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# Creating Trust to Drive Recovery

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The consequences of the COVID-19 pandemic have affected all aspects of business operations, employees, customers, society and even values across the Channel Islands financial services industry.

Lessons have been learnt within the corporate world, including breaking down barriers to collaboration using technology, encouraging innovation, flattening business structures and simplifying decision-making. Trust in colleagues and the community was at the heart of so many of these responses, and creating trust must be the foundation of the islands' recovery. This article focuses on how those within the islands' financial service business community can help lead this.

## **The islands must look outwards and be confident in showing value**

Looking ahead, the Channel Islands will have a crucial role to play in the recovery of the UK, European and global economies and this role will span all the islands' major finance industries.

Industry confidence in the Channel Islands will be key to ensure the islands can play their full role in the recovery. The islands have emerged from lockdown at a faster pace than most financial centres, they have proven infrastructure and connectivity and their prudent and appropriate regulatory regimes are tailor-made for these times.

Those corporates on the islands will need to shift their outlook outwards, to consider how financial services and finance centres can help to facilitate investment into solutions that the world needs now. It is important to seize the opportunity to assist and quickly develop products and services to aid the current situation. This is the time where the islands can be agile and show their true value.

The fund sector will help pool capital resources and then fund recovery and development projects. Private equity, real estate, infrastructure and other alternative asset funds will be key players in the recovery, as well as offering investors both a financial return and a purpose for their monies.

The Channel Islands wealth management industry is helping its clients to navigate uncertainty in the markets, employing assets for recovery and defensive strategies, and the insurance industry is already moving to develop products for external and self-insurance to match the new risks.

Behind those specialist financial services, audit, advisory and tax professionals all have a part to play in the journey to thriving economically and socially, in ensuring trust is created via a stable framework through which business can thrive.

## Navigate the unknowns and build confidence

The challenges that audit professionals are tackling are complex and are not typically visible to those outside of the corporate world. They range from the pandemic's impact on asset valuations, provisions and uncertainty in future cash-flow modelling, to the tightening of credit conditions and a host of other issues. Being able to identify and navigate the uncertainties and try to create pockets of certainty and security in a changing world is critical for economic recovery.

Equally important is the role of audit in challenging and benchmarking management's assumptions regarding the nature, extent and duration of the situation and their forecasts of the pandemic's impact on capital and liquidity issues such as bank covenant breaches, going concern, pension scheme accounting, goodwill and intangibles, expected credit losses etc.

## Creating value through trust

In the assurance world, assessing, reporting on and improving the quality of management information helps key stakeholders make informed decisions on taking a business forward, possibly into new markets or new directions. Better information, transparently shared, creates trust. This can be achieved through controls reports and other bespoke assurance projects.

The quality of external corporate reporting is also critical in equipping broader stakeholders (individual investors, employees, pension holders) with meaningful information to make informed decisions. One of the outcomes of the Brydon Report is to consider the expansion of the traditional audit to cover areas outside the historic IFRS financial information, linked to the corporate business model and risks.

## Advising on the next normal

Whilst the Channel Islands financial services industry has responded well to the immediate challenge, as we move into recovery, financial stresses will increase. Rapid engagement with stakeholders will maximise the benefits of these activities for recovery, releasing capital into more productive activity and minimising the downsides.

The agility of the islands in changing ways of working and deployment of technology has accelerated discussions on how the business community wants to work in the future, and the value that can be delivered to customers. Recovery from a crisis provides an opportunity to redesign operating models to suit clients' needs and engage employees whilst leveraging technology to increase efficiency, manage risk and delivery transparency to regulators.

We were already living in a time of significant change with digitisation beginning to transform all industries, and can already see how recovery will accelerate that trend. Some businesses will be left behind whilst others will grasp the opportunities and thrive. However, there are new risks as well as opportunities; successfully managing the change requires a broad spectrum of traditional and new capabilities combined with a structured approach.

There are three main digital business themes emerging in the journey towards post-COVID-19 recovery:

- Human-centred design - reimagining customer experience by focusing on the needs of the human user;
- Merging of the physical and digital world to create new services and more value;
- Establishing trust as a core driver and differentiator through digital security and delivery of customer experience.

Advisory teams are not only helping business redefine ways of working, develop new business models and seek refinancing or new capital structures, they are also focused on the Environmental, Social and Governance (ESG) agenda.

ESG-principled investments have seen capital inflows since COVID-19 and are considered the direction of travel for government stimulus packages. Revisiting the theme of trust as a driver of recovery, governance, oversight and transparency around ESG will be fundamental to its good growth. Guernsey has already set out its stall as a centre for green investment and the Channel Islands already have many of the key requirements to succeed here.

## The tax response

The tax function is no longer simply a question of compliance. Cognitive technologies and new digital models are driving tax leaders to increase their investment in digital and tax technology, aiming to add both value and transparency.

In the current context, the tax department of a company is central to making adjustments to the business model. Modelling the tax impact of alternative growth patterns and considering the impact on financial statements, cash mobilisation, legal requirements and transfer pricing is complex, but must be tackled quickly and accurately. There is also a growing move towards resourcing specialist support outside the core tax function using third-party providers and professional services.

In the context of recovery, as the forces of globalisation, digitisation and social transformation take hold, the way companies operate has changed dramatically and will continue to do so. Tax professionals need to support change and growth with the evolving international tax laws and regulations. This is particularly complex with the acceleration of the digitisation of services and products offered by companies on an international scale.

Equally the need for tax revenues to fuel economic recovery will accelerate further change and the pressure on the tax function to maintain a clear and transparent tax strategy has never been greater.

## Conclusion

The way that most professional services businesses were able to adapt to working from home almost overnight was incredible and shows how flexible companies and the workforce can be when it really matters.

Business leaders cannot control the pandemic, they can only control their response to its impact. Embedding trust through robust professional services and making trust a catalyst for change will help organisations serve their customers, shareholders and employees to rebuild after the crisis.



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