara Gelfgren

THE COST OF BORROWING IN THE UK IS AT A 16-YEAR HIGH

The Bank of England's base interest rate (%)



Bank of England, 2023

Commercial feature

The future of UK hospitality is in evolving payments

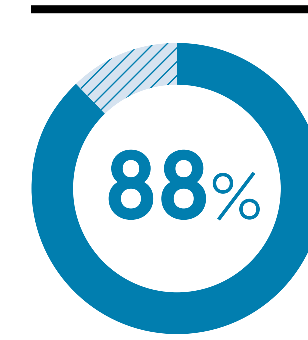
Post Covid, the hospitality sector is showing the fragile shoots of an economic recovery. Focusing on payment innovations and tech now could supercharge future growth

While the hospitality industry has evolved significantly over the past three years, the way we pay for our experiences has stayed much the same. We receive a bill at the end of our stay or meal, present a credit or debit card, then the money is taken. Yet, other sectors have moved on. Whether it's high street retail, parking or ecommerce, payments in these sectors are evolving at pace.

This is why many hospitality providers could do with a refresh. Consumers increasingly expect a digitalised customer experience, where seamless, standardised payments are the norm. Ultra-convenience is king. In some industries, paying securely via an app or across a diverse set of frictionless payment options and digital wallets is commonplace. Yet, in many lodging and eating establishments, there is still limited choice.

"The global pandemic showed us that the hospitality industry can move at incredible pace when it needs to. Look at the adoption of QR codes and ordering meals via an app. The sector took on board new innovations very quickly. It needs to evolve again, especially since the younger generations now have greater expectations when it comes to dealing with bills, customer loyalty and knowing your customer," explains David Wheatcroft, head of hospitality at Elavon.

"Amazon and others have set a high bar when it comes to one-click payments; no card or personal details are needed every time. This is what consumers now expect across the board. Look at EV charging at service stations or in public car parks – drivers go onto an app, press go, and payments are taken automatically. It's frictionless and invisible."



of customer service teams report that customers have higher expectations than ever

HubSpot, 2022

Getting more personal with guests

Booking and paying for a holiday or business trip can still involve many steps; there are a multitude of partners and software providers that payments need to go through. It is neither joined up nor consistent across all touch points. This creates constraints within the sector when it comes to delivering on consumer satisfaction.

This comes as the UK hospitality industry is experiencing staff shortages, as well as rising inflation. Yet there's also greater demand for more personalised experiences, according to a recent white paper from global payments provider, Elavon. At the same time, there are new tech and data-led opportunities available to the sector, such as pay-at-table restaurant solutions that integrate into point-of-sale and digital wallets or tiered pricing strategies.

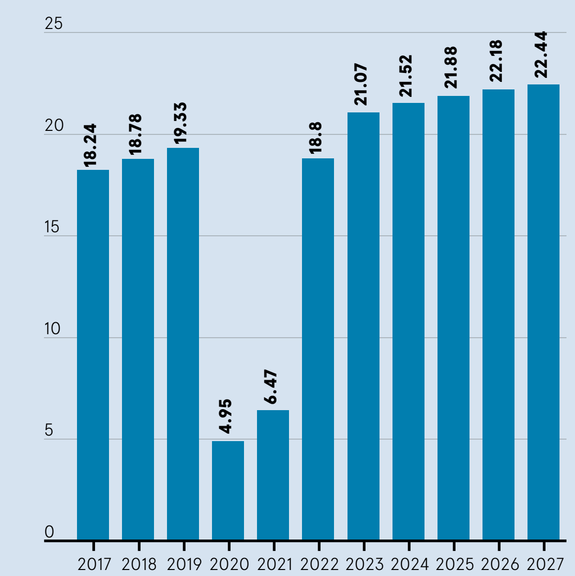
Bringing these competing challenges and opportunities together is key to future success. But to do that, novel payment platforms need to be introduced with an element of automation. This will have the added benefit of providing better data insights into customer experience.

"We've already seen the adoption of solutions such as self-service kiosks in hospitality settings. But there's a long way to go. We've mapped out guest experiences in hotels. There are an incredible 85 different touch points when it comes to payments, depending on where and how you book, where you want to pay and whether it's your initial booking, through to extras like meals in the room or spa treatments," details Wheatcroft.

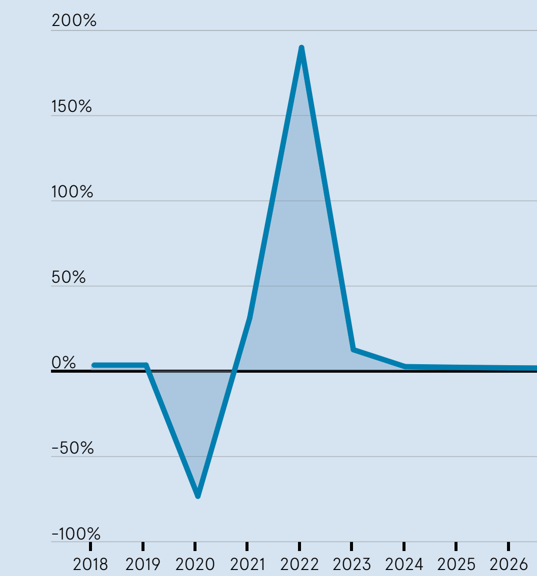
"This dizzying array of interactions, which can involve hundreds of different solution providers, needs a single, integrated approach. Why? Because the customer expects it. Also, joined-up data on guests is vital in improving satisfaction, driving higher-value reservations and increasing bookings; especially in an age when people don't necessarily want to interact with hotel staff at the front desk."

MARKET GROWTH OF HOTELS IN THE UK

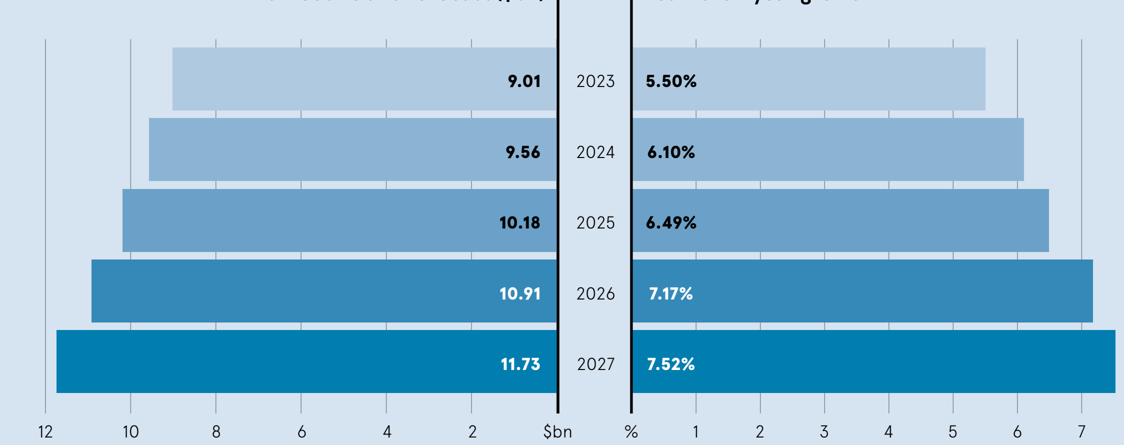
Market size and forecast ($bn)



Year-over-year growth



MARKET GROWTH OF PUBS, BARS AND CLUBS IN THE UK



Technavio 2023

Payment data offers customer insight

Payments are often an after-thought of the guest experience. The focus has been specifically on initial bookings and the data this generates – which makes sense given this feeds the bottom line. Yet, payment data on different aspects of a hotel stay can give significant insight into what people actually spend their money on. Likewise, profiling travellers from different countries now allows hospitality settings to understand spending habits in a much better way. The evolution of AI is also helping businesses interpret and analyse customer data and leverage insights.

The Elavon white paper also found that some forward-looking hospitality brands are personalising customer experiences by increasing the number of available payment methods. This includes integrating open banking and payments via application programming interfaces (APIs), deploying digital wallets to accept mobile phone payments in one tap and exploring virtual world payments (yes, it's possible to pay in the metaverse).

"If the hospitality industry is to embrace new services, it needs to do it in a way that creates a frictionless and seamless experience for the customer. For instance, if a hotel chain wishes to install EV charging points, or partner with external food and drink providers for room service, it is essential that it takes a unified approach to payments and provision of services in order to attract new customers and keep old ones," continues Wheatcroft.

"A buzzword we often hear from the global hospitality industry is 'standardisation'. What many hospitality brands want is a consistent experience for their guests across all properties, outlets and touchpoints. This can only be achieved if the technology that sits behind their payments is consistent. Economies of scale are crucial here. If they can consolidate the number of providers they are working with, it makes everything simpler and contributes to a better guest experience."

This is especially true when it comes to bringing new services to the hospitality market at speed. For instance, voice technology is now coming to the fore. Think of Amazon's Alexa or Google Home in a hotel room and the ability for speech-activated devices to order room service or ask for a late checkout and charge a guest based on their specific voiceprint. Technology providers are now working towards this goal.

"This is why hospitality providers need to modernise their payment tech stack. The aim is to offer seamless integration and diverse payment options across multiple evolving touchpoints. One click, invisible payments empowered by massive data insight are the future. It's time we achieved this," concludes Wheatcroft.

Elavon is a global payments provider with more than 2 million customers across 36 countries. Working closely with global hospitality brands such as Sheraton and Marriott, Elavon has developed deep industry expertise, providing businesses the technology they need to accept payments anywhere. With operations in 10 countries and counting, Elavon now processes more than 6 billion transactions per year, supporting more than 100 currencies globally.

To learn more about Elavon and explore the latest hospitality payment insights, go to elavon.co.uk

Elavon

John Lamb via Getty

SEX DISCRIMINATION

Snail males: the City's sluggish bid to curb misogyny

Westminster's inquiry into the ongoing discrimination suffered by women in the Square Mile has got a whole sector squirming under public scrutiny. What outcomes can be expected from this investigation?

Olivia Gagan

Its title might have slightly frivolous connotations for some, but the Treasury's Sexism in the City inquiry is examining a grave issue. It's assessing the misogyny that women in the UK financial services sector are facing and the progress that employers have made in closing its gender pay gap since the first inquiry in 2018.

The investigation wants to know what, if anything, has improved for women forging careers in London's financial district over the past five years. Judging by what City chiefs told it during the most recent oral evidence session in November, the short answer is: not much.

The witnesses at that hearing included Sarah Boon, MD of corporate affairs and strategic policy at UK Finance; Yvonne Braun, director of policy at the Association of British Insurers; and Karen Northey, director of corporate affairs at the Investment Association. Each cited examples of initiatives designed to encourage women into the Square Mile, but there was little solid evidence of pay equality or of more women reaching the highest ranks of the sector and staying there.

More worryingly, other evidence submitted to the inquiry has alleged that misogynistic attitudes and behaviour – up to and including violence against women – remain rife in the industry.

"We know that some of the most awful abuses happen," said inquiry member Dame Angela Eagle MP at the November session. "There's a horrible amount of sexual assaults, sexual aggressions and, probably, criminal behaviour going on."

In the same session, a clearly frustrated John Baron MP – a former merchant banker – told the assembled City executives: "You need to do more to get in there and sort this out. I am tired of all these surveys and initiatives when I'm not seeing much progress on the ground."

Matters have improved a little since the initial inquiry, but progress has been painfully sluggish. Take the *Women in Finance Charter* published by the Treasury in 2016, for instance. Its signatories pledged to improve gender diversity at their firms including at board level, but a review last year found that only a third of them had met their targets for boosting the number of women in senior management.

The pay gap has closed slightly since the first inquiry. As of 2022, women in the City were paid 24% less than men on average, compared with 31% less in 2018. And they received 57% less in bonuses than men, compared with 65% less in 2018.

Representation improved significantly in sectors such as insurance, but only 12.1% of fund managers in 2022 were women – a negligible increase on the previous year's percentage. So why has change been so slow and why isn't more being done to accelerate it?

> Sanctions often err on the side of leniency, so bad apples are put back in the system and there is no deterrent for others

The City is being called to account for itself on the public stage. The inquiry comes as a High Court lawsuit alleging sexual misconduct by high-profile hedge fund manager Crispin Odey looms. It also follows probes into systemic misogyny in other prominent institutions and occupations – the Royal Air Force, the Metropolitan Police Service and surgery – all of which have uncovered appalling behaviour. These fields share certain characteristics. For instance, they are regulated professions whose practitioners have generally been highly regarded by society. They are historically the preserve of men and they're all governed by behavioural codes that were established in a bygone era.

It's therefore understandable that the word "culture" was uttered 49 times in November's evidence session. Northey observed that "culture is one of the biggest problems in terms of making progress", for instance, while Eagle derided "the bonus culture, the drinking culture, the clubby culture and the class culture of everyone coming from similar public schools".

If the City's long-standing culture is indeed fundamental to the misogyny that pervades many of its institutions, how easy would it be to dismantle this and build an inclusive culture in its place?

In September, Baroness Helena Morrissey, a high-profile financier and equality campaigner, urged the Financial Conduct Authority (FCA) to change the City's culture by taking a harder line against the "bad apples" in the sector it regulates.

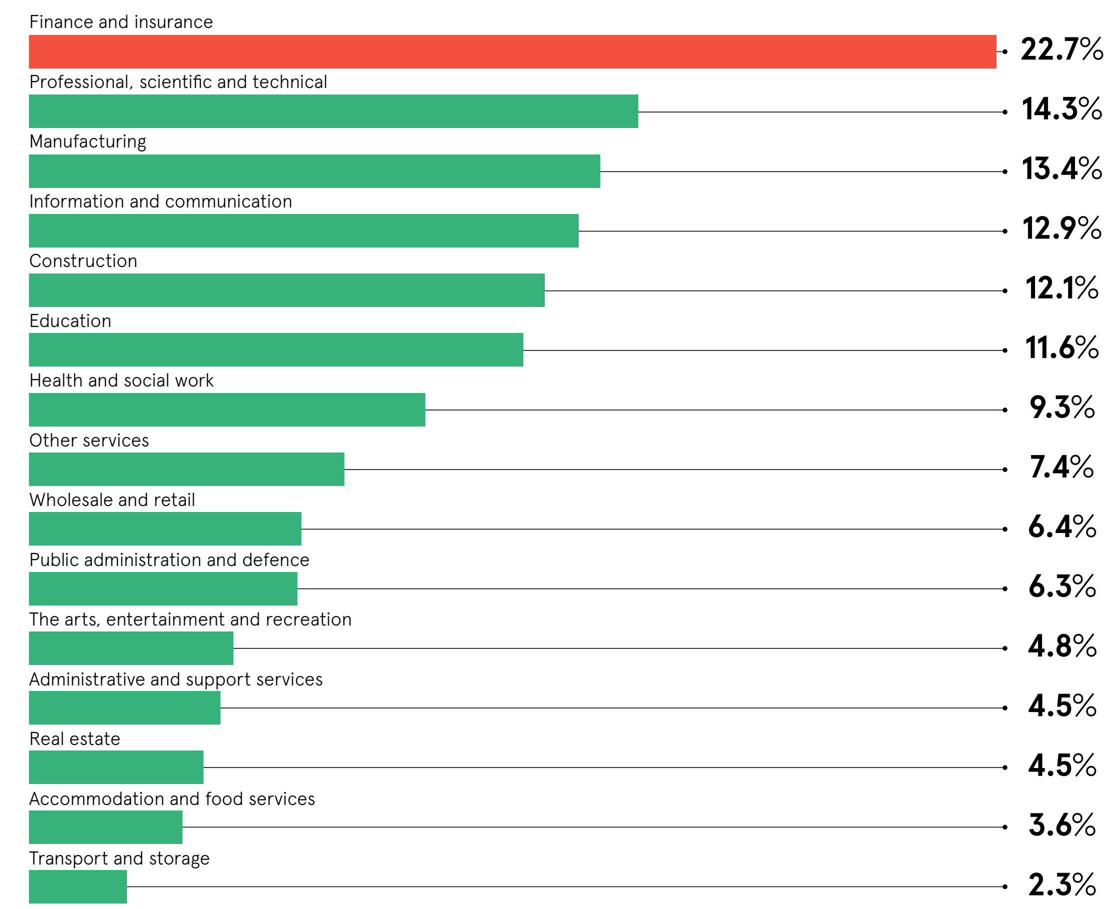
She noted that, even when complaints are upheld, "sanctions often err on the side of leniency, so bad apples are put back in the system and there is no deterrent for others".

Morrissey's call on the watchdog to show more bite could indeed help to remove the worst offenders. But other observers argue that addressing sexism as an organisational problem, rather than blaming a few bad apples, could help to achieve more lasting and effective change.

Dr Lauren McCarthy is a senior lecturer in corporate social responsibility at City University of London. She recently co-wrote a study on misogyny in organisations with Dr Scott Taylor, professor of leadership and organisation studies at the University of Birmingham.

THE GENDER PAY GAP IN UK FINANCIAL SERVICES DWARFS THAT OF MANY OTHER SECTORS

The median gender pay gap in full-time employment, by industry



Government Equalities Office gender pay gap service, 2023

McCarthy believes that talk of bad apples implies that sexist behaviour is "rooted in specific individuals we need to get rid of – and then everything will be fine. But, if we think instead of misogyny as something that permeates an organisation and is embedded in some of the fundamental ways people think about women, it helps to explain how these things keep happening."

Unpicking discrimination as an accepted part of business culture means "thinking about how things such as sexist or racist jokes become normalised to the extent that no one says anything when hideous things happen – or, when someone does speak out, they're not listened to", she explains.

Whenever power is abused in an organisation and one group of people is treated poorly, other typically disadvantaged groups tend to be discriminated against too. For example, the investigation into the Met after Sarah Everard's murder by a serving police constable found the force not only institutionally sexist, but also racist and homophobic.

McCarthy and Taylor agree that examining all the discriminatory acts an institution such as the City tolerates is key to understanding how the perpetrators continue largely unchecked while their victims often stay silent to protect their careers and their health.

With such considerations in mind, what can progressive City leaders do to root out deep-seated discrimination in their sector?

Hannah Ford is a partner specialising in employment and HR issues at law firm Stevens & Bolton. She believes that achieving meaningful change "requires a sophisticated response. Just getting to a settlement agreement quickly to hush up a case is the wrong approach."

The use of non-disclosure agreements to keep misconduct out of the public eye is common in financial services, but Ford argues that a progressive business would be transparent about its problems.

"It would say: 'Yes, these do happen. When they do, we tackle them head on and investigate. We spend money, time and other resources on looking into them. And the full stop at the end isn't a settlement agreement; it's a report that our board will see on how we dealt with it.' That's the hallmark of a healthy, non-toxic organisation: no culture of silence," she says.

Tougher City rules could also help. The FCA has proposed an update to its guidance on non-financial misconduct in light of the Odey case. Despite the allegations against him, he was considered to have met the regulator's so-called fit and proper standard required of a leader of a financial services business. The FCA is seeking to clarify that serious personal misconduct is relevant when someone's suitability to serve as a senior executive in the sector is being assessed.

Moreover, the Worker Protection (Amendment of Equality Act 2010) Act 2023 is set to come into force in October next year. It will impose a duty on employers to take "reasonable steps" to protect their staff from sexual harassment.

Looking further ahead, Taylor says he has "quite a lot of faith that the next government we have in Westminster will make misogyny a hate crime. The Scottish government has already started this work and I think it's going to follow through on this quite quickly."

> I have quite a lot of faith that the next government we have in Westminster will make misogyny a hate crime

The City exists to make money. Focusing on the clear link between profit and a healthily diverse workplace might be the biggest incentive for change. A research report published in November by BlackRock found that more gender-balanced companies have delivered a significantly higher return on annual assets than the average firm over the past decade.

"It is diversity that counts, rather than the dominance of women or men," the report concluded.

If the City can remove its culture of silence and educate its leaders on the impact of factors such as gender, race and class on people's experiences of the sector, the next inquiry might hear better news. But, whatever happens, McCarthy argues that the challenge of shifting such a deep-seated misogynistic culture can no longer be used to excuse a lack of progress and absolve individuals of responsibility.

"What is culture if not people? We *all* make a culture," she says. "To use it as a way of saying 'it's too much for us to deal with' is wrong. Of course we can achieve change, but it's not going to be easy."

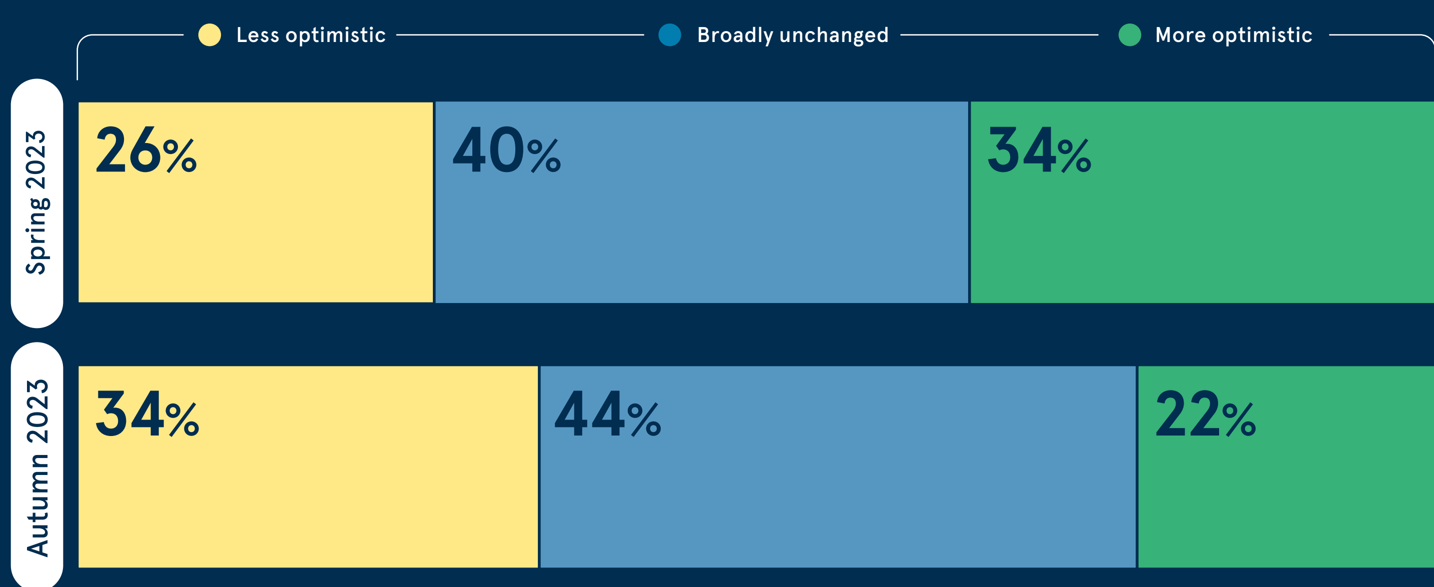
COST CUTTERS

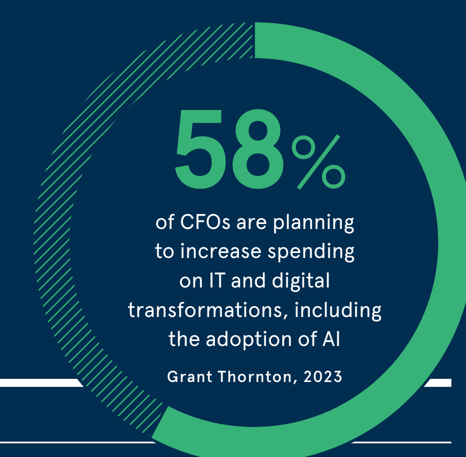
CFOs are becoming less confident about their companies' financial prospects and most have been prioritising cost reduction as a result. But this has to be done in a strategic way if firms are to preserve future growth opportunities and maintain progress towards their long-term objectives

FINANCE CHIEFS ARE GETTING MORE PESSIMISTIC ABOUT THEIR FIRMS' PROSPECTS

Deloitte, 2023

European CFOs' confidence in the financial prospects of their companies compared with how they felt six months previously

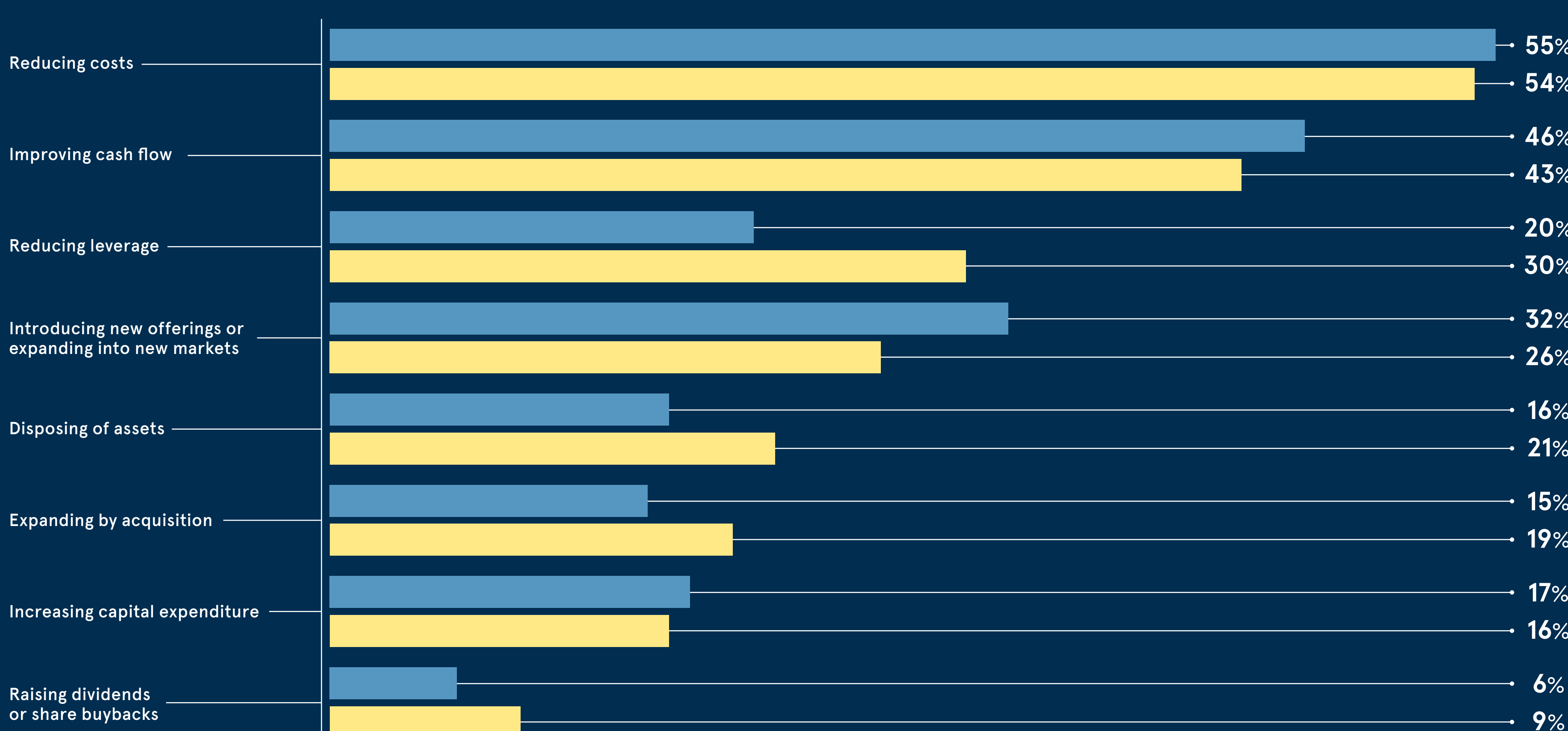




COST REDUCTION REMAINS THE TOP PRIORITY

Deloitte, 2023

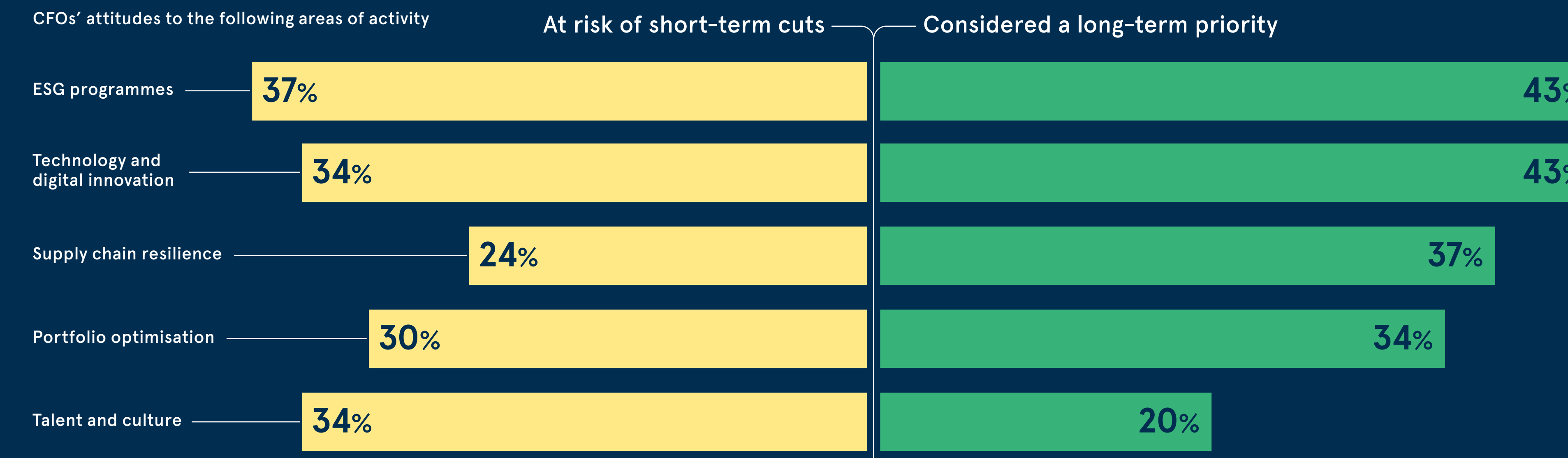
Share of UK finance chiefs ranking the following as a high priority over the next 12 months



ESG INITIATIVES ARE AT THE HIGHEST RISK OF SHORT-TERM SPENDING CUTS

EY, 2023

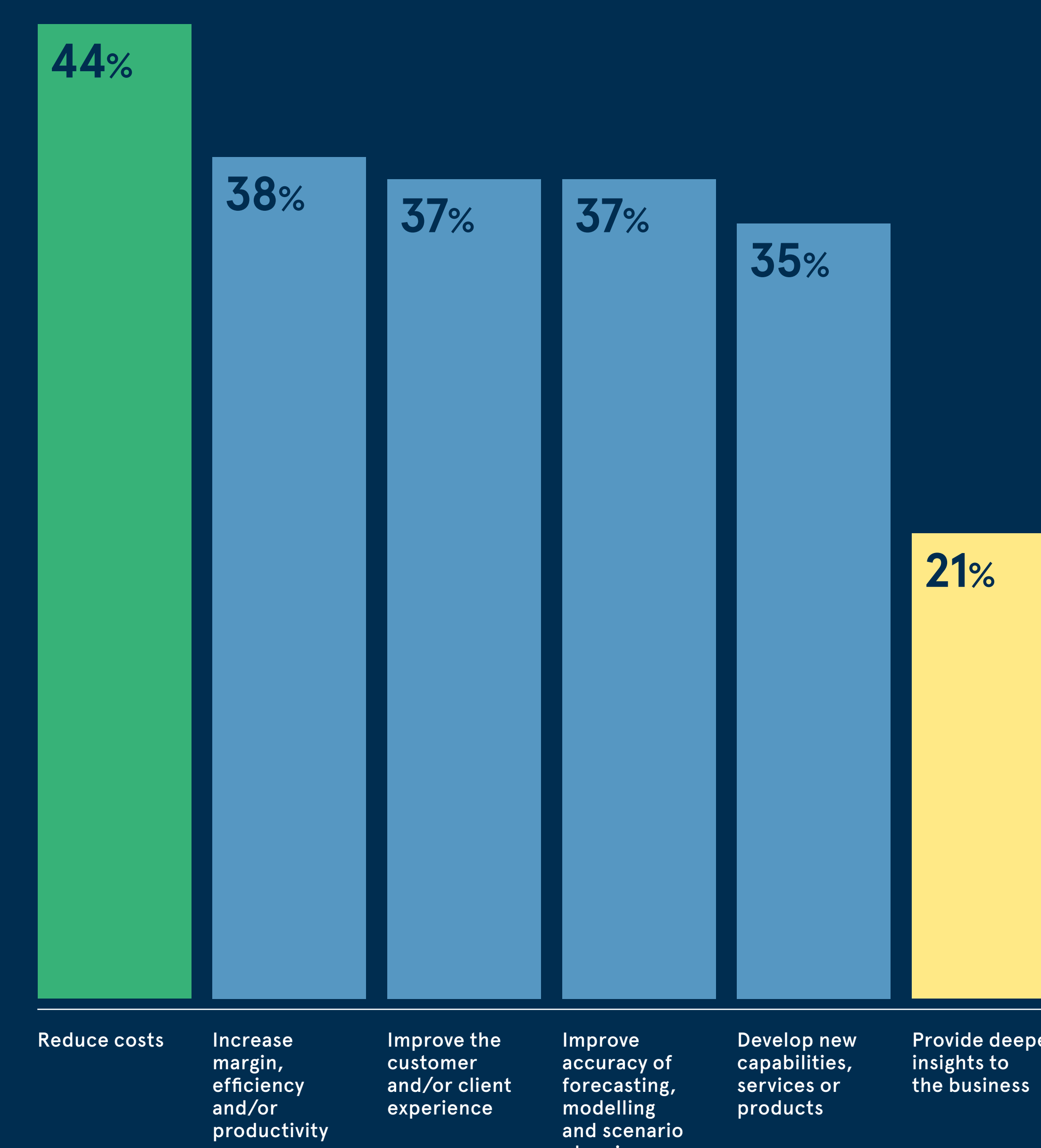
CFOs' attitudes to the following areas of activity



FINANCE CHIEFS VIEW COST REDUCTION AS THE BIGGEST BENEFIT OF AI

Deloitte, 2023

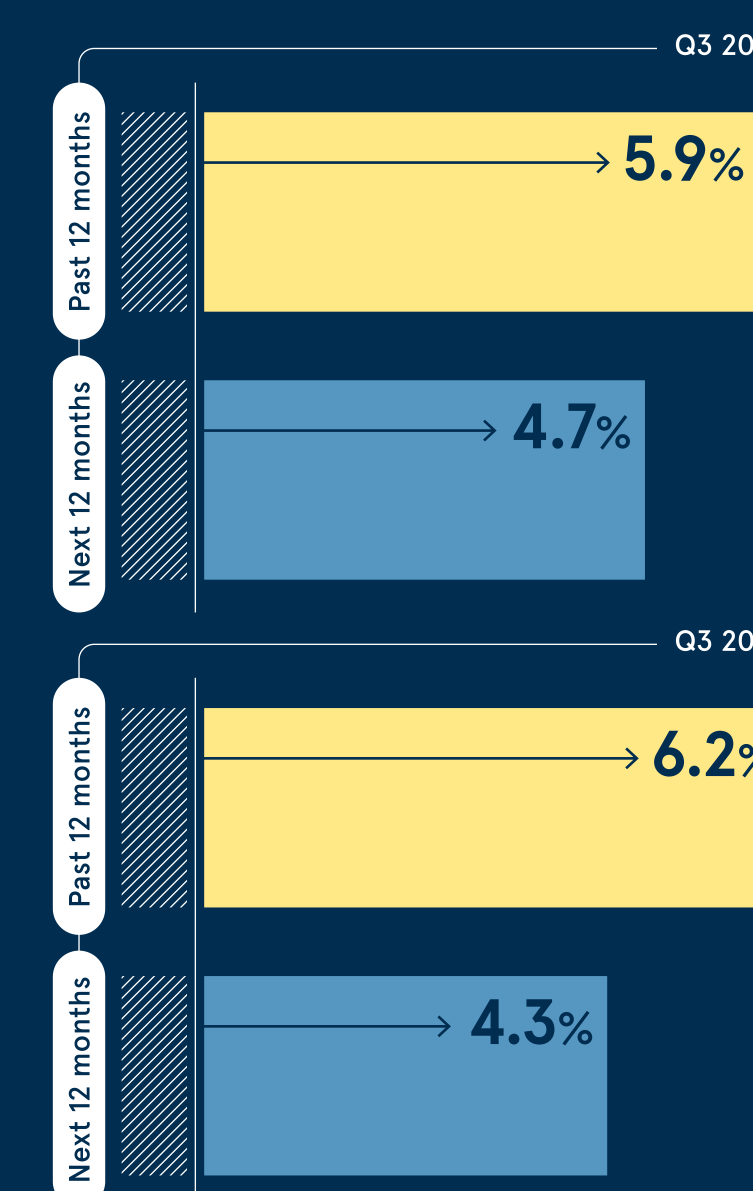
Share of European CFOs expecting the following to be among the top three benefits of artificial intelligence



WAGE GROWTH IS EXPECTED TO DECELERATE

Deloitte, 2023

CFOs' median reported increase in average wages in their businesses over the past 12 months and their expectation for the next 12 months



Witthaya Prasongsin via Getty

ASSET MANAGEMENT

Bearish necessities: how investment managers are preparing for next year

Professional investors are steeling themselves for yet more turbulence and weak growth in 2024. What strategies are they planning to adopt to safeguard their clients' money?

Alec Marsh

If you're feeling brave, take a peek at the GDP forecasts for 2024. The International Monetary Fund puts global growth at an unchipper 2.9%, down from 3.5% in 2022 and well under the 3.8% average recorded from 2000 to 2019. Still, we'd be pleased with that in the UK, as the forecast average across developed nations is a measly 1.4%.

Inflation in the UK looks set to ease slightly next year from its current level of 4.6%, but the Bank of England is expected to keep its base lending rate high until inflation gets close to the government's 2% target.

The sharp increase in the cost of borrowing over the past two years is, along with weak consumer demand, already taking its toll on UK plc, but matters look set to worsen. The Centre for Economics and Business Research predicts as many as 28,000 company insolvencies in 2024.

The above is indicative of tectonic movements in the global economy – ones in which inflation volatility is here to stay, according to Ruffer, an investment firm with £23.4bn under management. And further bad economic news is likely, warns Jasmine Yeo, a fund manager at the business.

"It's very hard for us to imagine a world in which you go from interest rates of zero up to 5% without any sort of pain or breakage," she says.

By "breakage", Yeo means a recession in the US.

"We think there's evidence that we should be worried. The crucial thing is that none of this is being factored into asset prices," she warns.

Ruffer is preparing for the storm by continuing to buy in portfolio protection from equity and credit derivatives, while also investing in long-dated index-linked bonds, which it sees as performing if high inflation does persist. The firm also favours assets linked to the real economy – gold and commodities, especially those required for energy transition – as well as cash.

"It's important to be nimble as and when you do get a correction in asset markets," says Yeo, who adds that, when adjusted for risk, returns on cash are superior to those on equities.

Seeking protection before another challenging year against a backdrop of "regime shifts" in the world economy is close to the heart of Robert Sears, partner and chief investment officer at Capital Generation Partners, a firm managing assets worth £2.7bn. He believes that markets have become "very complacent" about the risk of a recession, noting: "It probably won't be catastrophic, but all recessions have consequences, particularly when equities are near record highs."

Having been light on bonds, his business took on long-duration US Treasuries in late 2022 and has added to the tally since then. It also sees opportunities in playing "value" against "growth" equities, as Sears explains: "The very cheap decile of companies are cheap, while the ones at the expensive side are particularly expensive, so you can actually long the [cheap] stocks and short the others in a market-neutral way."

Alongside this, the firm is picking tech stocks for growth and backing Japan, where it has a big position thanks to favourable market conditions coupled with a yen undervaluation to the tune, he estimates, of 40% to 60% to the dollar, which could start to unravel next year if US rates fall and Japanese rates rise.

The land of the rising yen is also on the radar for David Lewis, co-head of the £6.5bn Merlin fund at Jupiter. He observes that Japanese stocks "are really cheap on a global basis", which makes them attractive. His fund is bullish on equities across all portfolios, taking a balance between quality and growth stocks while also having managers dedicated to tech, for instance, and favouring the UK – "an area that's been unloved for a long time".

Lewis has dedicated energy equity exposure, noting that "these companies are at pretty low valuations and we suspect capacity is quite limited around the world". His fund sold out of China in 2021 – mainly as a result of governance concerns – and it doesn't have a dedicated Asia and emerging-market manager because dollar appreciation has hit returns in those territories.

The fund also has positions in high-yield bonds, investment-grade bonds and a "significant exposure" to Western sovereigns.

"If we do fall into a challenging economic environment, these sovereign bonds will potentially be the best port in a storm," Lewis says.

Julien Lafargue, chief market strategist at Barclays Private Bank, sees 2024 as a year of "lower growth, lower inflation and lower interest rates" than 2023. His view is that GDP growth will hover around zero in Europe, while the US will do better. He's "fairly confident" that, if there is a recession, it won't be as bad as the 2008-09 one. Rather, it'll be more of a "technical recession" lasting a couple of quarters. Against that, falling inflation should bring good news, as the gap between growth and inflation shrinks.

"There are still opportunities for us," Lafargue says. "The benefit we have going into 2024 is fixed income. It can actually beat inflation."

Indeed, if inflation in the US runs at 2% in 2024, a 4% yield on 10-year Treasuries looks good. Moreover, he notes, the value of long-dated bonds should rise, offering capital returns as rates fall. With equities, investors will need to be "more discriminative" to make a good return in 2024.

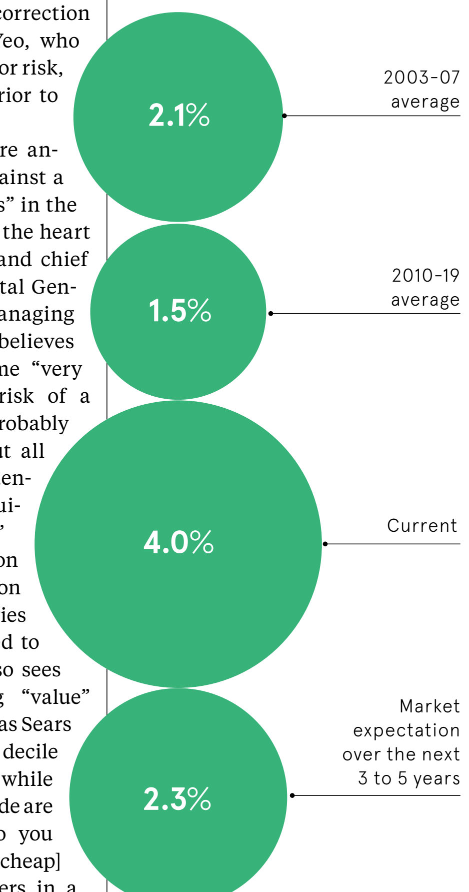
In equities, Barclays backs tech and healthcare. It is also investing in the energy sector and it buys into the UK, where Lafargue notes: "If some of those companies were listed in the US, they would probably trade at a significantly higher valuation."

Whether you take a bearish view of 2024 or are more optimistic, the investor's motto for the year ahead is probably best expressed by Sears: "Be greedy in the long term, but in the short term be fearful."

> "It's very hard to imagine a world in which you go from interest rates of zero up to 5% without any sort of pain or breakage

AN INFLATION RATE OF 2% IS SET TO BE THE NEW FLOOR, NOT THE CEILING

Developed-world inflation (consumer prices index), year-on-year average



JPMorgan, 2023

Commercial feature

Q&A A wealth management operating model transformation journey

Forward-looking wealth management firms know digital and operational transformation is no longer a question of 'if' but of 'when' and 'how'. **Michael Allen**, chief operating officer at Waverton Investment Management, explains how his organisation has embraced change

In December 2021, Waverton Investment Management embarked on its operational transformation in partnership with leading provider of wealth management technology and operations, SEI, to help fulfil its strategic objectives and support growth. Waverton's chief operating officer, Michael Allen discusses the challenges and opportunities of undergoing a major operating model transformation in today's fast-changing world.

Q What motivated you to embark on this transformation journey?

A The wealth management industry has significantly shifted in recent years. Investors' expectations of the industry are changing. Waverton has a multi-year growth plan and required an operating model that would deliver a robust, resilient and scalable platform to achieve its goals. For firms to remain competitive in this environment, change and innovation are key.

I joined Waverton in 2019, closely followed by chief executive Nick Tucker in February 2020 and we were aligned in our vision to scale the business, creating new growth opportunities. Waverton has a strong reputation for award-winning investment performance and client service and we needed to ensure that we had the right operating model and infrastructure to build upon. We were aware that the technology used by our investment and client-facing teams had evolved at a different pace to our legacy operational infrastructure.

The issue with legacy systems, and this is by no means unique to Waverton, is that they are often 'hard wired' and they don't allow for agility or automation. Many legacy systems were also originally brought in that acted independently of each other. These inefficiencies can pose compliance risks, impact client satisfaction and hinder firms from effectively servicing the next generation of clients.

Q What led you to consider outsourcing and a partnership with SEI?

A Once we had identified our objectives, the next step was to think very carefully about how we could best address these goals. We knew we needed to do something different, but this required board approval and senior management engagement. Two of the biggest roadblocks to effective transformation can be culture and resistance to change. We were a team of around 150 people and big operational changes require a lot of consideration, in terms of people, disruption and cost. The most important question was – how do we ensure we get the right outcome for all our stakeholders? Mistakes can be expensive and frustrating, and projects can often end up putting significant strain on management time and detracting attention away from growing the business – the very opposite of what you want to achieve.

The challenge is that there is no one-size-fits-all solution; you need to really think about what would suit the nuances of your particular organisation and business model. For us, adopting the SEI Wealth Platform within Waverton meant that we could streamline the core part of the business infrastructure, enabling us to focus on our clients. The platform also provides embedded workflows, increased automation and centralised operational data which reduces risk and boosts our operational resilience. For us to achieve these strategic goals, we knew we needed to leverage the expertise and experience of a partner who could also scale to support our growth over the long term.

Q How can wealth managers use data to drive business efficiency?

A We are seeing growing interest in areas such as artificial intelligence and machine learning, but for those technologies to work to their full effect, good data is critical. The volume of data available to wealth managers is huge and ever-growing but knowing how to best maximise your data and glean insights to drive business growth is an ongoing challenge. How do you ensure that the right people have access to the right data? And importantly, how do you use that data intelligently? We have integrated with SEI Data Cloud, which has enabled us to significantly improve the way we capture, organise, store and analyse data to enhance our business and client services. It is important to Waverton to have a sophisticated technology team. SEI Data Cloud, and the expertise that comes with it, has enabled us to leverage our data warehouse to its maximum potential.

> "We wanted to work with an experienced provider who understood the wealth management sector and had a proven track record of supporting organisations

Q Having gone through the process, what are the key attributes that wealth management firms need in a strategic partnership for it to succeed?

A It is critical that you undertake thorough due diligence when selecting a partner to work with. Business process outsourcing is not just about new tech; it is about finding a long-term partner who understands your business and will work alongside you to help you meet your specific goals.

We wanted to work with an experienced provider who understood the wealth management sector and had a proven track record of supporting organisations. SEI stood out to us for many reasons. They understood us as a business as well as the wider wealth management market and, importantly, they were a great cultural fit. This cultural alignment was particularly important to us as part of our decision to appoint SEI was the movement of a number of our operational staff. It was key that we were able to find a firm where we knew those staff would be valued.

When working so closely together, particularly on large-scale projects that come with inherent risk, there are bound to be ups and downs and differences of opinion. The key is how you respond to those differences; there needs to be a level of trust that you can be completely honest with each other and listen to what the other is saying. Since going live in May, we have worked hard to build and maintain a respected relationship, which means we tackle challenges together in a sensible, pragmatic way.

Since partnering with SEI, Waverton's assets under management have continued to grow. In November, Waverton expanded its range of successful multi-asset funds.

I firmly believe that with our transformation underway and the active support of SEI, Waverton can look forward to achieving its strategic growth plans.

INTERVIEW

‘The big task of leadership is taking decisions with limited information’

In her 15 years with Visa, **Mandy Lamb** has run operations in sub-Saharan Africa, eastern Europe and Asia Pacific. She shares three key lessons she’s learnt on her travels

Francesca Cassidy

When it comes to professional development, you can grow just as much by moving across borders as you can by moving up the ladder in the same location. That’s certainly been the case for Visa’s managing director in the UK and Ireland, Mandy Lamb, whose career path has stretched many thousands of miles around the world.

Born and raised in Cape Town, Lamb left her job as a senior account manager at Mastercard in 2009 to join Visa as its head of business development in South Africa. After serving four years as country manager there, she relocated to Kyiv in 2015 to lead Visa’s operations in Ukraine and the wider region, including several other former Soviet nations. Then there was a four-year stint in Singapore, where Lamb was group country manager for Southeast Asia. She moved to London to take up her current position in 2021.

Here she reveals some of what she’s learnt along the way.

On working around the world

“There are always regional differences that you must respect. I learnt that quickly when moving from South Africa to eastern Europe, where I had to be more conscious of engaging with people, listening to them and understanding their views before instituting a new plan. Otherwise, it might not resonate with them.

“I learnt the hard way, making mistakes and getting ‘organ rejections’ for certain decisions. These happen when you don’t take enough time to understand the culture.

“A region’s working culture will be shaped by societal norms. I’ve found the UK to be very multicultural and cosmopolitan in nature. That’s fantastic, because it’s enabled me to use skills here that I’ve learnt in Asia, eastern Europe and Africa. But there are always nuances. My fundamental message is that you have to respect these subtle differences and absorb yourself in them, lest you make judgement calls too quickly.”

> A region’s working culture will be shaped by societal norms. But there are always nuances

On combining empathy with decisiveness as a leader

“At the start of my career, I felt that I had to be highly polished and corporate. I needed to have an opinion that was louder than everyone else’s to make my mark. What I’ve realised over time is that it’s OK to be empathetic and to show vulnerability.

“Now, when people ask me to describe my leadership style, I feel confident in saying I’m an inclusive, authentic, empathetic leader who knows how to adapt to a given situation, aided by all the cultural experiences I’ve had. The big task of leadership is making trade-offs and taking decisions with limited information. I know how to make a call when I need to and be accountable for that. I can really be fierce about the business.

“I no longer feel that those characterisations of empathy or the desire to inspire others are on the soft side. I think that’s what the world requires today. I hope we don’t slide back into command-and-control styles of leadership, because we’ve made a lot of progress. The pandemic catalysed a lot of networking styles in bringing remote teams together and diminishing the distance between people. I think that’s had a positive impact – and I’d hate for us to lose it.”

> I hope we don’t slide back into command-and-control styles of leadership, because we’ve made a lot of progress

On hybrid working

“At Visa, we believe in the power of people coming together to solve problems and share what they’ve learnt. So we’ve very much shifted towards being in a face-to-face environment for at least half of our time. That is the expectation.

“It’s working better for us in some markets than others. It’s contextual; each territory is unique. A lot of folk in the early stages of their careers are saying: ‘I need to learn from people who are more experienced by seeing them in action. I need to be in a room with them, engaging clients and engaging the market.’

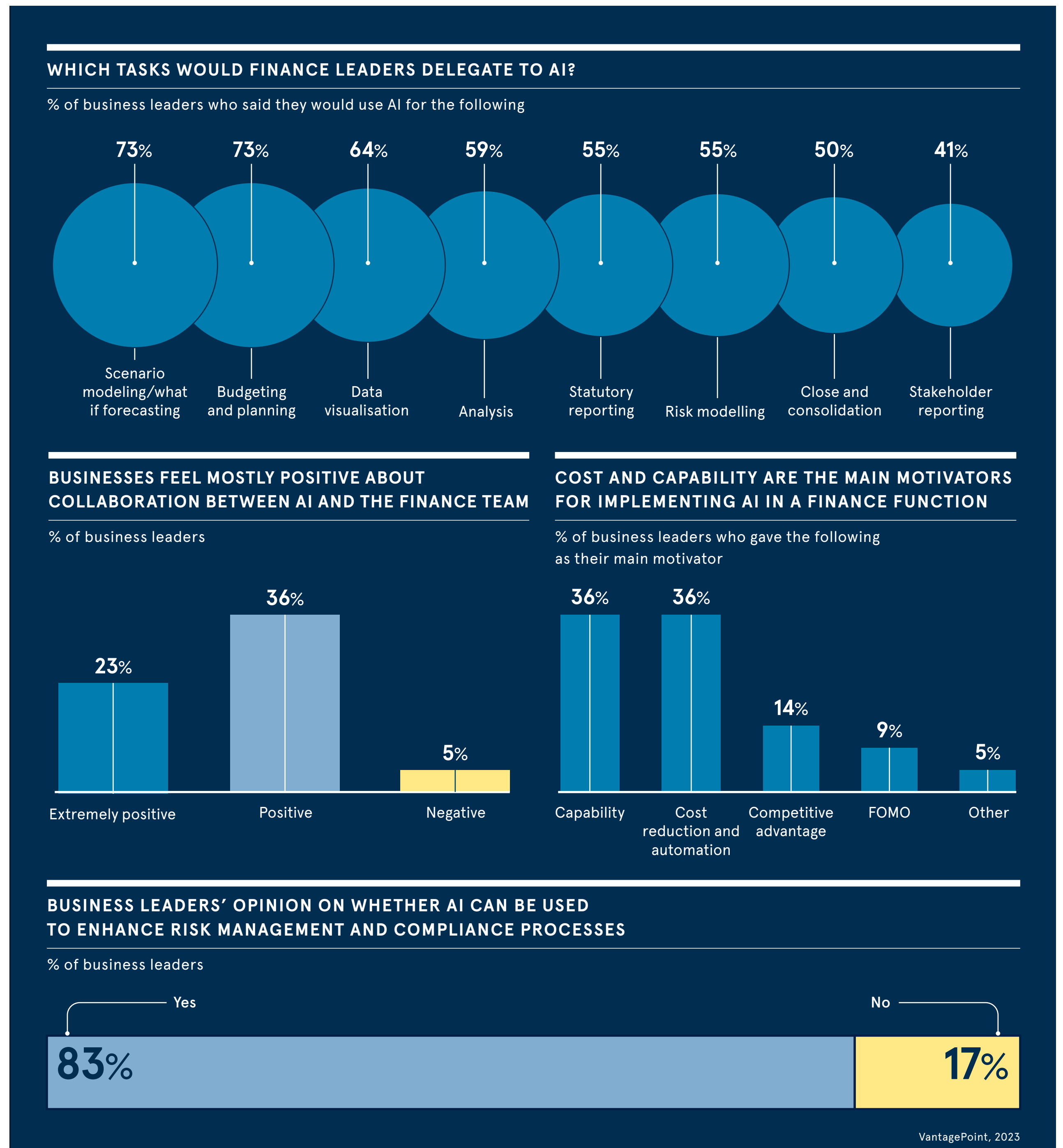
“That face-to-face interaction is crucial for our business, because it’s relationship-driven. We cannot serve our end customers effectively if we aren’t in touch with them and we aren’t experiencing that human interaction every day.”

> We cannot serve our end customers effectively if we aren’t in touch with them and we aren’t experiencing that human interaction every day

Commercial feature

Is your finance function ready to leverage the advantages of AI?

Artificial intelligence is an essential technology for finance teams seeking to work smarter, not harder. Finance leaders expect the technology to deliver ROI through increased productivity and efficiency



Artificial intelligence is helping to drive increased productivity and efficiency across all business operations. For the finance function, it could be particularly transformational.

According to research from finance transformation consultancy VantagePoint, 55% of respondents suggested AI technologies would have a positive impact on the performance and job satisfaction of their entire workforce.

VantagePoint has also seen first-hand that CFOs specifically are increasingly looking to AI to speed up their day-to-day work and ensure its overall accuracy.

Abla Alami, consultant at VantagePoint, says: "CFOs are implementing lots of different options and solutions to become more secure and transparent for their colleagues within the finance function. They also want to become more aware of those colleagues' needs and are seeking feedback as to how AI can assist.

"For example, it could be useful when dealing with tight delays, complicated regulations and repetitive tasks. They don't want their employees to have to manually carry out the basic and mundane tasks each day.

"Instead, they want to use AI to build an automated system for the entire finance function; one that is adapted and tailored to their personal and business ambitions. Then the next step is to enable and motivate their finance team to start using these tools."

When asked about the main motivations for embedding AI across the finance function, respondents to VantagePoint's survey had two key priorities. Cost reduction and the automation of manual processes were selected by just over a third of the cohort (36%), the same number who said it would be used by them to bring additional value-add capability to the department.

However, no matter how much automation is implemented across the business or within the finance function, Alami argues that human intervention is still needed. This will be vital to check and ensure the compliance of data sets and files.

"Any solution built through AI must ensure the employee is comfortable with it and that they understand the value of it," she says. "The value should always come from the tool to the employee."

Calculating elements automatically

For roughly one in seven (15%) survey respondents, gaining a competitive advantage through AI was cited as a major motivator for deploying the technology.

Areas it could assist with include consolidating financial reporting or making tax returns less complicated to produce. "The AI makes the work so much easier by calculating elements automatically," explains Alami. "It's also safer in a sense, because you can build in queries to check the data along the way."

The effect of AI on the finance function is vast and diverse. Respondents listed budgeting and planning, scenario modelling or 'what if' forecasting and data visualisation as the top-three tasks to delegate to AI within the next two years.

But no two CFOs or financial directors see it the same way. For some, the influence of AI will extend even to risk modelling and stakeholder reporting.

"The approach needs to be measured, and implementation must be in incremental steps," recommended one respondent, with a slow and steady journey towards AI deployment also working to allay privacy and security fears.

Four in 10 (41%) respondents suggested they were "moderately worried and concerned about potential vulnerabilities and risks".

One respondent pointed out that AI's "impact on data privacy and the validity of its output", while another predicted that AI's function would ultimately be for "automated processing and logical decisions", but "not judgement".

However, 55% were either neutral, because they believed privacy and security of data could be managed effectively; only slightly worried, because they trusted in the existing safeguards; or not worried at all, thanks to overriding confidence in data privacy and security measures.

VantagePoint's survey suggests that AI can be configured to do the smallest and simplest of tasks, which can quell fears about the impact of potential negative outcomes. For example, it can 'grab' data from the web or through APIs and filter it to make recommendations which can be assigned to be dependent on a final use case.

This also chimes with the hopes of another survey respondent who wanted to use it for "data analysis of large data sets". Alami adds: "Instead of having to spend time doing all the research, it can help to align with any final output you want."

> By the end of the implementation, we want humans and the AI to be close enough that they can fully understand and complement each other

Not fully matured yet

When it comes to humans and AI working side by side, VantagePoint's research suggests a hopeful outlook, with 23% of respondents stating they are extremely positive about how a collaboration between humans and machines would "deliver significant benefits to the finance team".

This was echoed by a respondent who – while accepting the solutions may not be "fully matured yet" – pointed out that "you can set the parameters for anything", meaning AI could eventually be used for full financial analysis on a monthly basis.

There is also plenty of hope when looking to the future as the survey suggests several ways for businesses to achieve return on their initial AI investment.

Half of those questioned sought to measure ROI in terms of increased productivity, reduced operational costs, improved accuracy, faster decision making and enhanced customer satisfaction.

Jamie Benaron, advisory director at VantagePoint, suggests the first step for any AI implementation would be to understand where the finance function is wasting its time and to know all the tasks being repeated every day. "Training the AI can then be done within a sandbox using dummy data and accounts," he explains. "When this is shown to work, the real data can be added back in."

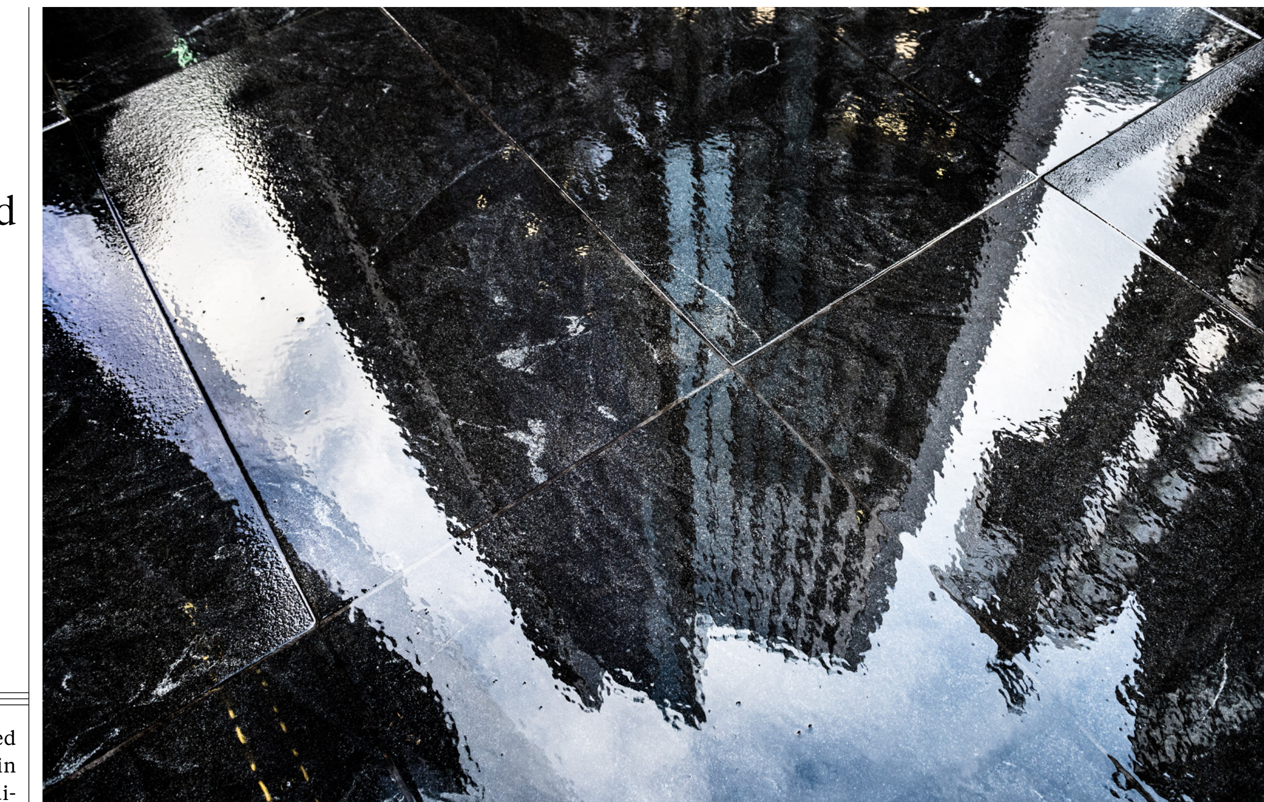
Ultimately, the goal is to have AI and human employees working hand-in-hand. "The impact of AI cannot be underestimated for 2024 and beyond," says Benaron. "From the feedback we're seeing, there are questions to be asked and opportunities to be gained. But by the end of the implementation, we want humans and the AI to be close enough so they can understand each other."

INSOLVENCY

Bankrupt Britain – the rising toll of commercial failures in the UK

With the number of insolvencies trending sharply upwards this year, business lenders and institutions dealing with restructuring, liquidation and administration are bracing themselves for a busy 2024

Jonathan Weinberg



The UK may have escaped a technical recession in 2023, but trading conditions have still been too tough for many thousands of businesses to bear. In the first 10 months of this year, 20,685 company insolvencies were registered in England and Wales, according to the latest government data. That's 14% up on the total recorded over the equivalent period of 2022.

With the economy showing little sign of improving significantly any time soon, many other companies are teetering on the brink. Analysts at the Centre for Economics and Business Research have forecast a quarterly average of 7,000 insolvencies next year, compared with approximately 4,100 insolvencies a quarter between 2015 and 2019.

The distress of big high-street players such as Wilkinson and Paperchase, both of which entered administration over the past year, have naturally grabbed the headlines. But experts in this field report that the upsurge in insolvencies has been driven mainly by the failure of SMEs and lower mid-market firms.

Suzanne Brooker is a partner specialising in restructuring and insolvency at law firm Spencer West. She cites labour shortages, the relatively high rate of inflation and the increased cost of borrowing among the factors that have weighed heavily on "every UK business whose balance sheets have, in most cases, recorded higher levels of debt since Covid. Government support loans have become due for repayment at a time when their operating costs are high, while their options for refinancing are limited and expensive."

Brooker would advise any firm in such difficulties to seek expert help as quickly as possible, adding: "The options open to a company that communicates early are far wider than those open to one that tries to manage its financial distress alone."

> The credit approval process for increasing facilities and granting new ones is, understandably, conservative and will remain so

Olga Galazoula, partner and global practice head of restructuring and special situations at Ashurst, describes the situation she's seeing as a "steady trickle rather than an avalanche". Nonetheless, she expects it to deteriorate next year and believes that further high-profile insolvencies will be hard to avoid.

"We're anticipating that restructuring activity will continue on an upward trajectory," Galazoula says. "With interest rates continuing at these levels for the foreseeable future, inflationary pressures proving more stubborn than originally thought, plus debt maturities increasing in 2024 and even more in 2025, one can see this is an ideal mix of factors for more distress."

For UK business lenders awaiting borrowed finance to be repaid, the insolvency trend is also troubling. But neither Galazoula nor Brooker considers the situation to be as tough for finance providers as it was during the global financial crisis of 2008-09. They believe that lenders have generally become better at spotting the warning signs since then, while insolvency professionals are being brought in sooner to identify options for survival.

But Brooker warns that, while lenders "continue to be supportive wherever possible, the underlying businesses of many debtors are becoming unviable within existing facilities. The credit approval process for increasing facilities and granting new ones is, understandably, conservative and will remain so. The higher interest rates and operating costs are doubling down on affordability and cash flow."

During the depths of the Covid crisis, the government introduced emergency measures that largely protected businesses from failure. Some observers believe that the upsurge in insolvencies is partly because those safeguards are no longer in place.

Galazoula suggests that a change of approach from HM Revenue & Customs could also be a factor. Having provided "a huge amount of support and forbearance during the Covid years, it's become more assertive in terms of the debts owed to it – and for good reason", she says.

According to David Raw, managing director for commercial finance at trade association UK Finance, the banking sector "remains well capitalised to respond to any adverse shocks". His organisation's data indicates that businesses have in fact proved more resilient this year than some forecasters had feared.

But Raw adds: "With interest rates higher than SMEs had experienced for more than a decade, demand for new finance from them continues to trend below pre-pandemic levels. We expect it to remain muted in the near term."

The upsurge in SME insolvencies is especially concerning for Mike Randall, CEO of specialist lender Simply Asset Finance. His firm is always on the lookout for early signs – telltale trends on financial statements, for instance – that it needs to step in proactively and offer debtors support. But it has observed that more and more firms are "suddenly, and seemingly unexpectedly, filing for insolvency without any such warning signs".

Randall reports that the apparent cause in some of these instances is "either a sudden cash flow stress owing to a large debt – such as when a big contractor fails – or the loss of a significant contract".

As long as trading conditions for UK plc remain tough, Randall fears that many companies are "running out of options to keep cost pressures at bay". But he argues that maintaining SME funding is crucial, given the collective importance of smaller businesses to the economy. Specialist lenders and the government must therefore find ways to support them.

"The consolidation of debt, or the release of equity from assets, may better help these firms to trade through downturns in the short term," he suggests.

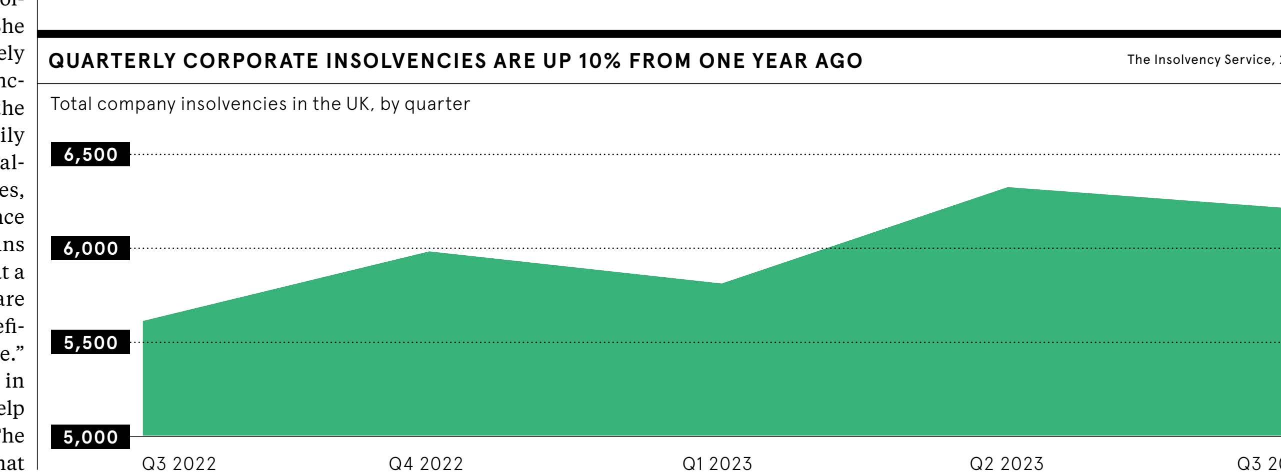
Randall concludes with a warning: "High-street banks are likely to have even less appetite for SME lending. This may also affect non-bank lenders if funder support is lost."

There is one silver lining, according to Galazoula. It's that lenders and regulators have become "much more alive to systemic risk".

She explains that lenders are "proactively war-gaming" scenarios and thinking about the refinancing risks well before loans are reaching maturity, rather than "waiting for borrowers to come knocking on their door" before doing so.

Brooker believes that financial institutions need to become more proactive in helping distressed business customers remain solvent.

"There's likely to be a significant loss on recoveries, so they will tend to avoid failures and ride the storm," she predicts. "Clearly, failures will reduce secured debt recovery. This, coupled with the challenges to the provision of new lending at higher interest rates, will mean a reduction in revenue for these lenders. We may therefore see some banking distress, particularly at the challenger level."



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