

SIBOS 2019: TRANSFORMING THROUGH PEOPLE

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Introduction

Thank you very much Juliette and may I extend a personal welcome to my home city of London.

We're actually situated in quite a historic part of the city here: the ExCeL Arena is built on the London Docklands, which have served as a global port for goods and services since 1855. Today, instead of wool and steel, the Docklands attracts far more lucrative imports such as conference goers and payments experts...

Interestingly, the part of the Arena we are in now – the ICC – was launched ten years ago by the then newly-appointed London Mayor. That Mayor went on to host the 2012 Olympics in London, with Lloyds Banking Group as an official partner, before he was called to higher offices.

I have lived in London since 2006 and joined Lloyds in 2011 following the financial crisis. During that time I have overseen two three-year strategic cycles – and we are just over half-way through our third strategy at the moment. I am incredibly proud of what we have achieved, and the last eight years of leading an organisation through some of the most testing times in modern history – from the turbulence of the financial crash to the uncertainty of Britain leaving the EU – have taught me some important lessons about leadership, strategy and the value of people.

It is people I want to talk about today: more specifically, how organisations can transform in the digital age through people. The most important thing about technology is people – the people that power the technology, and the people that benefit from it. Without people you have nothing. Over the next few days this will no doubt be a consistent theme in our discussions.

At Lloyds we believe machines should do the ordinary, to enable people to do the extraordinary. We also believe our people are our ultimate competitive advantage, which is why we have put people at the heart of our current strategy. And we believe that the current climate – one of perpetual change and prolonged uncertainty – requires us to take action now to proactively prepare our people for the workplace of the future.

I hope today will get you thinking about the changes you need to make to future-proof your organisations – and leave you with a determination to put your teams at the heart of that transformation.

Setting the scene – from GSR1 to Transforming Ways of Working

As I mentioned, we are currently executing a three year strategic plan to transform the Group for success in a digital world – placing more emphasis than ever on people. I will give more of an explanation of our strategy shortly, but I first wanted to tell you about the journey that we have been on to get to this point and my personal reflections on leading the organisation on this journey.

For those who don't know, Lloyds Banking Group is the largest financial services provider in the UK – with iconic high street brands such as Halifax, Bank of Scotland, Scottish Widows, MBNA and Lloyds Bank. But is also the largest digital bank with almost 16 million digitally active customers, and the UK's sole banking and insurance provider combining commercial activities with financial planning and retirement services.

Our position of strength today is the result of years of transformation and adaptation to help serve our customers. When I joined as Chief Executive in 2011, it would not be an understatement to say the bank was on its knees. Everyone remembers the post-financial crash note from Treasury Secretary Liam Byrne to his successor – 'I am afraid there is no money'.

Well in 2011 we were in a similar situation: three months away from running out of money, sitting on a bloated cost base and with £200 billion of toxic assets on the balance sheet. We also had the UK Government as our largest shareholder, with a duty to repay the country and taxpayers for showing their trust in the Group.

So it was imperative that our strategy focused on our customers in the UK, on simplifying the organisation and bringing down costs. We came out of the first strategic phase (from 2011 to 2014) with a simple, low risk, UK focused retail and commercial bank having repaid the full £200bn of net debt on the balance sheet, and having sold all of the toxic assets. Our second strategic review built on this by making us even simpler and more efficient – our cost:income ratio, for example, went from 55.3% in 2014 to 49.3% in 2018 making us the clear leader in the UK – while also expanding our multi-brand and multi-channel model to become the largest digital bank in the UK.

In that time, we repaid more than £21 billion to the British taxpayer, returning the Group to private ownership and giving taxpayers nearly £900 million more than the original investment. At its peak the UK government had a 43% shareholding in the Group – so it was a huge feat and a source of great pride to our people for us to return to private ownership, and one that required relentless focus on our customers' needs, efficiency and cost discipline.

The first two strategic cycles were difficult for our colleagues. It was a period of huge change, regular restructuring and frequent uncertainty – so our job throughout was to lead them with clarity of purpose and vision, making sure that they knew exactly what we were doing and why we were doing it. I used the anecdote many times that when the building is on fire you have to tell people what to do, not to debate whether that is the case, and that is largely how we had to deliver our first two strategies.

As a result, we knew our third strategic phase – operating from a position of profitability and strength, but facing unprecedented levels of change in our customers – should put our people at the centre of our plans for the future. While our two previous strategies had primarily focused on investment in new platforms and processes, our current one switches the emphasis to investment in our existing capabilities and, of course, on our people. We believe they are our greatest sustainable competitive advantage, and the force that will ensure our success in a digital world.

So on the one hand, we have embarked on one of the largest digital transformation programmes in financial services, increasing our investment in technology by 24 per cent and placing us in the top quartile amongst peers.

But we knew this technological transformation, to create an organisation that could succeed in a digital world, was entirely dependent on the people who would be carrying it out. So we made our people one of the founding pillars of our strategy.

Sitting alongside our other three pillars – Digitising the Group, Maximising Existing Capabilities and Providing a Leading Customer Experience – our fourth pillar Transforming Ways of Working is all about investing in our people to help them adapt to the modern environment.

We are equipping them to be the drivers of digitisation across our organisation, rather than embarking on vast technological change while neglecting the people behind it. This is a core principle behind our strategy, and one that I hope you will consider as you seek to make your own organisations fit for the future.

Clearly, this strategy has been introduced at a time of momentous change and uncertainty. The global economy has been rapidly evolving for many years, and society faces some of the most dramatic changes since the industrial revolution. As leaders of the organisations that drive our economies, it is our responsibility to take action and proactively prepare our people for the future.

Lloyds, as the UK's largest retail bank with the highest number of digitally active users, sits at the forefront of this societal change. New technologies, political uncertainty and changing customer behaviours all create a powerful impetus for people-centred change in organisations across the UK. Our latest strategy recognises this context by placing emphasis on digitising and embracing technological change, while helping our colleagues to manage and thrive under the scale of change needed to transform our organisation.

Obviously, we are only part way through this transformation – but today I want to talk you through some of the changes we have made to put people at the centre of our latest strategy. One of the greatest challenges as a leader is to articulate a vision of the future that defines the strategic direction of your organisation for years to come – while also giving direction and meaning to the day-to-day role of an employee in a call centre, branch or head office.

That is why the changes we have made at Lloyds have been based on how we want colleagues to *feel*, and on extensive consultation with people across our organisation. Among other things, we want our people to feel invested in; empowered; supported and included – and it is these four driving factors that I would like to talk about today.

Investing in our people

Announced in early 2018, our strategy has been underpinned by the biggest ever investment in our people. This includes increasing the average training hours per head by 50 per cent, with a target of delivering 4.4 million hours of colleague training by the end of 2020. With over 2.1 million hours delivered to date, we are on our way to reaching this target.

This training has focused on supporting our teams by equipping them with the skills of the future, identifying 10 key skills that we need as a Group. We have a division-by-division

view of how these vary across the organisation, and have made our investment in skills and capabilities a £17m programme that sits at the heart of our strategy.

Our skills academies have centred on essentials for modern day working such as agile methodologies, data analytics, applied sciences and cyber security. Amid the uncertain macroeconomic outlook, this gives colleagues the reassurance that not only are we investing in them to meet the challenges of today, but we are also investing in them for the years to come.

This investment in our people – building on the IT and systems investment we made in previous strategic plans – ensures that we have the team we need to continue providing for our customers in the years to come. Lloyds has, in its various forms, been a part of the national fabric for almost 325 years – and this investment is all about ensuring we are here for at least the next 325 years.

Clearly, a big part of this transformation is the difficult message that colleagues need to be willing to adapt their ways of working to keep step with the modern working environment. And in order to also achieve our long term objectives, such as maintaining a market leading efficiency position and continuing to be a leading digital financial services provider, we have had to make difficult choices about *how* we transform our organisation.

But in forming our strategy, we have chosen to focus on boosting our in-house strategic capabilities, backed by a rigorous analysis of the skills available to our organisation, rather than bringing resource in from elsewhere. This has ensured that colleagues feel invested in and part of the strategy, allowing them to react to the changing and uncertain environment around them.

Empowering our people

Transforming ways of working is also about empowering our people to make the decisions they need to, without putting obstacles in their way. Without realising it, managers may be the greatest obstacle to their people's advancement – so getting out of employees' way is sometimes the best way to drive the organisation forward.

The counter effort to inefficiency is agile working. Agile is about increasing the speed at which our organisation can deliver change, and therefore deliver benefits for our customers. It's a methodology that works by building cross-functional teams and reducing layers of sign-off in order to increase collaboration, efficiency and expertise amongst our colleagues.

Almost 7,000 colleagues have now been trained in these methodologies, which will drive a cultural shift across the organisation to make us quicker and more efficient. We have a target to deliver over half of our change projects using agile methodologies by the end of 2020.

Besides agile working, we have introduced a new performance management framework that removes performance ratings, lengthy admin processes and the need for paperwork – so colleagues can focus on high quality, development-focused conversations with their line managers and become their best. Nine in ten colleagues believe the new approach will enhance their performance, showing the atmosphere of positivity around the changes – and the appetite amongst colleagues for busting bureaucracy.

We have condensed our dress code from a 16-page document to just four words – ‘dress for your day’ – and have combined 60 HR-related platforms and processes into one cloud-based system, helping colleagues better manage day to day tasks like holidays, recruitment and much more.

Finally, we have introduced robotics and machine learning for everyday tasks, freeing colleagues up to do more complex, value adding activity. As I have said, this is about employing technology to do the ordinary, while colleagues do the extraordinary. Our business model – and our people-centred strategy – are based on human relationships, and the belief that people are the engines that drive technological change. A modern company cannot have the one without the other.

So we have introduced technology that empowers our colleagues. For example, around 800,000 customer conversations have taken place [this year] through our virtual assistant, giving customers a personalised, natural self-service platform – through a range of channels from WhatsApp to the mobile app – while also freeing our people up to focus on more complex tasks.

We have introduced AI to improve our transaction fraud detection capabilities, as well as applying it to customer-focused tasks such as scanning customer letters, again enabling our frontline colleagues to prioritise and provide a more personalised service.

By introducing smart technology to support smart people, we are improving the proposition we offer to customers – while enabling our organisation to thrive in a digital world. This people-centred transformation makes our colleagues the drivers of digitisation, rather than seeing one as a replacement for the other. Because in order to embrace the technology that is revolutionising our industry, we need to empower the people that will be using it.

An additional observation on this topic would be that you need champions – early adopters – to drive cultural change and get others on board. We have 23,000 digital champions, over a thousand Behavioural Experiment champions, and even 500 Learning Legends; colleagues who are given the tools to enact change and then released into their teams to make it happen.

But I also have my leadership team of around 200 leaders from across the divisions, and when we meet these are the issues that we discuss. How we can further empower our teams and remove bureaucratic barriers. How we can inspire them to drive cultural change and improve their own ways of working. By owning the issues at the top of the organisation, we are ensuring that the solutions materialise across the Group.

Supporting our people

The third element of a people-led transformation is supporting your teams. Workplaces where tight deadlines, management pressure and aggressive targets place undue stress on employees must become a thing of the past. Employers have a duty of care to ensure the people in their organisation have everything they need to do their job – and to recognise the importance of their personal wellbeing and circumstances.

Mental health issues are often the product of the change and uncertainty that we have been talking about – so all organisations that wish to succeed in the modern world must recognise the issue. The impetus is reinforced by the statistics: mental health conditions are the second highest cause of absences reported to the Health & Safety Executive, and this figure is rising. The cost to UK employers of mental health issues among employees is estimated at £26 billion per year, and 40% of sick days taken are due to mental health problems. But much more relevant is the impact on people's lives, and on their families.

Raising awareness of mental health has been at the forefront of Lloyds' efforts to help Britain prosper.

Our partnership with Mental Health UK has been evidence of a significant cultural shift in the organisation. As a leadership team we sought to lead the conversation, both within Lloyds and beyond, but it was our 70,000 colleagues who voted overwhelmingly to take up the cause. Against a range of choices, over 60% of colleagues opted to support Mental Health UK as our charity partner. Their dedication to the cause has led to over £8 million being raised for the charity.

But we have also embedded support for mental health in our own organisation. Our Optimal Leadership Resilience Programme is a development course designed by clinical neuroscience experts, focusing on how to build physical and mental resilience by focusing on nutrition, sleep and mental health. This was initially rolled out to the 'top 200' strategic leaders at Lloyds, including myself, but following positive feedback it has been extended to a further 2,000 colleagues. Resilience is also one of the skills academies that I mentioned previously, preparing colleagues for the workplace of the future.

In addition, we have designed our own colleague mental health portal, again with support from external experts, which will be available to all colleagues by World Mental Health day in October. We have also tripled paid paternity leave, doubled maternity leave and improved our policies across the board on this issue, recognising the importance of this pivotal time in a person's life.

Kindness is an essential commodity in an effective corporation – so providing colleagues with the support they need is not only the right thing to do, but it also ensures they are able to operate at their best and drive change in an organisation.

Including all our people

That is why our inclusion and diversity programme has been so prominent within Lloyds, and is the fourth element we have focused on as a Group. While our strategy and our approach has evolved over the years, it has always been clear that Inclusion and Diversity is intrinsically linked to our purpose of Helping Britain Prosper and the success of the Group.

When we launched our second strategic plan in 2014, we set out some clear measures of success, including becoming the first FTSE 100 Company to commit to increasing the proportion of women in senior management roles. Last year, we committed to increasing ethnic diversity in senior management – again, the first organisation in the FTSE 100 to do so.

And we have seen great progress against each one of those measures. The proportion of women in senior roles has increased from 28% to over 35% in just five years, and we have almost doubled the proportion of BAME leaders from 3% to 6% in the same period. We now have five women on my executive committee, and over 33% of roles at the top of the Group are held by women.

These changes have made a genuine difference to the way it feels to work at Lloyds. In 2018, 88% of colleagues said they feel that Lloyds is a welcoming place to work; five years ago, we didn't even ask that question.

But we are now looking into a step change in the way we do Inclusion & Diversity, to recognise the changing customer and colleague landscape we have been talking about. Customers no longer expect the same things from their bank that they did even a few years ago. They expect to be listened to and understood on a deeper personal level. They expect to see us constantly innovating to provide a more personalised service that fits their specific needs. They expect corporates and banks to be demonstrating ethical and inclusive behaviour – and will eventually take their business elsewhere if they don't see companies living their values.

While our approach to date has served us well, we want to shift from targets and inclusion among specific groups, to inclusion based on infinite difference – recognising that everyone is different in some way; whether on lines of race and religion, or less visible characteristics such as upbringing and education. These differences are part of the unique makeup of each individual, and need to be recognised if we are to bring the best out of our people.

Conclusion

In conclusion, these are four of the ways that we want our people-centred strategy to manifest itself across the Group. We are investing in training colleagues, as the force that will drive technological change across the Group to make us fit for the digital world. We are empowering colleagues by removing the obstacles to effective working, and introducing technology to do the ordinary while they do the extraordinary. We are supporting them to ensure their personal wellbeing and mental health is made a priority. And we are rethinking the way we do inclusion, to drive the cultural change needed to bring the most out of our people.

The reason this conference has included the 'human element' as a focus stream, is perhaps because some organisations – based on systems, structures and monetary transactions – have neglected the people side in the past.

It is easy to invest money in systems or processes, as these are tangible areas that can be identified and measurable, but this must be taken further and do the same for employees, as the engine that drives technological change. Get to know them, conduct thorough analysis of their needs and preferences, and design policies that will enable them rather than hindering them.

Every organisation has different priorities and every strategy will look different. However, all organisations rely on people – whether customers, suppliers or your own colleagues.

From our Mortgage Advisers in the retail, to our Relationship Managers in Commercial Banking, to our Personal Claims Consultants in General Insurance, Lloyds Banking Group's business model has been founded on human relationships for more than 300 years – and having a people-focused strategy ensures this is prioritised within and outside the Group.

We have come a long way, but we still have a lot to do. I believe these changes bring us one step closer to becoming an organisation that will succeed in a digital world. Because preparing our organisations for the future starts with equipping our people to face it.

Thank you. I do hope you will enjoy the rest of the conference.