Key talent findings in the financial services sector from the 17th Annual Global CEO Survey

Remoulding your workforce for a new marketplace

338

financial services CEOs in 53 countries across the world were interviewed for PwC's 17th Annual Global CEO Survey, *Fit for the future: Capitalising on global trends* (www.pwc.com/ceosurvey)

56%

Back in hiring mode: 56% of FS CEOs plan to increase their headcount over the next 12 months, most of these by at least 5%

59%

Pressure on skills: 59% of FS CEOs see the availability of skills as a threat to growth, up on last year

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This report is a summary of the key findings on talent in the financial services industry, based on responses from 338 financial services CEOs in 53 countries and in-depth interviews…

with Sergio P. Ermotti, Group Chief Executive Officer, UBS; Raul Baltar Estevez, CEO, Banco Exterior; Douglas Flint, Chairman, HSBC; Chanda Kochhar, Chief Executive Officer and Managing Director, ICICI Bank; Arif Naqvi, Founder and Group Chief Executive, the Abraaj Group; Stephen A. Schwarzman, Chairman, Chief Executive Officer and Co-Founder, Blackstone and Mark Wilson, CEO, Aviva.

Preface

To see the full results of the 17th Annual Global Survey, please visit ***www.pwc.com/ceosurvey***

"Banks, insurers and asset managers are stepping up hiring once again as the recovery in developed markets gathers pace and confidence within the financial services (FS) sector increases," said Jon Terry, PwC's Global FS HR Consulting Leader. "But the kind of talent FS organisations need, where they recruit them from and how they organise, manage and reward them are going to be very different from the last significant upsurge in recruitment and growth."

Drawing on the findings of our latest Global CEO Survey and our wide-ranging work with FS clients, this report explores the HR challenges being thrown up by the accelerating market transformation. The report goes on to set out the key considerations for ensuring your business has the right people, with the right skills and in the right places to realise your evolving goals:

1. Coherent workforce plan
2. Database of people to meet specific needs
3. Developing a hybrid human and virtual resource model
4. Sharper measurement
5. Communicating the employer brand more widely
6. Identifying people to be retained
7. Reshaping the culture
8. Working with colleges to reshape curricula and attract more people into the industry

"The mood is better, the political mood is better, the business leader mood is better," said Douglas Flint, Chairman of HSBC.

The more confident outlook is reflected in the fact that over half of FS CEOs plan to take on more staff over the coming year. Most of these are looking to increase their headcount by at least 5% (see Figure 1). Insurance is especially bullish with 40% planning to expand their workforce by more than 5%, compared to around 30% among banks and asset managers.

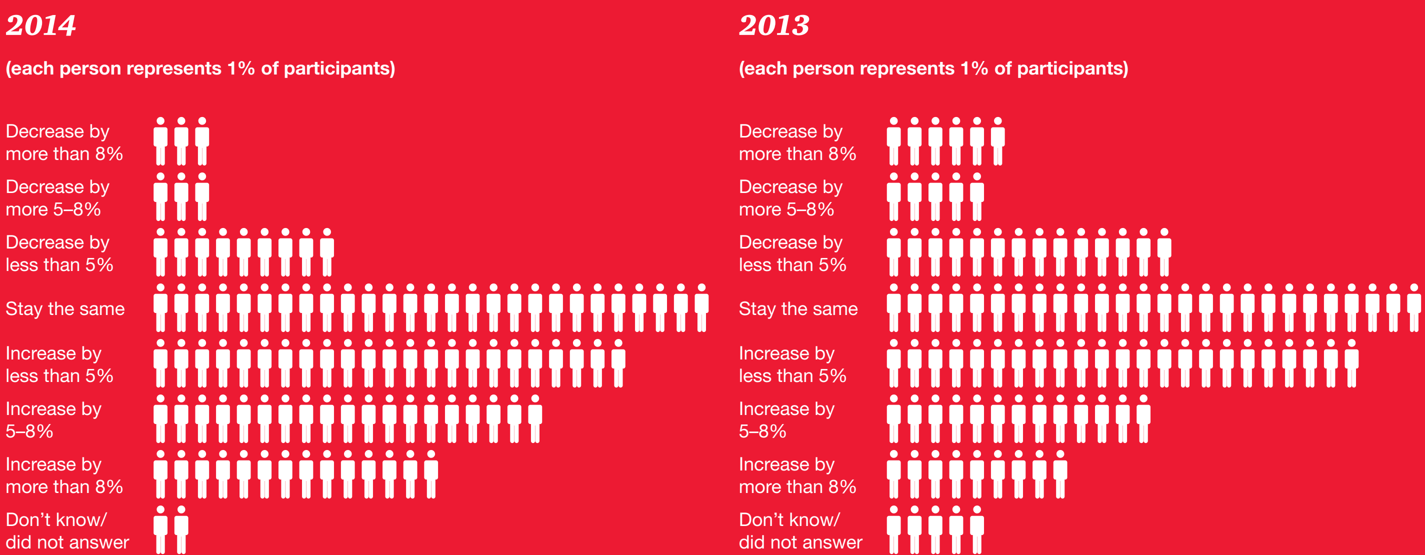
Yet, simply hiring the same people to do the same jobs in the same way could leave FS organisations off the pace in a marketplace being reshaped by technology, regulation and changing customer expectations. We're not only seeing shifts in what businesses need from their people, but also what they want in return.

"If you assemble people who are 10s on a scale of 10, they can build some of the greatest businesses in the world."

Stephen A. Schwarzman, Chairman, Chief Executive Officer and Co-Founder, Blackstone

Figure 1 Hiring once again

What do you expect to happen to headcount in your company globally over the next 12 months?



Transformational technology

When FS CEOs were asked what developments are going to have the most transformational impact on their businesses over the next five years, more than 80% identified technological advances such as the digital economy, social media, mobile devices and big data.

Technology is reshaping customers' expectations and changing the ways companies make decisions and engage with clients. It's also opening the door to tech-enabled and data rich new entrants, who can use their advanced analytical capabilities and low-cost routes to market to target FS business. The potentially disruptive impact is highlighted by the fact that nearly 60% of FS CEOs see the speed of technological change as a threat to growth and some 40% are concerned about the competition from new entrants (insurers believe they're especially vulnerable).

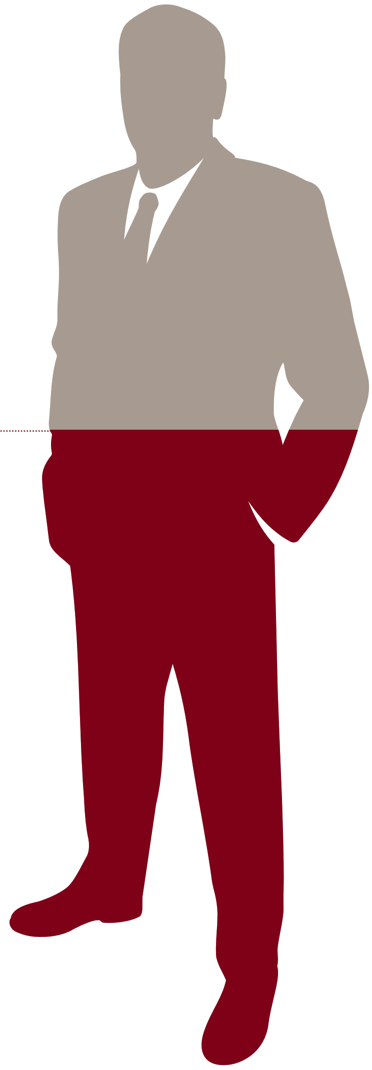
As FS organisations look to strengthen their customer profiling and engagement capabilities, we're likely to see more people being brought in from internet and social media companies or specialist analytics' consultancies. Game designers may be especially prized as companies look to improve digital appeal and interactivity.

The data analytics that drives customer management could eventually be replicated among employees in areas such as behavioural screening and performance monitoring. Effective real-time profiling offers opportunities for sharpening insight. But the use of data will continue to be a sensitive area, both among customers and staff. HR will need to be at the forefront of determining clear rules on privacy and usage.

Strengthening cyber security is critical as more FS business passes through online and mobile channels – over 60% of FS CEOs see cyber-attacks as a threat to growth (70% for banks). To keep one step ahead of the threats, it may be necessary to bring in people with intelligence backgrounds or even ex-hackers. Moreover, it's important to ensure that cyber security is everyone's business, rather than just IT, which will have implications for training and appraisal.

The information age is also set to change the way people are organised. This includes the creation of virtual teams that can be based anywhere in the world. On top of the obvious cost advantages, there are opportunities to widen the talent net. With risk and regulation creating huge demand for qualified personnel, for example, we've recently seen the development of centres of excellence for operational risk in locations as far afield as Poland and the Philippines.

In turn, the emergence of digital natives within the workforce will accelerate the move to flatter organisational structures and enhance the value of relationships in both the physical and virtual worlds. Today's networked employees are able to acquire new skills much quicker and make use of technology to supplement any gaps, making hierarchies and rewards built around seniority and experience less relevant.



Nearly 60% of FS CEOs see the speed of technological change as a threat to growth and some 40% are concerned about the competition from new entrants

The final piece in the technology jigsaw is automation. As more low value operations are automated, the priority will shift to devising solutions for more complex needs such as pensions and mortgages ('consultative selling'). Complex interactions with more significant outcomes will demand fewer, but better trained people.

Automation is now reaching into higher value areas such as trading, credit analysis and insurance underwriting. Of the 700 different jobs examined in a recent Oxford University study, it's notable that insurance underwriting was judged to be one of the ten most 'computerisable'[1]. Yet this could be an opportunity rather than a threat. As the underwriting of commoditised risks such as property and motor becomes more automated, trained underwriters would be freed up to focus their skills on complex, specialised and unfamiliar risks. This includes emerging risks such as cyber security and markets where there is less available risk data. The result would be more productive and profitable use of talent and expertise. Such developments will not only spur changes in the learning and development programmes of larger FS organisations, but also require significant collaboration between business, government and academic institutions to create talent that can anticipate and adapt to change.[2]

The importance of personal relationships won't go away. Indeed, as the emphasis shifts from product-focus to customer-centricity, personal engagement has never been more crucial. According to Sergio P. Ermotti, Group Chief Executive Officer of UBS: "Technological developments have had a major effect on the banking sector. But in the wealth management field, where we're chiefly active, technology is a poor substitute for a close, personal client/advisor relationship." But digital profiling could create better leads and more informed meetings. Moreover, advisors are as likely to be interacting with their customers via FaceTime or Facebook as face-to-face. Working with clients, especially the millennial generation, across a number of platforms/devices creates both opportunities and challenges for advisors.

As organisations look for people with the empathy and engagement skills needed to foster more enduring relationships, we're likely to see more women moving into client-facing roles. Within commercial segments, the need to understand and engage more closely with clients is likely to see more people recruited from the industries or client groups that organisations are targeting. All these developments have fundamental implications for leadership roles and the skills needed by senior management.

1 'The future of employment: How susceptible are jobs to computerisation?' Carl Benedikt Frey and Michael A. Osborne, September 2013

2 A 2014 PwC report, 'Adapt to survive', looks in more detail at how better alignment between talent and opportunity can drive economic growth (http://www.pwc.com/talentadaptability)

10%

Our research shows that barely 10% of FS millennials are planning to stay in their current role for the long-term.

Shifting generational expectations

The second most important transformational trend identified by FS CEOs was the impact of demographic shifts, which will require a rethink of how customers are segmented and how organisations engage with them.

Many older people want to engage with staff of similar age, who 'talk' their language, for example. Yet, older staff have often been seen as more expensive and hence first in line for redundancy or natural wastage. This could be commercially dangerous as business growth and wealth within many markets become increasingly focused on older sections of the population. Moreover, low birth rates and pension shortfalls in many countries mean that people will need to work longer. Creative thinking will therefore be needed to accommodate what are already five and could eventually be seven generations within an organisation.

Parallel shifts include increased urbanisation and the continuing movement of people from rural areas to fast growing megacities, notably in India and China. These developments are not only creating demands for improvements in infrastructure, but also heightening the focus on how people work and the work–life balance that stems from this. Across the world, pivotal talent is coming to expect greater flexibility in how and where work is carried out. It's important for FS to meet these demands or risk losing key people to other industries.

Similarly, it's important to work out how to better engage with millennials. Clearly, this includes developing the digital distribution and social media presence to reach this highly networked segment. Yet, the demands go further as organisations seek new ways to tap into the mindspace of a segment that has little loyalty to traditional brands and looks to its virtual peers for key product assessment and recommendations.

The changing expectations of this new generation will also have a profound influence on the make-up and outlook of FS organisations. Chanda Kochhar, Chief Executive Officer and Managing Director of ICICI Bank believes that the "aspirations and expectations" of young people coming into the workforce "are very different from what a new set of employees had five years ago". According to Raul Baltar Estevez, CEO of Banco Exterior: "This generation identifies with the company not by wearing the company's logo, but when the company shows that it's worth dedicating my life, my time and my hours to work here. 'If not, I'll go for another option, since I feel no attachment to it'".

One of the defining characteristics of the millennial generation is the heightened desire for new challenges and experiences. Our research shows that barely 10% of FS millennials are planning to stay in their current role for the long-term.[3] It will therefore be important to refine and customise traditional one-size-fits-all employee engagement models around the needs and aspirations of individual employees. Retention strategies will also have to be pragmatic, focusing most closely on the talent organisations most want and can realistically expect to stay. Others can be kept close as part of an 'alumni network', which can project the organisation's culture in the marketplace and provide a source of talent for future recruitment, once they have gained experience elsewhere.

3 'Millennials at work: Reshaping the workplace in financial services', published by PwC. April 2012 (http://www.pwc.com/gx/en/financial-services/publications/assets/pwc-millenials-at-work.pdf)

Re-engaging with society

Cutting across these developments is the need to re-engage with society, especially in markets where scandals and bailouts have led to widespread public disillusionment.

"On the whole issue of trust and the relationship with the customer and the relationship with the stakeholders it really comes down to what is the purpose of your company."

Mark Wilson, CEO, Aviva

Nearly 60% of FS CEOs see lack of trust in their industry as a threat to growth. In response, many FS organisations are rethinking their core values and objectives. More than 70% of industry leaders recognise the need to satisfy societal needs, balance the interests of all stakeholders and protect the interests of future generations. "We can't just look at shareholder returns only anymore," said Arif Naqvi, Founder and Group Chief Executive of the Abraaj Group. "It's very important to look at the stakeholder context when developing the business model and to see how we engage with government, with civil society, even at times with politics, but certainly with the business community as we expand our model going forward."

The ability to align government and FS priorities is going to be crucial in promoting social as well as financial value and sustaining the 'licence to operate'. Yet, more than 40% of FS CEOs believe that their relationship with government has deteriorated over the past five years, notably more than customers and clients (18%). With so much value tied up in the relationship with government, having the people in place to manage government relations is critical. This includes seeking to influence regulation and collaborating in investment projects. We're therefore likely to see more people brought in from the public service and NGOs as community and government relations become as important as investor relations.

Nearly 60% of FS CEOs see lack of trust in their industry as a threat to growth

More than 70% of industry leaders recognise the need to balance the interests of all stakeholders

A culture of integrity, customer-focus and risk-awareness will also be critical in re-engaging with customers and rebuilding stakeholder confidence. There are clear competitive advantages for getting this right including better targeting of products, stronger reputation and more effective retention. Being able to demonstrate that risks are appropriately evaluated and managed across the organisation is also likely to result in less intrusive supervision and greater comfort for the board.

“I think business has to increasingly put itself in the shoes of its customers and say, what is the balance between the advantage that my product and service is giving to my customer and what is the advantage that accrues to me from providing it? And is that distribution of value appropriate? Is the asymmetry of information more to my advantage than my customer’s advantage? And if that is the case, you’ve got to ask yourself: is that right?” said Douglas Flint of HSBC.

Realistic reward

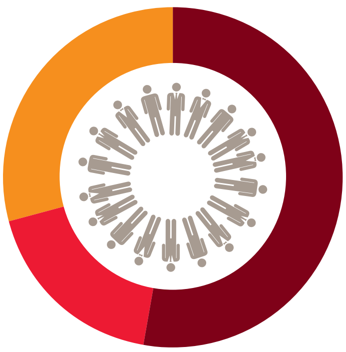
More than half of FS CEOs believe that regulation is making it harder to attract talent (see Figure 2). Moreover, there simply aren't the returns needed to sustain the old levels of reward within developed markets.

In the short-term, there may be a reluctance to break ranks over pay as this risks losing key people to competitors. But the pay bill will eventually have to be put on a more sustainable footing, especially if FS organisations are going to be able to maintain the levels of shareholder reward needed to attract investment. What this is likely to require is a new psychological contract that is less dependent on financial reward and more focused on the value FS creates for society in areas such as helping people to buy a home or set up in business. To reduce fixed costs and improve operational flexibility, we're also likely to see more people hired on an assignment-by-assignment basis.

It will also be important to rethink whether the value particular individuals deliver justifies the rewards they receive. In areas of the business that are becoming more automated and where less risk is being taken, it may not be necessary to hire graduates from the traditional preferred universities. Moreover, levels of pay may reflect how value was created in the past, not how it is now. Interactions now cover a number of different channels, so it's harder to allocate value to anyone in particular, for example. Value creation is also less dependent on individual expertise and more on the strength of the organisation's brand, relationships and access to customer data. As a result, simply paying the going rate will give way to a mark-to-value approach, in which staff are rewarded in line with their contribution to customer understanding, sustaining relationships and other sources of long-term value creation.

FS is continuing to grow strongly in emerging markets. But shortages of skills have led to high turnover rates and escalating salary inflation as companies vie for the people they need. More than half of FS CEOs see rising labour costs in high growth markets as a threat to their business prospects. The turnover rates are especially detrimental for businesses that rely on enduring personal relationships such as brokerage, corporate banking and wealth management. For expanding international groups, a key way to retain people for the long-term is ensuring that group-wide opportunities are open to all. This could include seconding them to regional hubs or head office teams, which would help to share expertise and develop group-wide solidarity.

Figure 2 Impact of regulation on recruitment



- Regulation is making it harder for us to attract a skilled workforce 53%
- Regulation is making it easier for us to attract a skilled workforce 18%
- Don't know/did not answer 29%

Source: 338 FS CEOs taking part in the 17th Annual Global CEO Survey

35%

Only 35% believe that HR is well-prepared to make the necessary changes.

Slow response

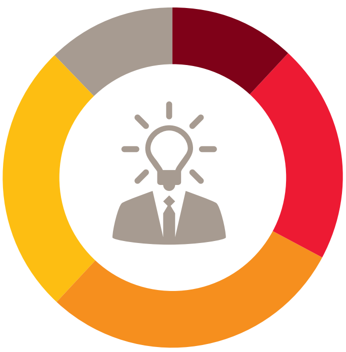
So how are FS organisations responding to these myriad talent challenges? Nearly 60% of FS CEOs see the limited availability of skills as impeding growth. This high rate of concern has changed little in recent years, which begs the question: Why isn't more being done?

When asked about progress in making the changes in talent strategy needed to capitalise on the transformational trends in the marketplace, most industry leaders are starting to make plans. Yet, barely a quarter have actually initiated these plans (see Figure 3). Only 35% believe that HR is well-prepared to make the necessary changes.

Our work with FS organisations suggests that many are hamstrung by the sheer scale of the necessary changes. Others are finding it difficult to connect the multitude of dots. As a result, many are continuing to rely on short-term tactical responses. This includes seeking to source talent from competitors and well-tapped traditional areas. It also includes a lack of central coordination of recruitment and reorganisation.

Figure 3 Changing talent strategy

In order to capitalise on the transformational trends, what changes are you making to your talent strategy?

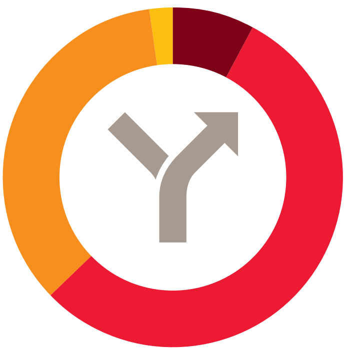


- Recognise the need to change 12%
- Developing plans 21%
- Have developed plans 29%
- Have plans underway or completed 26%
- Don't know/did not answer 12%

Source: 338 FS CEOs taking part in the 17th Annual Global CEO Survey

Figure 4 Ready for change

How prepared is your HR function for the transformational changes ahead?



- Not prepared 8%
- Somewhat prepared 55%
- Well-prepared 35%
- Don't know/did not answer 2%

Source: 338 FS CEOs taking part in the 17th Annual Global CEO Survey

Moving the business forward

So how can HR teams and their organisations get on the front foot? We believe that new ways of formulating and delivering talent strategies will be needed to keep pace with the accelerating changes in business models and markets:

1

Coherent workforce plan

Moving away from department-by-department hiring and career development to create a more proactive, systematic and centralised workforce plan capable of anticipating what people are needed and where they should be deployed to meet business objectives.[4]

2

Database of people to meet specific needs

To support the workforce plan, HR will develop a comprehensive database of people who can meet particular needs, both from within the organisation and outside. Within this more flexible model, HR would oversee more bidding for jobs and resources in an approach akin to tendering in government.

3

Developing a hybrid human and virtual resource model

As analytics, automation and new forms of artificial intelligence become core elements of the operation, it will be important for HR to manage both human and virtual/machine resource capabilities side by side.

4

Sharper measurement

Effective workforce plans use both internal and external data to inform scenario, capacity and capability planning throughout the enterprise. It's important to develop real-time response to data feeds, with HR evolving into part of a wider performance team. A further priority is developing ways to measure performance across omni-channel operations.

4 A 2014 PwC FS viewpoint, 'Workforce of the future' looks in more detail at the role of workforce planning in meeting strategic demands (http://www.pwc.com/en_US/us/financial-services/publications/viewpoints/assets/fs-viewpoint-how-strategic-workforce-planning-can-help-financial-institutions-today-tomorrow-and-beyond.pdf)

5

Communicating the employer brand more widely

As FS organisations seek to recruit more people from government, industry and technology companies, it will be important to gauge their attractiveness to people in these new areas and how to strengthen the employer brand.

6

Identifying people to be retained

Younger generations are going to be more mobile. It's therefore important to develop clear ways to identify and concentrate resources on the people that it's vital to retain.

7

Reshaping the culture

Culture is influenced by a series of levers including purpose, vision, values, behaviours and reinforcing mechanisms. HR should be at the forefront of developing the necessary reinforcing mechanisms in areas such as performance reward, and tracking behaviour and other measurable elements of culture.

8

Working with colleges to reshape curricula and attract more people into the industry

The high skills shortages identified in the CEO survey can't be tackled by individual organisations or the industry alone. The partnership with government should include investment in education, advice on appropriate curricula and a renewed focus on graduate recruitment and training.

New world today

FS organisations are going to look very different in five years' time. They will be more diverse as people from many different backgrounds are brought in to meet new social and commercial demands. Analytics and networking are going to revolutionise how people make decisions and interact with each other. HR is going to be at the forefront of these changes, judging what people will be needed, developing new ways to engage and motivate them, and managing the transition to real-time performance monitoring and response.

We believe that the starting point for anticipating and adapting to the new realities are four fundamental questions:

1. What will your markets look like, how are your customer expectations likely to change and how can you reshape your strategy and operations to take advantage of the developments ahead?
2. What people will you need to deliver your strategy, how are you going to build, buy or relocate them, and how should they be organised and rewarded?
3. What investments do you need now to make sure you have the talent you need in the future?
4. How can you look beyond traditional pools of talent to less tapped sources?

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