

Ahead of the curve: Confronting the big talent challenges in financial services



487 financial services (FS) CEOs in 71 countries participated in PwC's 20th CEO Survey

72% of FS CEOs see the limited availability of skills as a threat to growth, on a par with concerns over the speed of technological change (73%) and ahead of changing customer behaviour (69%) and competition from new market entrants (59%)

60% of FS CEOs are rethinking their HR function. But only 48% use data analytics to find, develop and keep people

Introduction from Jon Terry

In the face of political, economic, regulatory and technological upheaval, financial services (FS) CEOs are asking “how do we want to compete?”, “how do we deliver?” and “where should we do it?”

“As technology in the workplace increases, it will have a big impact on both people and culture. It’ll change the type of people you employ. It’ll change the culture of delivery within the organisation.”

Peter Harrison
Group Chief Executive,
Schroders Plc

From cost, productivity and the impact of automation and artificial intelligence (AI) to how to re-engage with disillusioned customers and connect with the generations coming into the workforce, talent considerations are central to these questions.

The FS CEOs we spoke to anticipate significant changes in the types of people they need and how they attract, engage, deploy and develop them. Further challenges stem from the fact that while people strategies have in the past solely focused on employees, the scope is now broadening to managing talent from both within the organisation and those working in joint venture partners, third-party providers and other areas of today’s more extended commercial networks.

While the need for data analysts, robotics engineers and other tech specialists is clearly growing, it’s just as important to ensure that leaders understand the possibilities of today’s ever more sophisticated technology. Key questions include “how can we harness the potential?” and “what are the threats?” And as operations become more automated, the value of skills that can’t be replicated by machines is increasing. FS CEOs now rank adaptability and collaboration on a par with traditional FS skills such as problem-solving and risk management.

Yet, creativity, digital capabilities and emotional intelligence are surprisingly low down the list of prized skills given the vital importance of innovation and customer-centricity in today’s marketplace. Ultimately, the future workforce will see human and machine working side-by-side, which calls for a whole new way of thinking, operating and collaborating.

Fostering the innovation and closer customer engagement needed to compete within this fast-changing landscape demands people with fresh ideas and a broad array of experiences and capabilities. How can FS organisations attract them? The vast majority of FS CEOs recognise the importance of promoting diversity and inclusion in securing the talent they need to succeed. Yet barriers to inclusion remain. Policies alone won’t overcome them – what’s needed is a more deep-seated shift in culture, values and objectives.

This uplift in creative capacity and the new business models that stem from it all have to be developed and honed while driving down costs. In the face of subpar returns¹ and competition from lean and nimble FinTech entrants, most FS organisations aren’t doing enough to make their costs competitive while continuing to boost growth. And while a combination of automation and headcount reduction are set to play a key part in restoring economic viability, FS organisations can’t forget their social responsibility to the people they re-assign or let go.

¹ If we look at banking as an example, our analysis shows that the return on equity (RoE) in most of the global systemically important banks (G-SIBs) in Europe and the US fails to cover the cost of equity (CoE). To bring the RoE above the CoE would require 15 G-SIBs to reduce costs and charges by at least 15%, and 11 of these by more than 20%.

“The context of the values and principles that guide a company’s business model are now infinitely more important than in the past. People care about what they buy, where it came from and they increasingly choose brands, products and services that match their set of values.”

Sergio Rial
CEO, Santander Bank
Brazil

71%

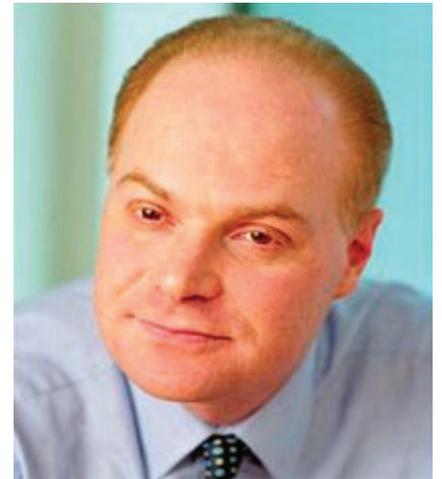
of FS CEOs have changed their people strategy to reflect the skills and employment structures they need for the future, but only 25% to a significant extent

Cutting across many of these talent challenges is the issue of trust. Customers will naturally gravitate to FS providers they trust to do the right thing for them and society as a whole. In turn, people want to work for organisations that inspire trust and align with their values. FS CEOs recognise that while technology can create greater connectivity and transparency, concerns over how data is used and vulnerabilities to cyber breaches are heightening mistrust. Yet, there also opportunities. More than 70% of industry leaders believe that how their organisations manage data will differentiate them. More than 90% stress the importance of a strong corporate purpose that’s reflected in their values, culture and behaviour.

Are FS organisations keeping pace? While more than 70% have changed their people strategy, only a quarter report a significant shift. Less than half use data analytics to find, develop and keep people (48%), are considering the impact of artificial intelligence on future skills needs (41%) or are exploring the benefits of humans and machines working together (49%), and less than 20% to a great extent.

Failing to bring people strategies up to speed can only heighten the risk of skills gaps and falling behind more agile and farsighted competitors. By contrast, FS organisations that move quickly to develop the people strategies that will enable them to re-engage, innovate and differentiate, not just in traditional areas, but through new business models, can become powerful magnets for human, financial and emotional capital.

In this report, we look at whether people strategies are keeping pace with these complex and fast-shifting demands and, if not, how to get up to speed.



Jon Terry
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The changing workforce: Shifting talent demands and mounting skills gaps



As CEOs ask themselves “how should we compete?” and “do we have the necessary capabilities?”, they clearly need to ensure they have the right people in place. Technological transformation has made these questions more difficult than ever. Some posts are disappearing in the wake of increasing automation and digitisation, while others could soon follow. Yet, if anything, skills gaps are widening as customer demands become more exacting and FS organisations strive to sharpen innovation and differentiation in a fast-changing marketplace.

FS CEOs’ resulting anxieties over the availability of key skills (72% are concerned, up from 70% last year) have continued to rise in line with parallel worries about the speed of technological change (73% are concerned, up from 70% last year). Along with cyber threats (73%), FS CEOs’ concerns over technology and skills top their list of business threats to growth.

The fresh and often hard to meet talent demands stretch from more industrial engineers for robotics work to executives with a background in analytics and innovation. With FS organisations facing tough competition from industries like technology to attract people with these sought-after skills, new approaches to hiring and development are needed. Typically, these would include:

- Recruiting talent from technology organisations and think-tanks, rather than just from within the FS industry
- Developing robust learning modules to enhance the skills of executives, IT, and non-IT staff
- Taking more active steps to create and foster a culture of innovative thinking
- More engagement with third-party sources of talent, which could eventually include the development of ‘talent exchanges’

Naturally, it isn’t just technical know-how that industry leaders are after. As Figure 1 highlights, FS CEOs prize many of the skills that can’t be replaced by machines, including creativity, adaptability and collaboration. While digital skills and emotional intelligence are further down the list of priorities, a blend of the two is actually essential in connecting with customers and understanding their real needs. When FS CEOs were asked how hard it is to recruit people with particular skills or characteristics, they ranked emotional intelligence, creativity and innovation alongside leadership as the most difficult, underlining the competition for people with these attributes.

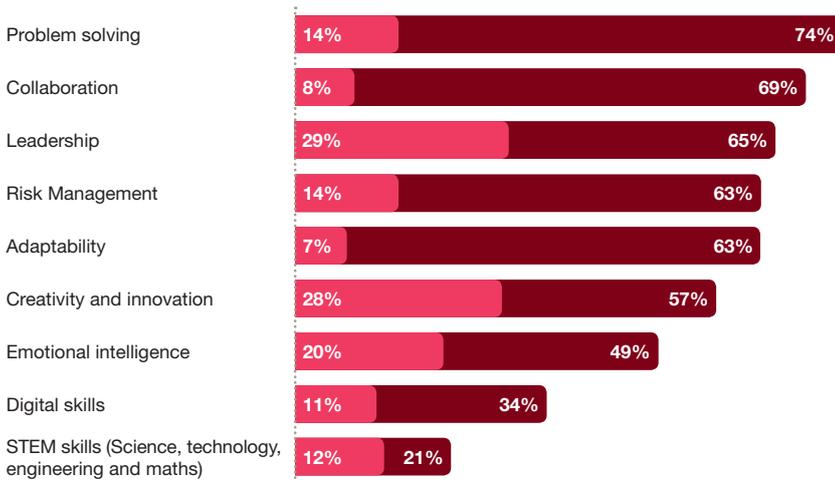
FS CEOs cite human capital as the second most important area they need to strengthen to capitalise on growth opportunities, behind only digital and technological capabilities.

“... the manner in which we deploy our products has to change in line with customer expectations, which have become of immediate service and immediate change.”

John Patrick Hourrican
CEO, Bank of Cyprus

Figure 1: Prized skills

Q: In addition to technical business expertise, how important are the following skills to your organisation and how difficult is it for your organisation to recruit people with these skills or characteristics?

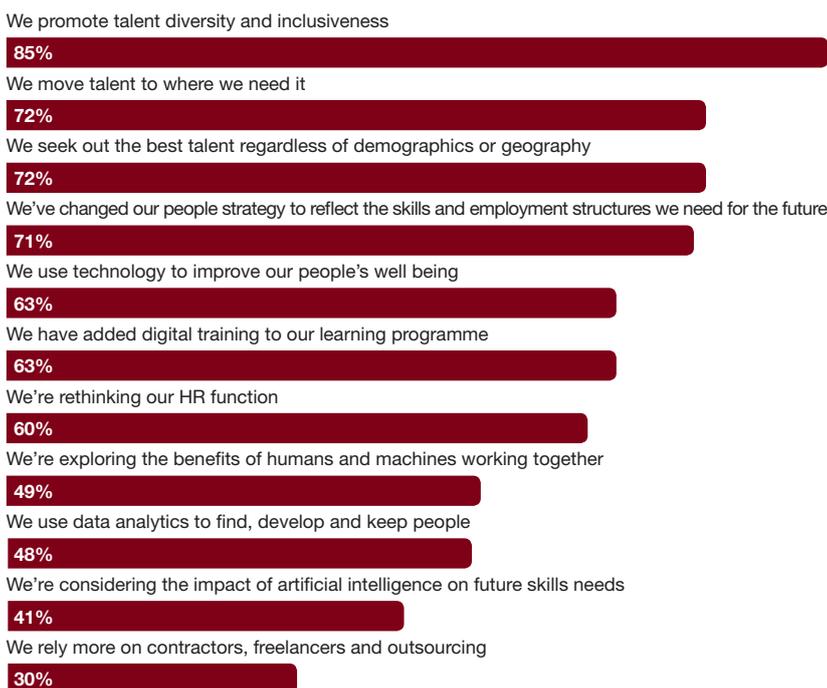


■ Very difficult to recruit ■ Very important to the organisation

Source: FS CEOs participating in PwC's 20th CEO Survey

Figure 2: Rethinking people strategies

Q: To what extent do you agree or disagree with the following statements about your organisation's talent activities



■ FS CEOs who stated agree or agree strongly

Source: FS CEOs participating in PwC's 20th CEO Survey

As Figure 2 highlights, FS CEOs are rethinking people strategies to meet these evolving skills demands. This includes moving talent around and seeking the best people, no matter who or where they are (we look at diversity and inclusion further on). The CEOs we spoke to highlighted the importance of adaptability and regular updating of skills to keep pace with market events or changes in business model. They also recognised that their changing skills demands and the underlying issues of education, labour inclusion and employment in an ever more automated world are areas that their organisations can't tackle alone. This underlines the importance of collaborating more closely with government and other stakeholders to develop solutions. Examples include working with colleges to update curricula and develop more work-ready capabilities.

FS CEOs are more ambivalent about the use of data analytics to find, develop and keep people (48% use them to some extent, but only 10% to a great extent), even though this would improve their ability to anticipate changing circumstances and respond proactively. Just as the ways FS organisations manage customer relations are evolving, talent management is also set to become more data-driven. As FS organisations rethink their HR functions (60% are planning this), it's important to ensure investments in HR technology include robust data analytics and visualisation capabilities. It's also important to recruit and develop HR talent with data modelling skills, as well as the ability to interpret data and understand its business implications.

"... some of the skills that will become really crucial are digital skills, people who are really adaptable and agile, you don't get trained in one thing and keep doing that for the rest of your life, and you've got to keep adapting. Tertiary institutions are going to become more challenged to what skills they actually equip people with and the tradition curriculum they teach today is going to become irrelevant in the future."

Anthony Healy
CEO, Bank of New Zealand

Leading from the front: Exploring the full possibilities of technology

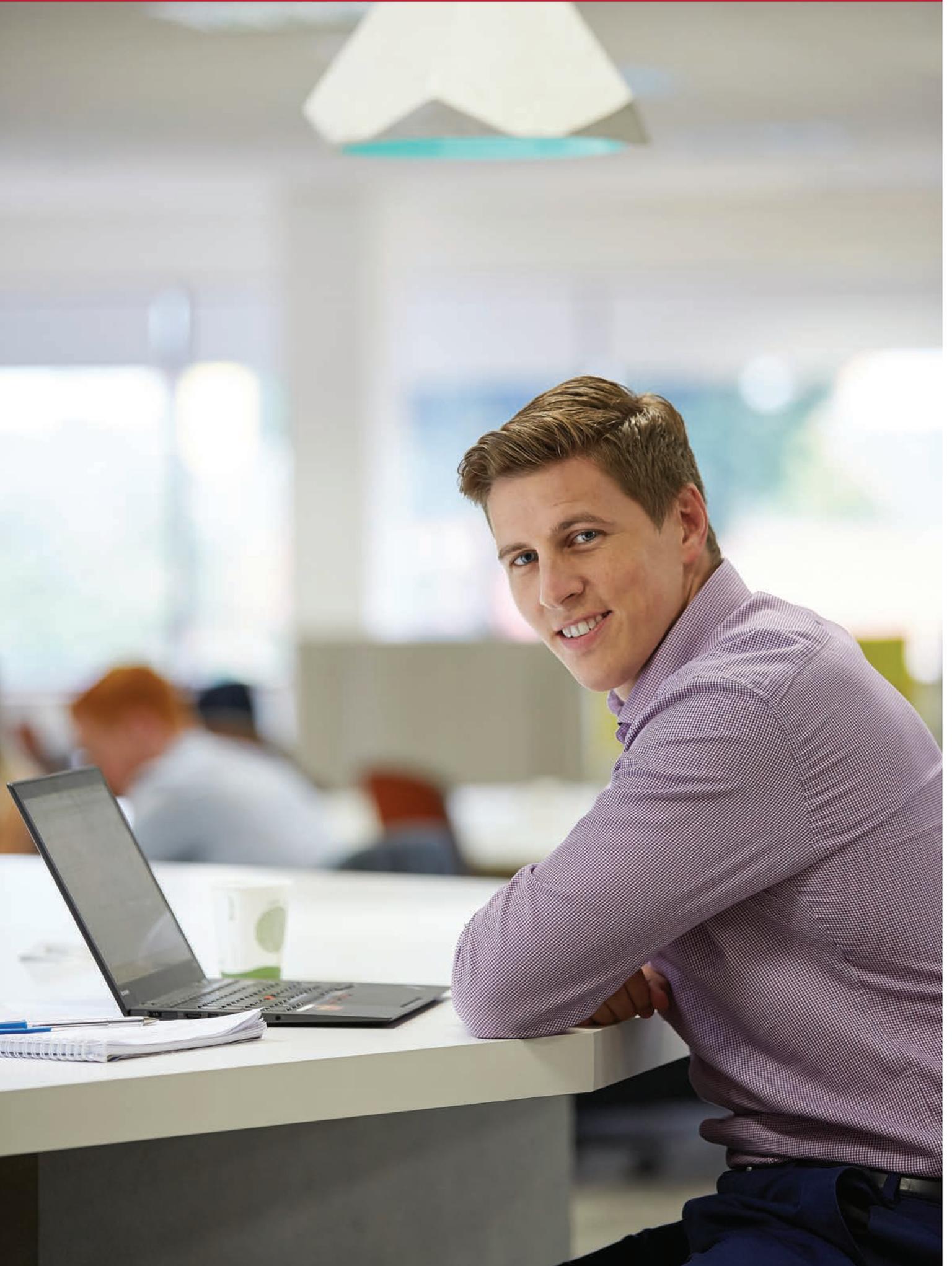


Technology is clearly one of the key factors shaping customer expectations and skills demands. Nearly a fifth of FS CEOs (19%) believe that technology has completely reshaped competition in their industry over the past five years and a further 44% believe that it has had a significant impact. Over the next five years, an even bigger 28% believe it will completely reshape competition and a further 49% have a significant impact.

As FS organisations look to keep pace, 63% have added digital training to their learning programmes. Nearly half (49%) are exploring the benefits of humans and machines working together and 41% are considering the impact of AI on future skill needs.

It's vital that leaders get up to speed with the possibilities of technology and how to harness the potential in areas ranging from automation and AI to how to take advantage of new ways to interact, collaborate and engage. Yet, only around a half of FS CEOs (53%) believe they have strong digital skills, little change from when the question was asked of business leaders in PwC's first CEO 20 years ago. While the financial expertise and operational know-how needed to stabilise balance sheets and improve efficiency will continue to be important, the next wave of leaders will have to be exceptionally tech-savvy. The make-up of the boardroom will also continue to change. This is already evident in the growing prevalence of chief innovation officers (CIOs) and chief data officers (CDO). CDOs are charged with establishing and maintaining data governance, quality, architecture and analytics – enabling organisations to harness information to manage risk and create revenue-generating opportunities².

² We explore the role of the CDO further in Great Expectations: The evolution of the Chief Data Officer (<https://www.pwc.com/us/en/financial-services/publications/viewpoints/assets/pwc-chief-data-officer-cdo.pdf>)



Fit for growth: Reining in costs and boosting productivity



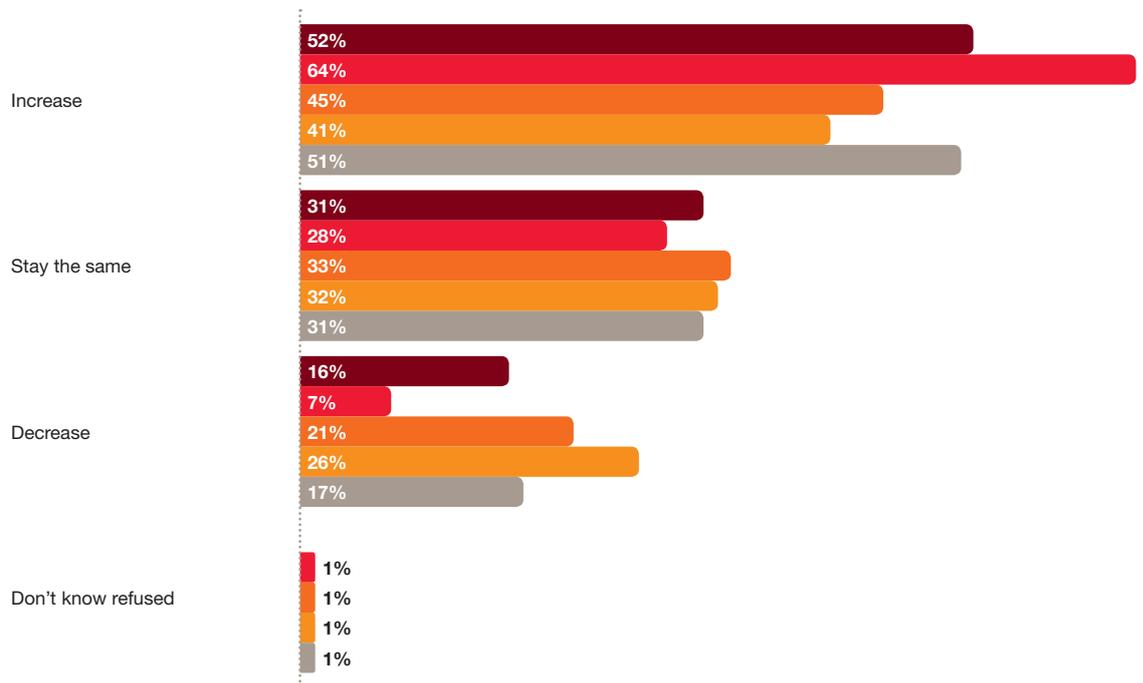
While the bars for innovation and customer-centricity are rising, so is the need to drive down costs – FS organisations have to do much more for much less. As a result, retrenchment is gathering pace within many FS organisations. The world’s 12 biggest investment banks have reduced front office headcount by more than 20% since 2011, for example³. And the reduction in numbers isn’t just confined to developed markets⁴ or any particular FS sector⁵, as the industry responds to

margin pressures and competition from FinTech entrants, along with increasing digitisation, automation and use of robotics⁶.

The findings of the CEO Survey are more nuanced, with regions, sectors and functions moving in different directions. While more than half of FS CEOs are planning to cut costs to drive profitability and growth over the next 12 months, a similar proportion actually intend to take on more staff in 2017 (see Figure 3).

Figure 3: Headcount plans

Q: Do you expect headcount at your company to increase, decrease or stay the same over the next 12 months?



³ 'Investment banks have cut 20pc of their staff in the past five years', Daily Telegraph, 24 May 2016 (www.telegraph.co.uk)

⁴ 'China banks shed staff and slash pay in cost-cutting drive', Financial Times, 7 September 2016 (www.ft.com)

⁵ 'Fintech Threatens 250,000 Jobs as Europe Insurers Cut Costs', Bloomberg, 7 April 2016 (www.bloomberg.com)

⁶ 'Japanese company replaces office workers with artificial intelligence', Guardian, 5 January 2017 (www.theguardian.com)



Are FS organisations now moving onto a more cost competitive footing and how will this affect staff numbers and deployment? The small percentage savings that have been achieved so far aren't enough when 15% and even 20% cuts are needed to restore economic viability. Moreover, bringing down costs can't in itself sustain growth over the long-term. Sustainable growth comes from better capabilities, products, services and underlying customer-focus – all of which require on-going investment – in other words, being 'fit for growth'.

Effective workforce planning is the key to ensuring that people and resources are directed where they can foster innovation and differentiate the business, while other areas are cut back or outsourced. Does app development need be carried out in-house when a dedicated tech partner could do it better for less, for example? Further considerations range from where people need to be located to reach key markets to whether blockchain or outsourcing to a specialist agency could provide a cheaper and more efficient solution to KYC/AML verification? The cultural considerations include moving from a mind-set of proprietary self-sufficiency to closer partnerships with start-ups, other sectors and even competitors. In the vanguard of this competitive shift are the 31% of FS CEOs who are looking to drive profitability and growth through greater collaboration with entrepreneurs or start-ups.

“... if you look at the automation of roles, the first step in my view is the optimisation of processes. It's no secret that banks have left it a little bit too long to optimise processes. So, as the first step, we're optimising, and then as the second step, we'll be automating.”

Helene von Roeder
CEO Germany, Austria and
CEE, Credit Suisse

Re-training and re-assignment within the workforce are also gathering pace. For instance, while more and more basic banking business is transacted online, the demand for people who can provide higher value advice and support within branches and call centres is increasing. AI can enhance these higher value-added operations in areas ranging from more precise client targeting to freeing up insurance underwriters to work on complex and emerging areas of insurance cover such as cyber risk.

These operational developments underline the need for a much more fundamental rethink of people strategy than most FS organisations have so far embraced. This includes judging the impacts of new technologies (e.g. robo-advice) on job roles, accountabilities, skills and mind-set. It also includes re-designing job frameworks (capabilities, roles and pay) to take account of emerging new business models and disruptive technologies.

The currency of trust in the digital age



If trust in FS organisations has declined in the 20 years we've been carrying out the CEO Survey, this erosion has actually made it more of a key asset than ever – in short, a valuable 'currency'.

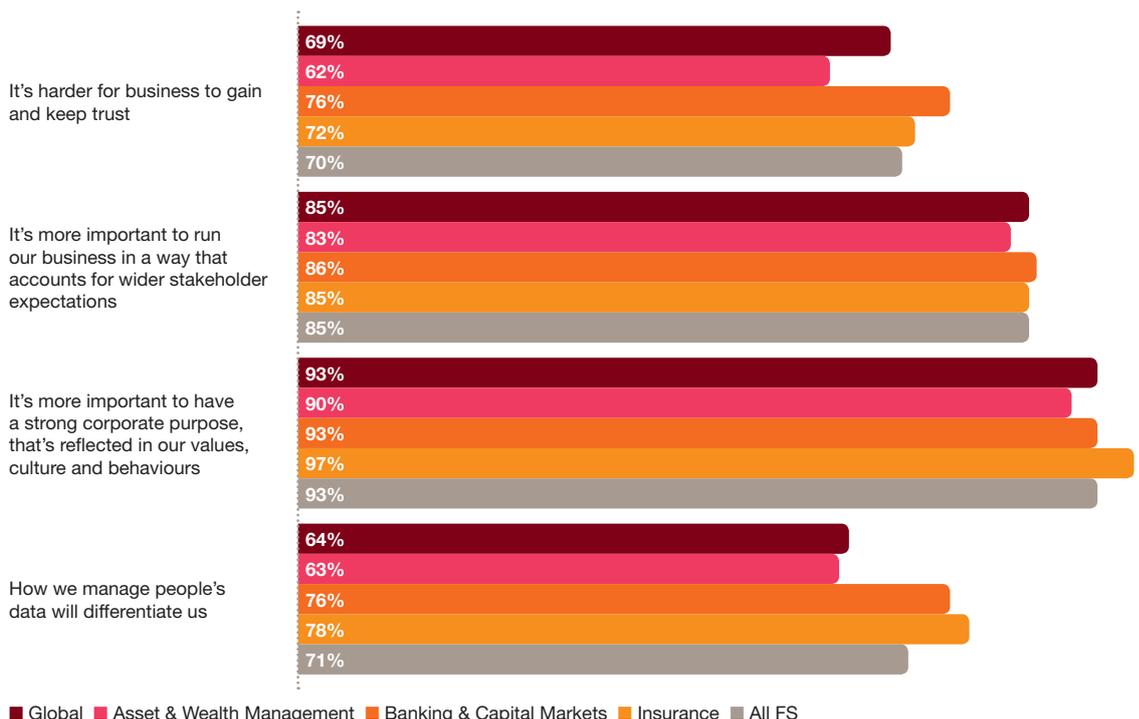
Digitisation can strengthen connectivity. Yet it also heightens the risk of data breaches and misuse, while taking away the personal relationships that have been so important in fostering confidence and trust. As Figure 4 highlights, 70% of FS CEOs believe that it's harder to gain and retain trust in a digitised world.

"20 years ago in our business the trust issue was, essentially, could I trust the portfolio manager who was running the fund that I owned to do the right thing for my future? Today, the obligation we have as a financial services firm to our client goes much more broadly than that, and so the focus on cyber security, the focus on staying on the right side of the regulatory right line couldn't be more paramount now than it ever has in the past."

Brian Conroy
President, Fidelity International

Figure 4: Digitisation and Trust

Q: In the context of an increasingly digitised world, to what extent do you agree or disagree with the following statements?



Legend: ■ Global ■ Asset & Wealth Management ■ Banking & Capital Markets ■ Insurance ■ All FS

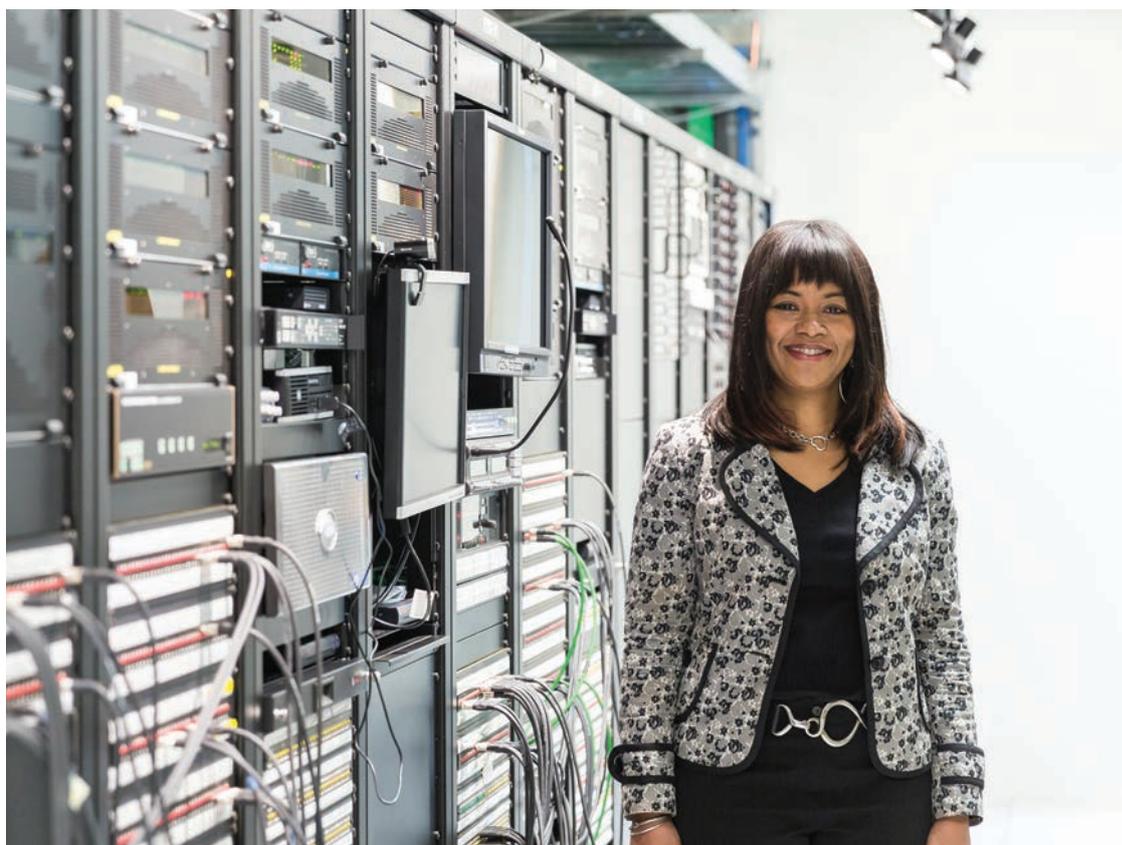
Source: FS CEOs participating in PwCs 20th CEO Survey

66%

of FS CEOs see lack of trust as a threat to growth, up from 60% last year

“First of all, there simply can’t be banking without trust. Therefore, we have to ensure that our customers can trust in our services, especially when it comes to online services and matters of privacy and data security.”

Wolfgang Kirsch
CEO, DZ Bank AG



The areas that are seen as having the most potential negative impact on stakeholder trust are breaches of data privacy and ethics, cyber security breaches affecting business information or critical systems, and IT outages and disruptions. On the plus side, a review of how data is managed and used can provide a catalyst for renewing the organisation’s culture, values and sense of purpose. How data is managed could also be an important differentiator. In this respect, it’s notable that risks from the use of social media and confusion over who owns digital assets are the areas where there is the biggest gap between what CEOs see as the potentially negative impact and how much their organisations are actually doing to address the issue. Could they differentiate themselves by doing more in these areas?

Questions over trust are being given even greater resonance by the anxieties many people feel about globalisation. More than 60% of FS CEOs (62%) believe that globalisation has to a large extent helped to improve the ease of moving capital, people, goods and information, but only 35% think it has helped to create a skilled and educated labour workforce and 18% promote full and meaningful employment. While 11% of FS CEOs believe that globalisation has to a large extent helped to close the gap between rich and poor, nearly half (45%) feel it’s done nothing to promote

equality. It’s therefore vital that FS organisations seek to reflect, engage with and be seen to be working for customers, staff and society as a whole. An important part of this will be support for people whose roles become redundant as a result of automation in areas ranging from retraining to community investment.

This renewed sense of purpose is equally essential in attracting talent. Our research consistently underlines the importance of values and meaning to the generations coming into the workforce⁷. To help attract them, it’s important to communicate the possibilities in an industry undergoing technological transformation and which is capable of touching the lives of almost everyone in so many different ways – in short, the opportunity to think big and make a big difference.

How FS organisations comply with regulation, treat customers and the culture that underpins this are also critical here. Rather than relying on after-the event oversight, it’s important to ingrain expectations over how things should be done in objectives, evaluation and reward. The motor industry no longer has people in white coats at the end of the assembly line checking quality – it’s all done up front. FS needs the same.

⁷ Millennials at work: Reshaping the workplace, PwC, <http://www.pwc.com/gx/en/issues/talent/future-of-work/download.html>

New people, fresh ideas: Diversity as a differentiator



These shifts in business models and customer expectations call for what Peter Harrison, Group Chief Executive of Schroders Plc, describes as “a far more diverse set of staff with a much greater understanding of broader social issues”.

Greater diversity allows FS organisations to better reflect, understand and engage with the increasingly diverse set of clients they serve. It also broadens the range of ideas and experiences upon which key decisions and new commercial developments can draw. Moreover, our research shows that smart people (men and women) want to work to work for inclusive organisations⁸.

FS CEOs’ strong backing for diversity and inclusion is evident. Yet barriers remain in areas ranging from the difficulties of winning buy-in from

middle management to a tendency among leaders to favour people like themselves for promotion (‘unconscious biases’). Experience shows that policies can’t overcome these barriers on their own. What’s needed is a change of mind-set that stretches from more agile ways of working to how performance and potential are judged. And this should be backed up by targets for inclusion (e.g. promotion) and tracking against them to ensure this is an organisation-wide priority. These measures have the further advantage of helping to make people more mindful of potential biases and their impact. In this competitive job market, reporting of diversity targets and transparency around progress can also strengthen the brand with customers and potential recruits.

85%

of FS CEOs promote talent diversity and inclusiveness

⁸ In a 2015 PwC survey, 86% of millennials said that an employer’s policy on diversity, equality and workforce inclusion is an important factor when deciding whether or not to work for them (www.pwc.com/femalemillennial)



Big opportunities and big risks



So what's at stake? A slow and uncertain response to today's talent demands will leave organisations on the back foot – facing growing skills gaps, swathes of people doing work that's been rendered redundant or operating from the wrong place in the wrong way when competitors have already moved on.

By contrast, there are huge opportunities for FS organisations that can bring their people strategies up to speed. FS has people who are

smart, analytical and good at problem-solving. And it has always been good at innovating and adapting. Honing and harnessing these capabilities will enable organisations to get ahead of the curve in a marketplace that is opening up as perhaps never before. We look at how to develop a fit for purpose workforce as the marketplace continues to evolve in *The power to perform: Human capital 2020 and beyond* (www.pwc.com/hc2020).

How the sectors differ

Behind the headline results, there are significant sector variations.

Asset and wealth management (AWM) CEOs are much more likely to be increasing headcount (64%) than their counterparts in insurance (41%) or banking and capital markets (BCM) (45%). When AWM CEOs were asked what area of the business that would they most like to strengthen to capitalise on new opportunities, they said human capital, while the other FS sectors put digital and technological capabilities at the top of their list.

Insurance CEOs have the biggest concerns over skills shortages (81% seeing them as a threat to growth) and the related pace of technological change (83%), up from 70% in both cases last year. They are also the most active in harnessing the potential of technology – 61% of insurance CEOs are exploring the benefits of humans and machines working together compared to 55% of BCM CEOs and 36% of AWM CEOs and 49% of insurance CEOs are considering the impact of artificial intelligence on future skills needs, compared to 40% of BCM CEOs and 39% of AWM CEOs.

BCM CEOs are marginally less concerned about the availability of key skills (68%) and the most likely to be using data analytics to find, develop and keep people – 52%, compared to 45% among their counterparts in insurance and AWM.

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