HEALTH WEALTH CAREER

TALENT STRATEGIES FOR A CHANGING FINANCIAL SERVICES SECTOR

AUTHORS:
NIGEL CARTER AND DUANE BOLLERT

FINANCIAL SERVICES

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Impact: meeting these changes and challenges will place demands on financial services companies to rapidly rethink and reinvent their talent strategies at the most fundamental levels.

The global economy is being buffeted by powerful winds of change that are sweeping across national borders and traditional industry boundaries. The financial services sector is no exception. In the US alone, financial services companies (banking, asset management and insurance) employ more than 6.2 million people and represent 7.2% of GDP, or $1.29 trillion.[1,2] Despite its vast size and scale — or more likely because of it — financial services is a prime example of a sector facing unprecedented changes and challenges. Driving the changes are such emerging factors as the impact of digital technology on business models, the need for new sources of growth and profitability, the evolving nature of globalization, the aging workforce and growing influence of millennials, and shifting regulatory imperatives.

To master the forces of change, financial services companies must significantly alter the ways they attract, develop and retain talent. New skill sets will be needed to execute future business plans. An agile, flexible workforce will be required to respond to changing business needs while optimizing productivity. Different approaches to the workplace, such as more flexible career paths, emphasis on work/life balance and tailored employee benefits, will be essential to develop and motivate a new generation of employees.

Companies that fail to align their talent strategies with these urgent challenges risk becoming uncompetitive and irrelevant. Those that embrace the new realities of the talent marketplace will reap the rewards: new opportunities for productivity, growth and value creation. In this publication, the first in a series, Mercer explores the implications of these forces and trends for financial services companies, and how to reorient the Human Resources function to meet the talent management demands of rapidly changing markets.

FINANCIAL SERVICES SECTOR CHALLENGES

- Disruptive technology
- Search for new growth sources
- Globalization
- Changing workforce demographics
- Shifting regulation

TALENT STRATEGY IMPLICATIONS

- Conduct robust workforce planning to address changing skills needs
- Leverage new technologies to enhance talent processes
- Re-imagine the employee value proposition and employee experience
- Create agile and fluid organizations
- Foster diversity and inclusion for competitive advantage

[1] US Bureau of Labor Statistics. “Industries at a Glance: Finance and Insurance: NAICS 52,” available at https://www.bls.gov/iag/tgs/iag52.htm.
[2] US Department of Commerce. “Financial Services Spotlight: The Financial Services Industry in the United States,” available at https://www.selectusa.gov/financial-services-industry-united-states.

FORCES OF CHANGE IN FINANCIAL SERVICES

DISRUPTIVE TECHNOLOGY

The pervasiveness of new technologies and the rise of digitally savvy market entrants will force more traditional financial services firms to invest in innovative solutions and explore alternative business models. In a report by the World Economic Forum, *The Future of Jobs*, 44% of chief HR officers of financial services firms rated processing power/big data as a top driver of change in the industry, and 41% cited mobile and cloud technology.[3]

The transition to digital business raises many talent-related issues. How will organizations attract new employees with the requisite digital expertise and/or re-skill existing employees? Can legacy workforces adapt to a future in which more functions will be automated? And how can HR systems and processes become more digitized and data-driven to support more effective recruitment and development, match skills with open roles and personalize benefits programs? The HR challenges caused by technological transformation are evident in every corner of the financial services sector.

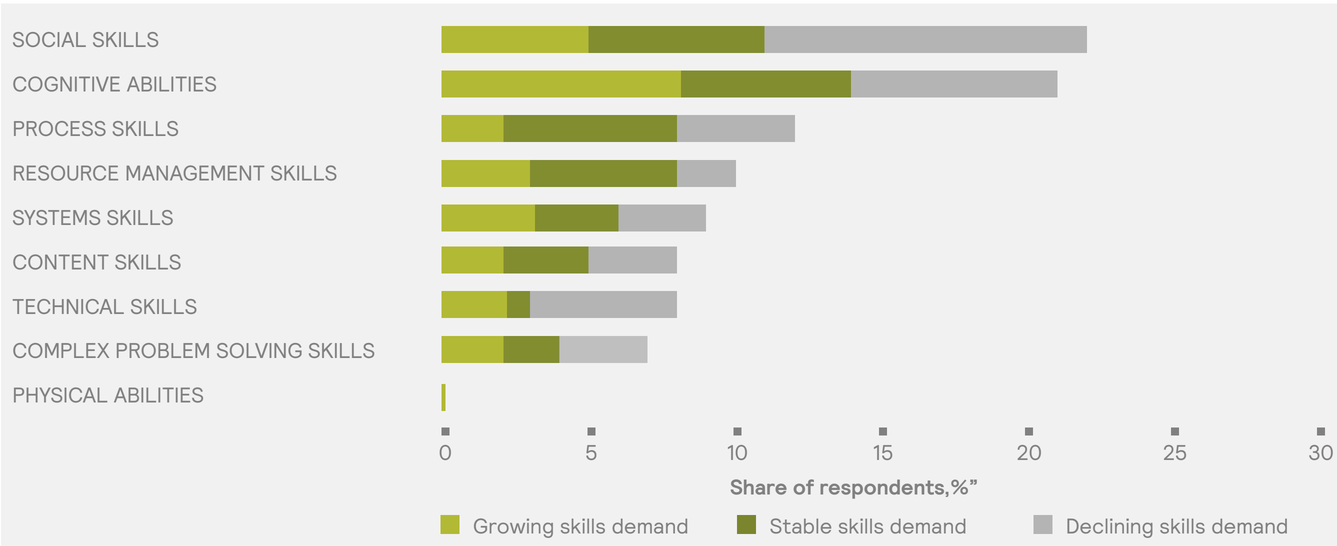
Insurers, for example, are now able to collect customer usage and behavior data from GPS devices and other connected systems, and can use this data to better monitor and manage clients' risks and personalize insurance products. In addition, mobile and other digital channels make it easier for insurance customers to engage with providers, although the ability to compare offerings and purchase insurance products online may erode customer loyalty. However, firms that can leverage these digital channels effectively, including social media, will be able to develop more touch points with customers and build a strong brand. Furthermore, insurance is dependent on processes, such as underwriting and claims adjusting, that are subject to automation via artificial intelligence (AI) and machine learning. Data provided by the US Bureau of Labor Statistics forecasts that jobs in the insurance underwriter category will decline 11% by 2024, and claims adjusters will grow more slowly than other fields, at 3%.[4]

Banks face new competitive challenges as emerging digital businesses target their deposit and lending customers. To compete in this environment, banks will need employees with the technological prowess to meet customers' demands for fully functional mobile platforms, and cater to the needs of clients who desire a seamless digital experience. In another branch of financial services, investment management, robo-advisors are challenging traditional financial advisors. At the same time, the ability to analyze vast amounts of data is giving rise to a new generation of quantitative investment firms.

Cybersecurity is another significant and growing concern in financial services. As customers manage more of their financial lives digitally, exposure to data fraud and theft will grow exponentially. In addition to monetary losses, cybersecurity breaches have the potential to destroy customers' trust in their financial institutions. In this context, the need to bolster the ranks of employees with cybersecurity skills is clear. The US Bureau of Labor Statistics projects 25,500 openings for cybersecurity talent and an 18% growth rate in the demand for that occupation through 2024.[5]

[3] World Economic Forum. *Future of Jobs* (January 2016), available at http://www3.weforum.org/docs/WEF_Future_of_Jobs.pdf.
[4] Mercer. *Global Insurance Market Labor Review* (February 2017).
[5] Ibid.

CHANGING SKILLS REQUIREMENTS: FINANCIAL SERVICES INDUSTRY



Source: World Economic Forum, *Future of Jobs* (2017).

Despite the critical need to realign their talent strategies with these forces of technological change, many financial services companies still lag woefully behind. Mercer's *Talent Trends 2017 Global Study* notes that less than 10% of executives surveyed consider their companies to be digital organizations.[6] Financial services companies must take urgent action with respect to the talent demands spurred by new technology, lest they fall behind in business innovation, as have other organizations that failed to respond to digital disruption (think Blockbuster, Kodak or the print editions of many magazines and newspapers).

Accelerating the digital shift at financial services companies will require a commitment to add more employees with technology-related skills. Acquiring that talent will not be easy, as skills such as data science are in high demand in virtually every industry. On a related note, companies will need to rethink compensation and benefits, diversity and inclusion, talent development, and the overall workplace environment to attract and retain a new generation of technology-proficient employees.

[6] Mercer. *Talent Trends 2017 Global Study* (2017).

It's also important to note that so-called "soft skills" will still be in demand, even in digital-enabled companies. True, AI and machine learning have the potential to replace some jobs currently performed by human employees, such as bank tellers, investment advisors, insurance underwriters and claim adjusters. Although this will likely result in fewer positions overall, AI will free up people for knowledge tasks, customer care and other functions that require reasoning, emotional intelligence, persuasion and leadership. The World Economic Forum's *Future of Jobs* report predicts increasing demand by 2020 for skills such as complex problem solving, social skills and cognitive abilities.[7]

Although the shift toward digital business is driving demand for employees with proficiency in science, technology, engineering and math (STEM), US schools, in particular, are not placing sufficient focus on these areas. The Organization for Economic Cooperation & Development (OECD) estimates that China and India will account for 40% of all young people with a tertiary education (including STEM-related degrees) in G20 countries by the year 2020.[8] Thus, financial services companies (and all industries) will need to take the initiative to invest in STEM education and support innovative programs, rather than rely on the US educational system to prepare students for the needs of a digital workplace.

Impact: to address digital imperatives, firms must upskill/retrain existing employees and recruit new talent in areas such as data science, social marketing and cybersecurity.

[7] World Economic Forum. *Future of Jobs* (January 2016), available at http://www3.weforum.org/docs/WEF_Future_of_Jobs.pdf.
[8] ICEF Monitor. "China and India to Produce 40% of Global Graduates by 2020" (July 16, 2012), available at http://monitor.icef.com/2012/07/china-and-india-to-produce-40-of-global-graduates-by-2020.

NEW DRIVERS OF GROWTH AND PROFITABILITY

Revenue growth in financial services is being adversely impacted by slower global GDP expansion generally, the maturation of traditional markets such as North America and Europe, and competition from new players such as fintech companies. Additional pressure on the bottom line comes from low interest rates, which have compressed margins, while at the same time costs have been elevated by regulatory and compliance requirements and the need to invest in new technologies.

The drag on growth can be partially offset by the potential in emerging economies. The OECD reports that insurance premiums in markets such as China, Hong Kong, Brazil and Mexico rose between 7% and 13% from 2010 to 2014 — two to three times faster than in developed markets such as the US and UK.[9] However, as established financial services firms look to grow in these newer markets, they'll face stiff competition from emerging-market multinationals, who are well-positioned in their respective regions and are less burdened by legacy systems and operations. For instance, in 2015 China's "Big Four" banks took over the top four spots on the Forbes Global 2000 ranking of the world's largest banks. Of the world's 100 largest banks, China has the highest number overall (13 banks); the US places second (11 banks).[10]

The push by financial services companies to embrace digital, mobile and big data may also lead to new growth opportunities. Given the disruption already caused by fintech and insurtech startups, traditional companies are considering mergers, acquisitions, alliances, partnerships and joint ventures to penetrate the digital financial services marketplace. As noted earlier, learning how to use data more effectively can also lead to new sources of revenue.

As they search for new avenues of growth, financial services companies also need to alleviate cost pressures, which have intensified due to the need to invest in innovation, as well as regulatory imperatives. Much of the "low-hanging fruit" of cost reductions from shared services, outsourcing and offshoring may already have been harvested. Companies need to seek cost efficiencies through technologies such as AI, machine learning and blockchain; greater workforce flexibility; and the use of partners to perform noncore functions.

Restructuring career frameworks and changing cultures to encourage innovation and collaboration will enable teams with diverse backgrounds to execute on new ideas. Financial services companies also need to change their approach to managing critical capabilities, augmenting full-time employees through networks of contract, temporary and freelance employees. Additionally, HR departments should consider using more sophisticated (and technologically assisted) assessment methodologies to determine which employees are capable of moving up to greater responsibilities in an evolving organization.

Impact: workforce flexibility will be critical to facilitate the more rapid pace of change, as resources are moved from mature businesses and regions to more high-growth areas.

[9] Mercer. *Global Insurance Market Labor Review* (February 2017).
[10] Forbes. "2015 Global 2000: The World's Largest Banks," available at https://www.forbes.com/sites/liyanchen/2015/05/06/2015-global-2000-the-worlds-largest-banks/ .

THE CHANGING NATURE OF GLOBALIZATION

Financial services is among the most interconnected industries in the world, with global banks, asset managers and insurers having operations in many countries. A major challenge for these companies will be to reallocate resources to faster-growing economies and, toward that end, to build talent bases in regions such as China, India or Mexico, where there may be a scarcity of employees with financial services experience. For example, due to competition for talent, the median tenure of investment professionals in China's insurance industry is just over one year, far less than in developed economies.[11]

To operate effectively on a global stage, financial services companies need to maximize economies of scale, including in the HR function and with employee benefits and wellness programs. They also must build robust governance processes that can adapt to multiple jurisdictions, comply with local HR regulations and issues effectively, and generally enable employee mobility.

At the same time, HR policies and processes must be flexible enough to accommodate the differing needs and attitudes of employees around the world. For instance, our survey of professionals in 37 countries revealed that the #1 priority varies greatly from country to country. Fair and competitive compensation was the top priority for employees in Canada, China, Germany, Italy, Singapore and the US; opportunities for promotion ranked first in Brazil, Mexico, India and South Africa; and leaders who set clear direction was most important for employees in Australia, Hong Kong and the UK.[12]

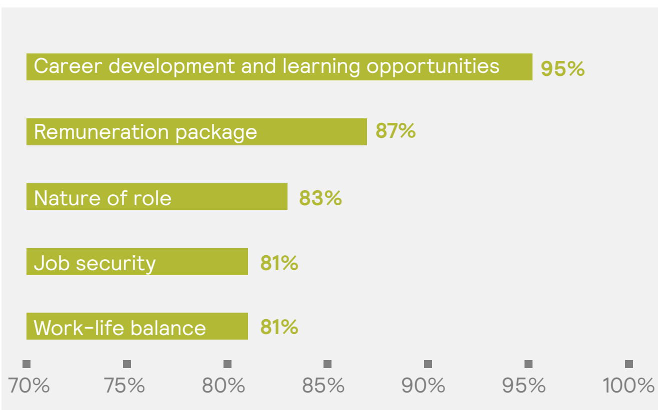
Impact: HR departments will need the flexibility to address changes in the global business environment, such as Brexit in the UK, shifting trade priorities in the US and potential movements toward more economic nationalism in other developed nations.

[11] Mercer. *Global Insurance Market Labor Review* (February 2017).
[12] Mercer. *Talent Trends 2017 Global Study* (2017).

CHANGING WORKPLACE DEMOGRAPHICS

As has been well documented, the millennial generation (those born between 1981 and 2000) will soon be the largest demographic group in the workforce, accounting for an estimated 50% of employees in 2020 and 75% in 2025.[13] Millennials are often characterized as highly technologically literate, interested in a sense of purpose/values and less formal/more flexible in their approach to the workplace than earlier generations. Studies suggest that employees drawn from this group are attracted more by opportunities for career development and learning, rather than pure compensation and job security.

TOP 5 FACTORS ATTRACTING MILLENNIAL EMPLOYEES



Source: Mercer and Oliver Wyman. *Digitization and Future of Jobs* (2017).

At the same time, because developed economies will experience the effects of an aging population, current employees may increasingly seek to work past age 65.[14] Thus, HR departments must be careful not to ignore the needs and preferences of these experienced employees.

SHIFTING REGULATORY LANDSCAPE

Financial services companies have hopes that the new administration in the US will ease regulatory burdens. In reality, there is considerable uncertainty about the fate of regulations such as Dodd-Frank, as well as the approach that the new US Securities and Exchange Commission leaders will take toward rule-making and enforcement. At the same time, the UK is tightening regulations such as the Banking Reform Act, although its regulatory stance may be affected by Brexit.

In any event, financial services companies will still face the challenges of operating under multiple regulatory jurisdictions and complying with a vast array of post-financial-crisis regulation in areas such as capital requirements, transparency and reporting and customer interaction. In addition, heightened post-crisis regulatory scrutiny has led to increased costs for compliance, reporting and risk management, among other areas.

An Oliver Wyman study revealed that just over 10% of financial services executives surveyed were confident in their risk measures.[15] As financial services companies seek to inculcate a strong risk culture, the focus should be on making all employees risk-aware and having them take ownership of the risk management process. Cultural change should be encouraged through numerous channels, including creative and smart employee communications and strong leadership from the top.

Impact: In today's regulatory environment, managing operational and balance sheet risk is critical. HR must lead efforts to embed a strong enterprise-wide risk culture — one that relies less on process and rules and more on customer outcomes and prudent risk-taking.

[13] Mercer and Oliver Wyman. *Digitization and the Future of Jobs* (2017).
[14] World Economic Forum. *Future of Jobs*.
[15] Mercer and Oliver Wyman. *Digitization and the Future of Jobs* (2017).

IMPLICATIONS FOR HUMAN RESOURCES

For firms to master the challenges — and maximize the opportunities — of this dramatically changing environment, they will need to reimagine their talent development and workforce strategies. Policies, programs, systems and even the structure of the HR function must be reoriented toward attracting, retaining and developing digitally savvy talent; encouraging the innovation required to seize new growth opportunities; competing in a shifting global business environment; and maintaining a robust risk culture. The talent considerations that HR departments must confront include (but aren't limited to) the following:

- Strategic workforce planning to identify required digital skills and talent sources
- Preparing the workforce for the effects of automation
- Using data to enable more effective and faster HR decision-making
- Optimizing performance and productivity through continuous feedback loops and workforce analytics
- Personalizing benefits offerings through the use of data and technology
- Adapting to the changing nature of work (flexibility, work/life balance)
- Creating transparency in reward, career development and promotions

At Mercer, we believe the following are urgent HR priorities for financial services companies to address the talent considerations mentioned above to remain relevant, competitive and thriving in a rapidly shifting business landscape.

1. REINVENT THE HR FUNCTION

As the pace of skills change accelerates to meet the needs of new business models, HR must be able to re-align talent management capabilities and processes with the company's future strategy. It will be important, for example, to develop new approaches to attract talent and continually build the skills of existing employees for roles that may not exist today.

Certainly, competitive compensation is still a priority for employees, but there is a growing focus on fairness. Employees want their companies to provide greater transparency about career paths and pay scales, and to provide more clarity about the rewards associated with the next level. Financial services companies also need to consider whether their performance management processes are "fit for purpose" and motivating for employees.

Organizations should consider the use of career frameworks. These frameworks form the core of an HR department's workforce initiatives, helping to create a talent pipeline and guiding both the employer and employees in making informed decisions. Typically, the framework outlines job architecture (career levels and job families), illustrates the major stages of career progression for each business area and enables employees to understand their career options. Frameworks should be flexible enough to facilitate cross-function transfers (for example, re-working job descriptions to highlight key competencies that may align with other roles for future transfer consideration). A career framework provides HR with a solid basis for activities such as learning and development, selection and promotion, succession management and career mobility, and performance and reward management.

Many HR departments also are rethinking established notions about the timing and frequency of performance evaluations and are adopting a continuous performance/feedback loop approach. The rationale for scrapping traditional annual performance reviews (and, in some cases, numerical rankings) in favor of more fluid, organic "check-in" processes is to deliver feedback closer to real time, not just once a year. Such feedback loops enable managers to respond to performance-related employee actions and behaviors "in the moment" as they occur, rather than waiting for a review that may take place months later, at which point both parties' recollections may be imprecise and incomplete. Feedback loops, supported by apps or other data-gathering technologies, have the potential to more effectively assess an employee's performance, identify talent development opportunities or drive more successful future behavior.

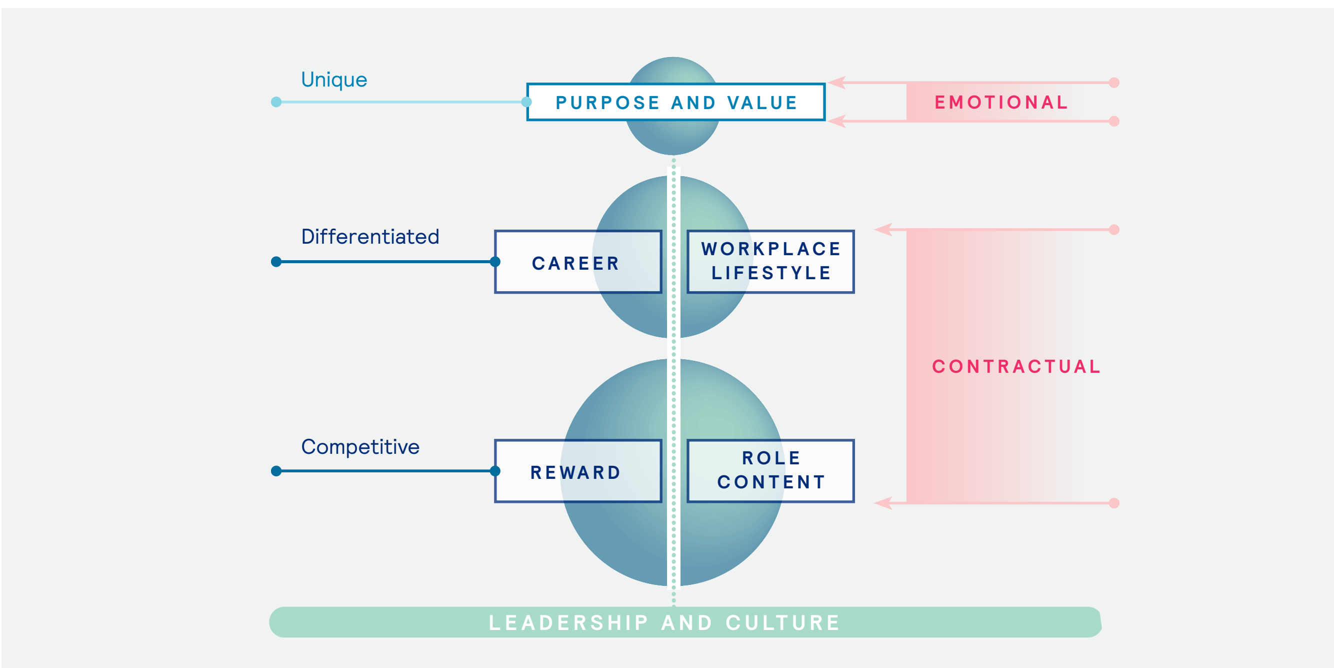
Today's employees, especially millennials and those with nontraditional skills, seek work arrangements tailored to their needs. HR needs to be able to satisfy the desire of employees for personalization. Policies need to address the individual expectations of different groups of employees and individuals rather than a one-size-fits-all approach. Advances in technology, ranging from career-matching apps to benefit management platforms, can help HR adapt programs to the needs of each employee. This may include more flexible work options, but also health and well-being programs such as employee health education, digital health tools, ready access to health services and policies to reduce workplace stress.

HR also needs to ensure that the "whole person" is taken into account in designing policies and programs. That means not only addressing job performance but also paying attention to all aspects of employees' lives, such as their physical, social, financial and psychological well-being. Greater emphasis should also be placed on creating policies that foster innovation (innovation teams or hubs, special funding sources, and the time and space to innovate, to name a few). In order to facilitate this reinvention, HR will need to embrace innovation and digitization themselves, employing analytics, cloud-based HR applications and social media for recruitment.

2. RE-IMAGINE THE EMPLOYEE VALUE PROPOSITION

To compete effectively for new sources of nontraditional talent, firms must dramatically change their Employee Value Proposition (EVP). Much has been written about millennial employees, but one of their distinguishing characteristics is an interest in factors beyond pay and benefits. Millennials report that they are motivated by a sense of pride and purpose, seek flexibility and work/life balance, and value continual career support. They are deeply concerned with the overall workplace environment, including the vision, goals and purpose of the organization, and seek an atmosphere of trust, empathy, fairness and transparency.

A company's EVP must be authentic and truly reflective of its culture and values, as well as compelling to current and prospective employees. At the top of the EVP pyramid are the organization's values and purpose, which will enable it to attract employees who have an affinity with that purpose. Below that level are the career opportunities and differentiated workplace qualities that a company provides. Finally, at the base of the EVP pyramid are the contractual pay and benefits aspects.



3. DEPLOY DATA ANALYTICS

Predictive analytics, including enhanced forecasting tools, can play an important role in workforce planning and talent development, enabling HR to map emerging job categories, identify skills overlaps and gaps, and anticipate changing skills requirements. For example, HR may use data analytics to guide decision-making by benchmarking a range of metrics, including comparisons of the structure, composition and labor costs of their workforce.

Predictive analytics can help an organization better identify high-potential individuals or people in critical areas who are most at risk for leaving the company. HR should also seek to use analytics to better understand the factors that cause one team to outperform another, the key drivers of employee engagement and the most effective forms of training.

4. ACTIVELY EMBRACE TALENT DIVERSITY

Given the demand for new types of skills, as well as the need for employees who can think and act in innovative ways, it will be essential to expand the talent pool and access new sources of talent by dramatically accelerating the drive toward diversity. Strengthening a company's diversity and inclusion proposition not only provides the breadth of experience and perspective needed to respond to changing market demands and opportunities, but also makes the business more attractive as an employer.

In this regard, financial services companies must improve their record with respect to female employees and those of diverse ethnic backgrounds — especially in senior leadership roles. Diversity must become the norm across all levels of the company, including boards of directors, committees and teams. At the same time, diversity is pointless without a culture of inclusion that encourages employees of diverse backgrounds to speak up, participate and contribute to the performance of the business.

5. CREATE FLEXIBLE ORGANIZATIONS

Employers must create more flexible organizations that can respond quickly and effectively to changing business and workforce needs. Mercer research shows that 93% of business executives plan to make design changes in their organizations within the next two years. Among the changes being contemplated are moving support functions to a shared services model, flattening the organizational structure, eliminating roles or departments and decentralizing authority. Although such moves are inevitably driven from the top, HR must work to ensure that employees understand their new roles and responsibilities in a changing organizational structure.

Creating more flexibility within financial services organizations will also entail developing a broader network of contract, temporary and freelance workers as well as more adaptable working arrangements that recognize work is what people do and not where they do it. Companies increasingly will need to accommodate employees who wish to connect and work remotely, as well as those who want to work on flexible schedules.

SUMMARY: THE STRATEGIC ROLE OF HR

Today, financial services companies are facing forces of change whose velocity and impact are greater than anything they have experienced before. Digital technology is disrupting old business models and competitive sets while also providing a pathway to improvements in productivity and cost effectiveness. As traditional financial services providers are pressured by rising costs and emerging competitors, they will need to look to new sources of growth and profitability. The global market environment and regulatory universe have become less certain.

These forces represent hard challenges but also great opportunities for those financial services companies that can anticipate and adapt to change. HR can and must play a vital role in acquiring and developing the talent required to move forward, while ensuring that companies align their organizational structures, policies and talent management strategies with the demands of a changing business environment.

LET'S CONTINUE THE CONVERSATION

If your company is moving in this direction — or should be but doesn't know how best to proceed — please contact us at nigel.r.carter@mercer.com or duane.bollert@mercer.com.

Nigel Carter is a Partner and Global Leader of Mercer's Financial Services practice. His industry knowledge stems from 25 years in the banking sector in investment banking and HR leadership roles.

Duane Bollert is a Partner and Global Leader of Mercer's Insurance practice. He has over 30 years of experience in consulting, enterprise risk management and insurance.

Mercer's Financial Services practice, composed of experts with years of industry experience, continually invests in the health, wealth and careers solutions that enable complex organizations to thrive. Located in major financial centers across the globe, this team supports over 1000 banking and investment institutions in solving some of their most complex global and local challenges. Technological advancements will transform the financial services industry over the next five years — requiring leaders to radically re-think their people strategy. We partner with our clients to develop unique strategies to drive performance and long-term business success.

Mercer's Insurance industry practice is a leading provider of strategic advice and execution support to over 700 clients across the globe. In an increasingly complex global environment, insurers are challenged to build more flexible organizations to take advantage of new technologies and distribution channels, manage evolving regulations and enter new markets to grow and thrive. With extensive industry experience, the team has a deep understanding of the forces shaping the future — and how to turn disruption into opportunity. This perspective, along with extensive research of global markets and the trends driving change, enables us to partner with clients to develop profitable growth strategies.

FINANCIAL SERVICES AND INSURANCE CONTACTS

Nigel Carter
Global Leader
Mercer Financial Services practice
nigel.r.carter@mercer.com

Duane Bollert
Global Leader
Mercer Insurance practice
duane.bollert@mercer.com

Arjun Vatsa
Senior Manager
Mercer Financial Services and Insurance practice
arjun.vatsa@mercer.com

CONTRIBUTORS

Neil Mathew
Senior Investment Analyst
Mercer Wealth Solutions

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