19th Annual Global CEO Survey/February 2016

Key talent findings in the financial services industry

Shifting demands, competing priorities: Adjusting to the new talent realities in financial services

490 *financial services CEOs were interviewed for PwC's 19th Annual Global CEO Survey*

70% *of financial services CEOs see the limited availability of skills as a threat to growth*

But only 28% are changing their focus on the skills and adaptability of their people

Developing the adaptive, diverse and digitally savvy workforce needed to compete requires a new mindset as much as a new skillset

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About the 19th Annual Global CEO Survey

In this year's survey, global business leaders voice fresh concerns about economic and business growth. At the same time, they see a more divergent and multi-polar world where technology is transforming the expectations of customers and other stakeholders. In Redefining business success in a changing world, we explore how CEOs are addressing these challenges. We surveyed 1,409 CEOs in 83 countries and a range of industries in the last quarter of 2015, and conducted face-to-face interviews with 33 CEOs.

Today's business leaders have a tough job finding growth and delivering results year in, year out. But they know an even tougher task lies ahead: to prepare their organisations for a more complex future where customers and other stakeholders increasingly expect them to do more to tackle society's important problems.

To equip themselves for this challenge – and to build trust and ensure long-term success – CEOs are focusing on three core capabilities. Firstly, they're focusing even more strongly on customer needs as well as drawing on their organisational purpose – what their companies stand for – to define a more comprehensive view of how their business operates within society. Secondly, they're harnessing technology, innovation and talent to execute strategies that meet greater expectations. And finally they're developing better ways to measure and communicate business success.

Preface

Financial services (FS) is grappling with huge and disruptive upheaval. Insurance, asset management and banking and capital markets (BCM) organisations can't afford to be complacent in the face of so much change. But the shake-up also opens up significant opportunities for reinvigorating growth and re-engaging with customers, employees and society as a whole. Implementing effective people practices is one of the keys to achieving this.

Survival and success within this new marketplace demands people who are creative, digitally savvy and can adapt quickly to constant change. The search for new opportunities and changing nature of FS organisations also calls for people with the cultural insight to work in fast-growth markets and lead more diverse and multi-generational organisations. And while your business is facing all these new and increasing demands, familiar talent shortages in areas ranging from insurance actuarial services to operational risk and compliance in banking haven't gone away.

Given this combination of changing skill sets and hard-to-recruit areas, it's little wonder that 70% of FS CEOs see the limited availability of skills as a threat to growth. The real surprise is the paucity of the response. Less than 30% of FS CEOs say they're changing their focus on the skills and adaptability of their people. It would appear that many organisations are still relying on short-term tactical responses rather than trying to develop a clear-sighted and sustainable long-term strategy. The focus on workforce diversity and talent analytics is also surprisingly low given their importance in developing competitive capabilities. Does this lack of action suggest that talent is losing out to regulation, restructuring and other pressing priorities in the contest for attention and resources? Or is it because FS organisations aren't doing enough to explore the alternatives to their tried and trusted approaches? The answer is a combination of the two.

There are clearly no straightforward solutions to these challenges. Competing priorities are a fact of life – the need to balance talent needs and cost control being a critical case in point. This complexity is compounded by the increasing blurring of industry boundaries and the competition for talent now stretching across multiple sectors. Further disruption is coming from today's heightened market volatility and the political and economic uncertainly that is fuelling it, all of which needs to be considered within current and future talent strategies. And from millennials to more seasoned employees, from tech specialists to call centre personnel, the expectations of different segments of the workforce also vary. These disparate challenges underline the complexities and ambiguities that are the central feature of the new talent realities.

But we believe that there are opportunities to create targeted and pragmatic solutions built around greater automation, virtual collaboration and partnerships both within and outside your particular sector. We also believe that a renewed vision and purpose within your organisation could help to attract more people from other industries and talented millennials coming into the workforce. The starting point is greater clarity around your people priorities, the skills that really matter and how they can be deployed to reinvigorate profitability and growth. It's also important to develop a more agile organisation, which can quickly retool, relearn and relocate as you look to take advantage of unfolding opportunities. The underlying priority is a shift in organisational mindset towards embracing disruption as an opportunity, exploring new ways of meeting skills needs and engaging with a more diverse pool of talent.

Jon Terry
Global Financial Services
HR Consulting Leader, PwC

"Even with all the new technology, people skills are actually more important now. Whether it's providing day-to-day services in our bank branches or managing our data analytics, it's all about people. So the risk is, can we hire, retain, and develop the top talent and, frankly, will they be happy working here?"

Brian Moynihan
Chief Executive Officer of Bank of America Corporation US

"You're going to have to have a company that is ready for the next five years, where the only constant is rapid change. For that, you need people who can adjust to that change and comprehend the ecosystem."

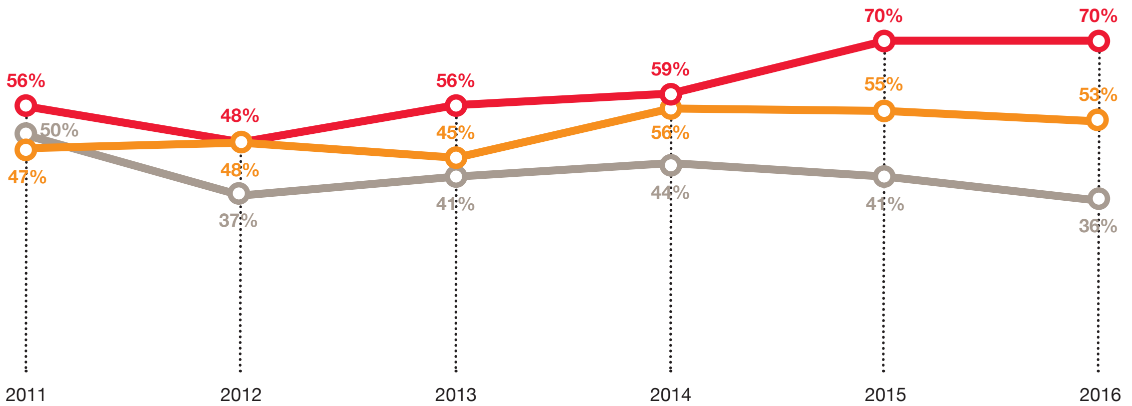
Ajay Banga
President and Chief Executive Officer, MasterCard US

New demands, growing skills gaps

Figure 1 charts the gradual dip in confidence over growth prospects and rise in concerns over the availability of key skills. While some see a strengthening in the economic headwinds, others might argue that the storm that erupted in 2008 has never really gone away. FS CEOs' confidence in the prospects for the global economy, their own growth potential and plans for increases in headcounts have all declined since last year's survey, reflecting widespread market turbulence and growing concerns over geopolitical uncertainty. Sixty three per cent of FS CEOs see more threats to growth today compared to three years ago – in BCM this is an even higher 71%. More than 70% of FS CEOs see geopolitical uncertainty as a threat to growth, in line with a significant increase in concern among the survey population as a whole.

Overall, more than half of FS CEOs plan to take on more staff over the next 12 months (see Figure 1). However, the headline figure masks considerable variations between the different FS sectors. Sixty five percent of asset management CEOs expect to increase their headcount. But only 43% of BCM CEOs and 49% of insurance CEOs (some way down from last year) plan to take on more staff. Overall, 20% of FS CEOs plan to reduce staff numbers, though a much higher 31% of insurance industry leaders and 29% of BCM CEOs anticipate cuts.

Figure 1 Talent trends



Base respondents
2011 200
2012 369
2013 351
2014 338
2015 410
2016 490

Concerned about the availability of key skills Expect to increase headcount in next 12 months Very confident about revenue growth over next 12 months

Source: FS participants in PwC's Annual Global CEO Survey

In 2015, 11 major banks in the US and Europe announced a total of almost 100,000 new job cuts[1]. If the slowdown in the global economy persists, the pressure to rein in headcounts still further can only increase.

Beyond the immediate economic uncertainty, FS faces the disruptive impact of new technology, new regulation, changing customer expectations and competition from FinTech entrants. Yet these developments also bring fresh opportunities. This includes moving beyond transactional interactions towards a more informed and engaged relationship with your customers. Digital is at the heart of this relationship by creating more touch points and hence more data. The ability to analyse more data, more quickly and with more predictive capabilities than ever can ensure a faster, more targeted and more forward-looking response to customer demands and market developments. FS CEOs see technology as the trend that's doing most to transform customer and wider stakeholder expectations (85% ranking it in the top three) – more BCM industry leaders mark out technology as the decisive factor (93% ranking it in the top three) than CEOs in the technology sector itself (92%).

The need for new thinking and bolder responses

The big question is how to recruit people with the digital capabilities and engagement skills needed to operate and innovate within this changing marketplace. Looking across different industries, our survey reveals a close correlation between the relative impact of technology and changing customer expectations and concerns over the availability of skills – entertainment and media CEOs are the most likely to see both skills shortages and shifts in consumer spending and behaviour as threats to growth. FS CEOs actually see the limited availability of skills as more of a threat to growth than shifts in consumer spending and behaviour or competition from new market entrants, the developments which are doing so much to disrupt the industry Figure 2 lists what FS CEOs see as the top ten threats to growth; new market entrants are below the top ten at fourteen.

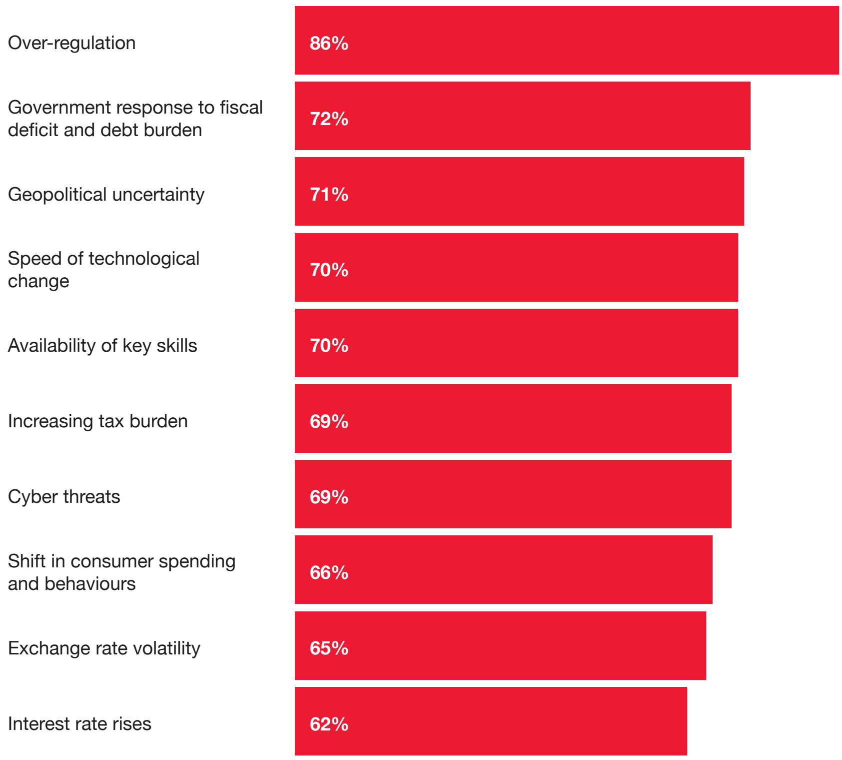
"…this new world of analytics requires the collaboration of people with very diverse skill sets."

Peter D. Hancock
President and Chief Executive Officer, AIG US

Figure 2 Top ten threats to growth

Q: How concerned are you about the following potential business, economic, policy, social and environmental threats to your organisation's growth prospects?

Respondents who stated 'extremely concerned' or 'somewhat concerned'



Source: FS participants in PwC's 19th Annual Global CEO Survey

1 Financial Times, 13 December 2015 (http://www.ft.com/cms/s/0/5b8c94e0-9f8f-11e5-8613-08e211ea5317.html#axzz3xuenA2UM)

New demands, growing skills gaps

77%

of FS CEOs see a skilled, educated and adaptable workforce as one of the three most important priorities for the society in the country in which they're based

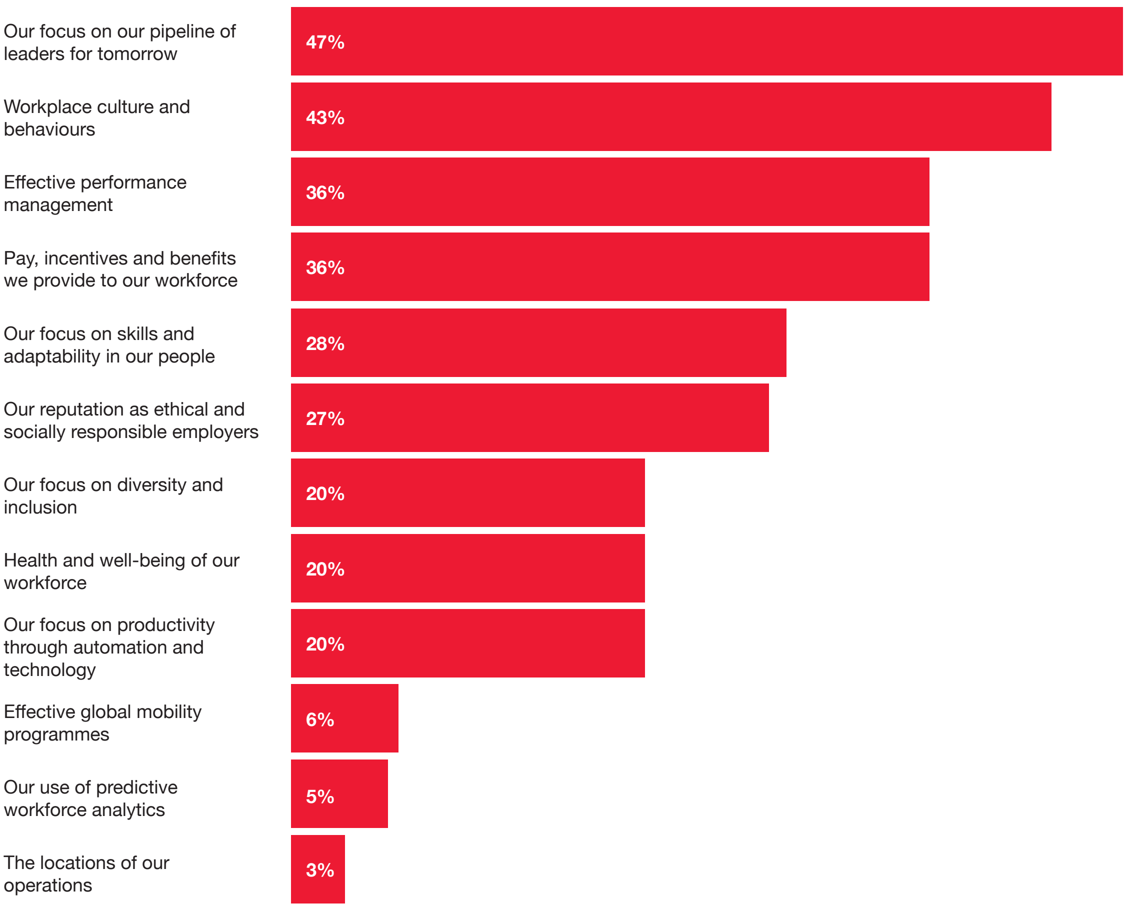
Competition to attract the types of talent your business needs is coming from all sectors – it's no longer possible to simply talk of an FS talent market as boundaries are now increasingly blurred, if not non-existent. Given the pressure on available skills, the considerations go beyond whether to build or buy – partnerships, contingent labour and other flexible options have to be brought into play. One of the challenges is how to align a looser and more flexible organisational model with the rigid oversight and reporting lines required by regulation.

Many FS organisations have been bringing in people from or partnering with FinTech enterprises. But their ideas and initiatives can easily be smothered by established hierarchies, decision making processes and ways of working. It's therefore important to think about how to overcome the barriers that hold back new thinking and ways of working. A key way to promote a more agile and entrepreneurial approach is to move away from basing pay on seniority towards greater reward for innovation and value creation.

Your organisation might look to technology businesses as a potential source of recruits, but this is one of the sectors where worries over skills shortages are even greater than FS. Geographically, concerns over the availability of skills are highest in the fast-growth regions of Asia-Pacific, the Middle East and Africa, and lowest in Western Europe. This indicates that market expansion is putting further strains on the talent pool within many emerging markets. Competition between countries and between organisations will intensify as a result. The heightened talent concerns within many emerging markets also raise questions about the viability of some offshoring strategies. As a result it will be important to look at alternative options including greater use of automation and robotics.

Figure 3 **Changing talent priorities**

What aspects of your talent strategy are you changing to make the greatest impact on attracting, retaining and engaging the people you need to remain relevant and competitive?



Source: FS participants in PwC's 19th Annual Global CEO Survey

Further talent demands centre on the ability to attract and develop people who can engage with customers, employees and wider stakeholder groups across different cultures and generations. Nearly half of FS CEOs say they are changing how they develop their pipeline of leaders (see Figure 3). This suggests that CEOs are conscious of the wider skills the next generation of CEOs will need to tackle in a more complex environment encompassing technology, new types of competition and more fragmented customer and employee expectations.

Yet despite the concerns over the availability of skills, only 28% of industry leaders are focusing on ways to change the skills and adaptability of their people (see Figure 3). This may stem from uncertainty over what to do in the face of so much change and a resulting reversion to tried and trusted responses. This includes offering more attractive financial packages, though pressure on returns means this is unsustainable in many segments of FS. The other likely reason for inaction is competition for board-level attention and resources with other priorities – FS CEOs see over-regulation, the government response to the debt burden and geopolitical uncertainty as bigger threats to growth than the limited availability of skills.

While HR sits on a wealth of data, it's also surprising how few CEOs are looking to make

53%

of FS CEOs say top talent prefer to work for organisations with social values which are aligned to their own, making this more important than competitive compensation (44%)

more effective use of predictive workforce analytics to identify skills needs and gauge how effectively they're being deployed in the organisation. Similarly the low priority given to diversity and inclusion is surprising given its importance in broadening the talent pool and promoting innovation (our 'Making diversity a reality' report explores the potential and how it can be realised).

Performance management is also high on the list. Yet, given the amount of time and investment put into performance, it's surprising how few organisations can articulate what value it delivers for them and their employees. Do people understand what's expected and does it really shape behaviour? Performance management works best when it's personal. This includes mapping organisational expectations to personal development plans and moving away from top-down goal setting to a more flexible approach (our 'Harnessing the power of your people' and 'Improving the performance management model' studies look further at how to get the full value from performance management).

If we look at the talent priorities for different FS sectors, the leadership pipeline is by far the most important for BCM CEOs. This may in part come down to the extent of the change and restructuring within BCM and hence need to forge different capabilities within the executive team. Asset management CEOs are focusing most closely on pay and performance management. In this respect, it's telling that almost half (48%) believe that in five years top talent will continue to want to work for firms providing competitive compensation, against 49% who think shared social values will be more important. By comparison, 60% of FS CEOs overall and 67% of the CEOs across the survey put shared social values first. Insurance CEOs are the most likely to focus on culture and behaviour. This corresponds with the fact that more than three-quarters (79%) say that their purpose is centred on creating value for wider stakeholders, more than any other sector (only 20% say that their primary purpose is creating value for shareholders).

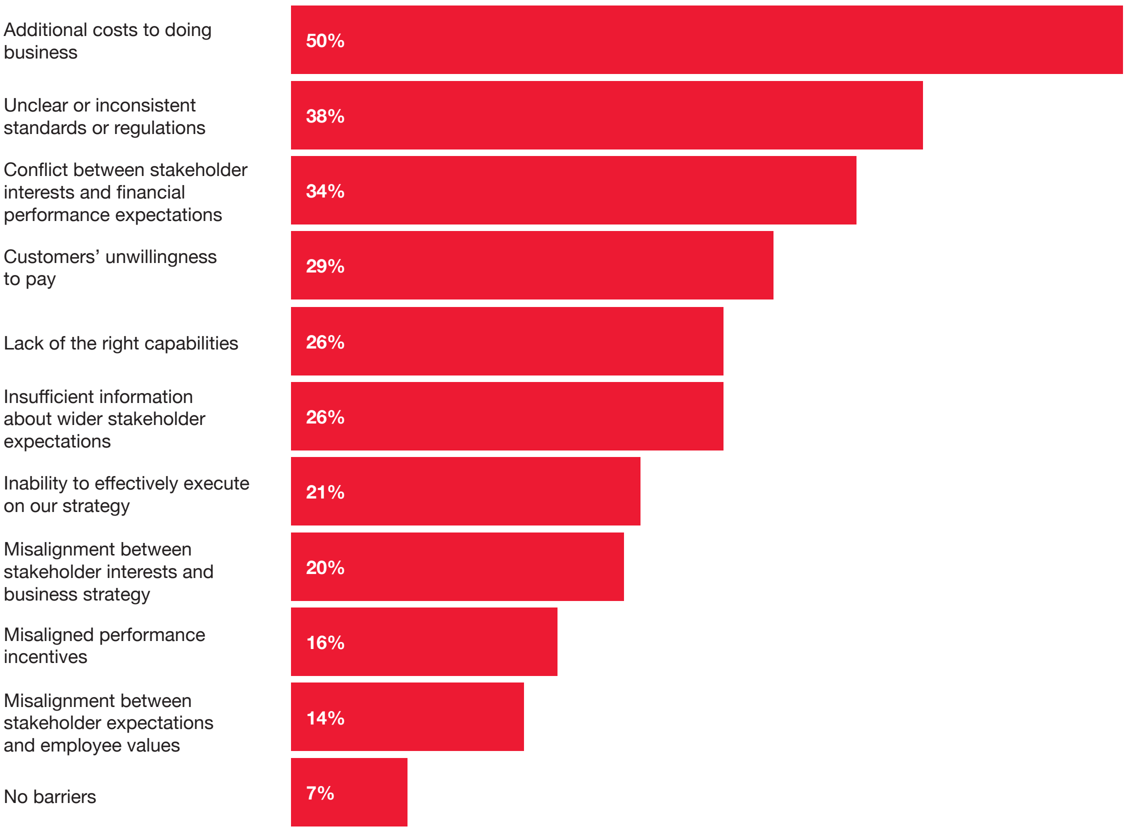
Defining purpose

Customers, employees, governments, regulators and other key stakeholders are coming to demand more from your business, not just in the value you deliver to them individually, but also in your contribution to society as a whole. Creating and communicating a clear sense of your organisational purpose are central to your ability to engage. Over three-quarters of FS CEOs believe that business success in the 21st Century will be defined by more than financial profit. Nearly two-thirds say that their primary purpose is creating value for wider stakeholders, compared to around a third who see it as creating value for shareholders. Nearly 40% have or are considering changing their organisational purpose to take account of their impact on society.

Giving something back to the community isn't just a matter of altruism or PR – more than half of FS CEOs say that creating value for wider stakeholders helps them to be profitable. "…a company's own interests and the social value it provides are closely connected. In fact, this is also a kind of investment, and it always brings returns" says Li Huaizhen, President, China Minsheng Investment Corp., Ltd.

Figure 4 **Barriers to meeting stakeholder expectations**

Q: Which of the following barriers, if any, is your organisation encountering when responding to wider stakeholder expectations?



Source: FS participants in PwC's 19th Annual Global CEO Survey

But the need to satisfy so many different and potentially competing stakeholder demands creates inherent tensions. Around two-thirds of FS CEOs say their customers seek a mix of cost, convenience and functionality in products/services, compared to only 30% who believe they seek relationships with organisations that address wider stakeholder needs. Half see the additional costs of doing business as a barrier to meeting stakeholder expectations (see Figure 4). With nearly 60% of industry leaders planning further cost reduction initiatives in 2016, it's important to ensure that productivity, right sizing and right shoring are key parts of this.

People power

Given the fact that FS CEOs see a skilled, educated and adaptable workforce as one of the three most important priorities for the society in the country in which they're based, it's perhaps surprising how low employees rank in the list of influential stakeholders (see Figure 5). Employees want to feel that they have an impact – it's dangerous to assume that they'll just go along with what the board says.

Many FS organisations are beginning to rethink their employee value proposition. More than half of FS industry leaders (53%) say top talent prefer to work for organisations with social values which are aligned to their own, making this more important than competitive compensation (44%). As we've seen, however, asset management

New demands, growing skills gaps

CEOs are split pretty much 50:50 on whether competitive compensation and social value is more important. Within many other sectors, notably technology, the shift is considerably more clear-cut.

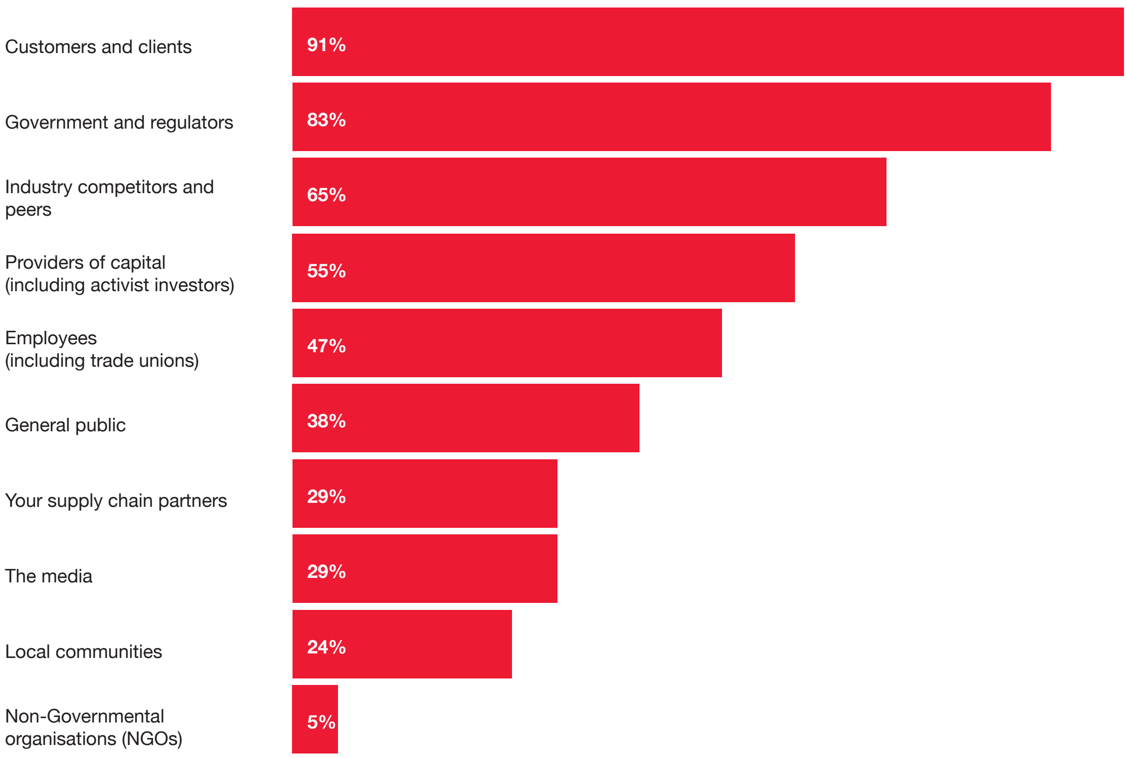
Looking five years' ahead, 60% of FS CEOs say top talent will prefer to work for organisations with social values which are aligned to their own – among insurance CEOs this is 75%, one of the highest ratings for any sector in the survey. This reflects the perspectives of the new generations coming into workforce. Since 2008, we've been carrying out periodic surveys into what people born between 1980 and 1995 want from the world of work. The findings consistently show that millennials want their work to have a purpose, they want to feel they contribute something to the world and they want to be proud of their employer. The ability to build and communicate meaning and social value will therefore be an increasingly crucial employer brand differentiator.

> *"…our younger employees are driven to be successful, but they're also here to do things that make society better. It's critical for us to recognise that demand and then to shape the company around it."*
>
> Brian Moynihan
> Chief Executive Officer, Bank of America Corporation US

Figure 5 **Influencing strategy**

Q: What impact do the following wider stakeholder groups have on your organisation's strategy?

Respondents who stated 'high impact' or 'very high impact'



Source: FS participants in PwC's 19th Annual Global CEO Survey

The way forward

Industry leaders recognise that skills shortages are an immediate threat to competitiveness and growth, but their ability to tackle these challenges is hampered by uncertainty over direction and the need to deal with so many competing demands. There are no clear-cut answers within this complex and fast-shifting talent landscape. But we believe that a combination of innovation and pragmatism can help to broaden your options for addressing skills needs and enable you to respond quickly to changing demands. And to make this work, we believe it's time to go back to basics in determining what talent your business needs and how it can be hired, built, motivated and retained within the constraints on skills availability and financial resources.

1 Key steps to defining and refining talent strategy

- Engage business leaders to understand and anticipate future business priorities and business models – our 'Workforce of the future' report looks more closely at how to more effectively align talent and business strategy.
- Participate in strategic and business planning processes and define alternative scenarios for the future (our Project Blue framework explores the developments ahead and the potential implications for your business).
- Identify and prioritise gaps in current talent programmes including long-term workforce planning, targeted hiring, leadership development and enhancing performance management.
- Clearly define the required mindset and specific behaviours needed to deliver on desired purpose and values.

Determine what capabilities are core to the strategy of your business and require investments in recruitment or talent development versus capabilities where alternative sourcing (alliances, vendors, contractors etc.) would be more appropriate. Funds are clearly limited, so it's important for business and HR teams to consider how to maximise the return, be this acquiring start-ups or partnerships with universities to create work-ready talent, for example.

2 Define an integrated talent portfolio

To ensure clear targeting of resources, it's important to analyse and map the current portfolio of 'change' and 'business as usual' talent initiatives. Changes are being made across the talent lifecycle – planning, hiring, performance management, culture change programmes and demonstrating regulatory compliance in linking performance and rewards. However, talent leaders also have to address business as usual challenges, including how to recruit, engage and retain talent, how to manage the HR risk and compliance issues associated with a contingent workforce and how to maintain cost-efficient benefits.

Prioritisation is critical. By designating and concentrating most closely on the high value/low-medium complexity programmes, you can begin to rationalise the demands on time and finance by eliminating low value/high complexity initiatives.

Successful execution depends on effective governance, clarity over roles and accountabilities across all stakeholders (managers, employees, external stakeholders) and a clear understanding of competing demands on management time and financial resources.

"We've seen success in terms of the value of the stock, but you don't measure everything with that. You also measure with employee engagement. There's no shortcut to the steps you've got to take to bring your employees with you on this fascinating journey that the company is on."

Ajay Banga
President and Chief Executive Officer, MasterCard US

3 Monitor and evolve

It's important to monitor, manage and adjust to take account of changes in the internal and external environment. For example how does a new regulatory requirement factor into changes in incentive compensation plans or what is the HR strategy for integrating a new acquisition? key element of this is the development and monitoring of an effective talent portfolio dashboard. In addition to ensuring robust management of the different programmes in train, it's important to define and track the key talent outcomes to be shared across relevant business and HR leaders.

You might considering communicating progress against objectives to your workforce and reflect some of these measures in external reporting, for example communicating the changes in diversity to investors, sharing the culture measure with a regulator or sharing productivity measures with shareholders. To support this, many leading organisations are developing and communicating new and improved measures in areas ranging from productivity and employee engagement to risk culture and attainment of diversity goals.

Contacts

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This report is a summary of the key findings on talent in the financial services industry, based on a survey of 490 financial services CEOs in-depth interviews with Dr. Nuno Amado, CEO, Banco Comercial Português; Ajay Banga, President and Chief Executive Officer, MasterCard; David Booth, Chairman and Co-Chief Executive Officer, Dimensional Fund Advisors; Greg Becker, President and Chief Executive Officer, Silicon Valley Bank; David Bojanini, President, Grupo SURA; Bill Emerson, Chief Executive Officer, Quicken Loans; Herman Gref, CEO and Chairman of the Executive Board, Sberbank; Peter Kraus, Chairman and Chief Executive Officer, AllianceBernstein (AB); Don Lam, Chief Executive Officer and Founding Partner, VinaCapital; Brian Moynihan, Chief Executive Officer, Bank of America Corporation; Ralph Hamers, CEO, ING Group NV; Peter D. Hancock, President and Chief Executive Officer, AIG; Li Huaizhen, President, China Minsheng Investment Corp. Ltd; Chitra Ramkrishna, Managing Director and CEO, National Stock Exchange of India Limited (NSE); Eduardo Stock da Cunha, CEO, Grupo Novo Banco; Guillermo Tagle, Chairman, Credicorp Capital and Dr. Nigel Wilson, CEO, Legal & General.

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