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# Financial Services Sector Review

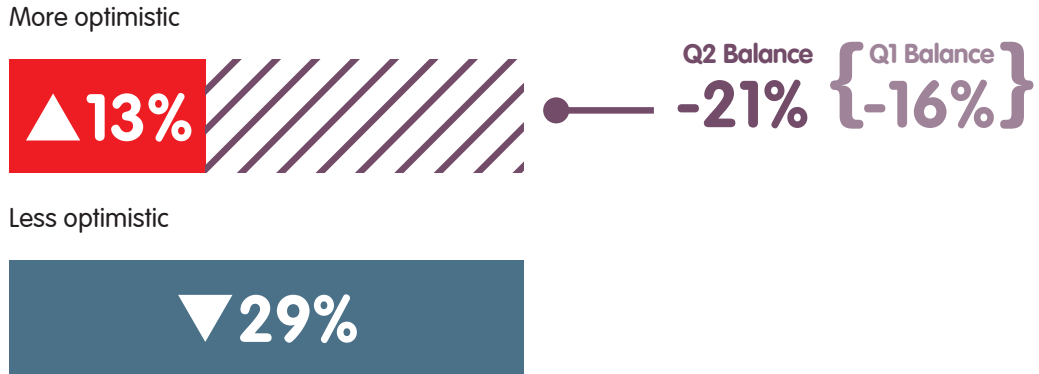
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Q3 / 2016

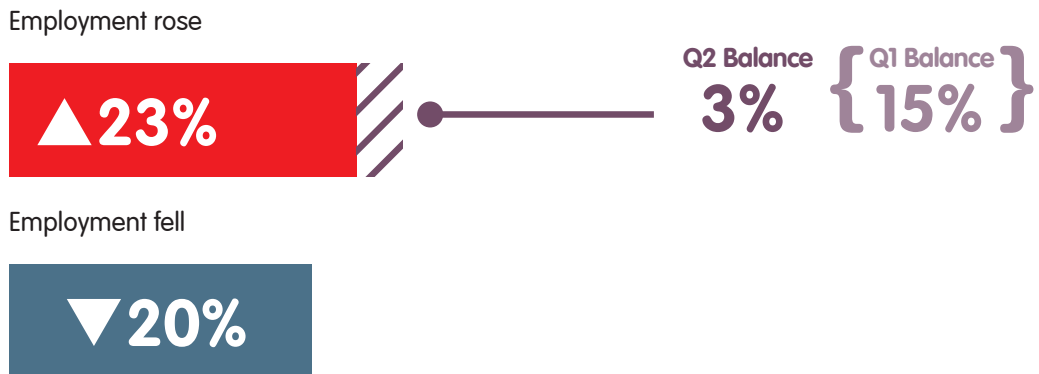
"We see growing uncertainty having a negative impact mainly in the recruitment of highly skilled people in finance,"  
**Adecco Group Chief Executive Alain Dehaze**

# Falling optimism & the Brexit effect

Optimism in the financial services sector fell in the three months to June 2016



Employment in the financial services sector in the three months to June 2016



Despite little physical evidence yet regarding the impact of a vote to leave the European Union the UK financial services sector was certainly aware of the potential damage in the lead up.

Optimism fell for the second consecutive quarter before the referendum according to the CBI/PwC Financial Services Sector.

**Rain Newton-Smith, Chief Economist at the Confederation of British Industry**, said there was definitely 'a mood of caution amongst financial services firms'.

A report from the Organisation for Economic Cooperation and Development (OECD) said: "A decision to exit would

result in considerable additional volatility in financial markets and an extended period of uncertainty about future policy developments, with substantial negative consequences for the United Kingdom, the European Union and the rest of the world." With this in mind a third period of falling optimism may well be possible for Q3.

#### (Relatively) Stable employment

Falling optimism has impacted hiring intentions within the sector but they were still positive during the second quarter of 2016 – 23% of firms said employment had risen compared to 20% who said it had fallen (balance +3%). This is compared to a balance of 15% in the first quarter of the year.

The caveat to this is that these predictions come from a pre-Brexit survey – intentions could well have shifted since then.

Assuming these figures are correct then the CBI predicts that employment in the sector will reach 1.146 million by the end of Q3 2016. Admittedly this would be 2,000 fewer than a year before but the difference in minimal and could be seen as a positive given the current situation.

This small reduction could actually be completely covered by job cuts in two large financial institutions during the second quarter of 2016 – Royal Bank of Scotland (RBS) and Lloyds.

In this longer term view PwC estimates the financial services sector could lose 70,000 – 100,000 roles by 2020.



RBS confirmed 900 fewer roles, to bring the total in January above 2,500, mostly in back office and technology operations. The bank had previously announced plans to cut one in every ten roles within its branch network during 2016.

Lloyds continued a strategy, announced in October 2014, to cut 9,000 jobs. The bank announced two sets of job cuts since the last report totaling more than 3,500 workers and more than 200 branches.

### The Brexit Effect

While the overall confidence of the sector and its ability to grow and add jobs is a general worry, a more specific worry is whether existing roles might be relocated to a location inside the European Union.

**Simon Hunt, UK Head of banking and capital markets at PwC**, said: "Overseas banks currently using the UK as a base for accessing the EU market and employing an estimated 115,000 staff are likely to be looking closely at their operations in the UK in the context of the leave vote."

**Nick Elwell-Sutton, Partner at law firm Clyde & Co**, also warned that a number of banking jobs could leave the UK in the wake of the vote.

"Unless the financial services passporting rules [which allow firms to sell financial services into EU member states] are resolved in the UK's favour, then many large financial services businesses are likely to relocate to within the EU, meaning large-scale redundancies would be highly probable," he said.

At the time of writing no employer has announced they are definitely moving jobs out of the UK because of the referendum result, however some have refused to rule it out.

JPMorgan Chase, HSBC, Citibank and Visa have all suggested they may be forced to move thousands of staff out of the UK but only if the UK becomes unable to sell financial services freely to the European Union. JPMorgan chief executive Jamie Dimon did admit that this was a worst case scenario while Citibank country officer James Baldrick said 'rebalancing' was probable in the event of Brexit.

Morgan Stanley has denied a report that it is in the process of moving 2,000 jobs from London to Dublin or Frankfurt.

On the other hand, Barclays has confirmed that it has no plans to move any jobs outside the UK, although **Chief Executive Jes Staley** refused to rule out a change of business model in order to maintain access to capital markets.

**HSBC Chairman Douglas Flint** emphasized the bank's "commitment to British businesses, customers and staff" adding that it "remains undiminished" despite the vote.

One company that has confirmed job losses in London is fund manager Fidelity which is moving 100 roles to Dublin. The company does point out that this move was part of an existing plan and not directly related to the referendum.

Bank analysts at Keefe, Bruyette & Woods have estimated that the big U.S. banks

allow could move just over 7,200 workers outside of London. Lloyds of London believes that significant number of the 34,000 people employed in the insurance sector could leave the UK.

**Aneil Balgobin, Partner and Employment Law Solicitor at Simpson Millar**, said he expected to see investment in foreign offices. Although **Paul Cook, Founder of cultural diagnostics firm Alderbrooke**, does not expect jobs to be moved immediately: "Decisions on job cuts and banks moving their headquarters outside of London will not be effective immediately – but the last thing the sector needs is months of uncertainty as to 'what happens next?' weighing on the existing cost pressures," he said.

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### What this means

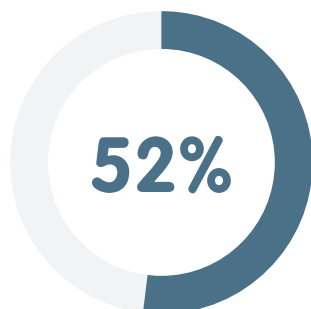
There is no doubting the uncertainty and, in some sections, concern within the financial services sector but in the immediate short term there is likely to be minimal impact on employment.

As information about the situation post-Brexit becomes clearer and more concrete businesses will be able to make more informed decisions.

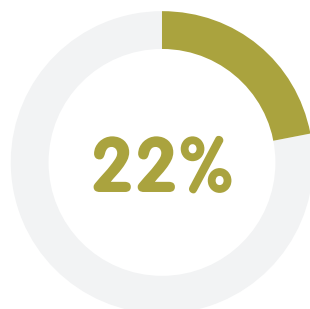
As **Richard Gnodde, the Co-Head of the investment banking division of Goldman Sachs** said, "every outcome is possible".

# Executive pay backlash

Deutsche Bank was among a number of large companies to see shareholders vote against the bank's remuneration policy with 52% voting against. Standard Life was another that drew ire, but in their case on 22% voted against. Citigroup also faced shareholder unrest. Both figures are significant considering the average vote against remuneration policy in 2014 was 5.9%.



Deutsche Bank



Standard Life



Average vote against remuneration policy in 2014

The income levels of senior executives in a number of industries has long been a topic of interest for the UK media and since the global economic downturn the financial services in particular has proved to be a popular target.

The second quarter of 2016 may yet prove to be a turning point in the debate as investors chose to act against it, politicians discussed related legislation and even senior figures within the financial services industry spoke against it.

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Both figures are significant considering the average vote against remuneration policy in 2014 was 5.9%. The vote against Standard Life might also have been larger had new Chief Executive Keith Skeoch, reduced his potential long-term bonus by £700,000 to £2.8m.

**Sir Gerry Grimstone, Chairman of Standard Life**, said: "A number of companies have been sent a message this year."

He told shareholders at the annual meeting: "My personal view is that pay in financial services is too high... There is downward pressure on pay and I think that's a good thing."

Speaking to media later, he called for something akin to "multilateral nuclear disarmament" – arguing that Standard Life cannot go it alone in lowering executive pay if it wants to attract the best talent. He added: "The pay climate is tightening and I think will continue to tighten."

#### Is Exec Pay finally too high?

The chairman is not the only high profile figure to make these comments during the second quarter of 2016.

One of the earliest announcements from new Prime Minister Theresa May was an intent to introduce binding shareholder votes on executive pay. She won backing from one of the UK's biggest fund managers – Fidelity – who have called for this measure since 2012.

**Bank of England Chief Economist Andy Haldane** used a speech in Westminster to highlight the fact that FTSE100 CEOs are earning more than 150 times the average worker.

This large and growing remuneration gap, Mr Haldane said, "drive[s] a wedge between management and employees... that in turn erodes social capital. A company, like a country, whose physical and social capital is being eroded is one whose wealth-creation capacity is being impaired."

Norway's oil fund, the largest pension fund in the world, has said it would start making an example of companies that overpaid their bosses.

Interestingly this comes at the same time as more than 70 leading financial services firms have pledged to set targets for helping women into senior positions – and link them to executive pay levels.

#### What this means

There are signs that this movement may be more than a flash in the pan and might materially alter the practice of executive compensation.

The Financial Reporting Council believes tackling the issue would be important in helping big business win back public trust.

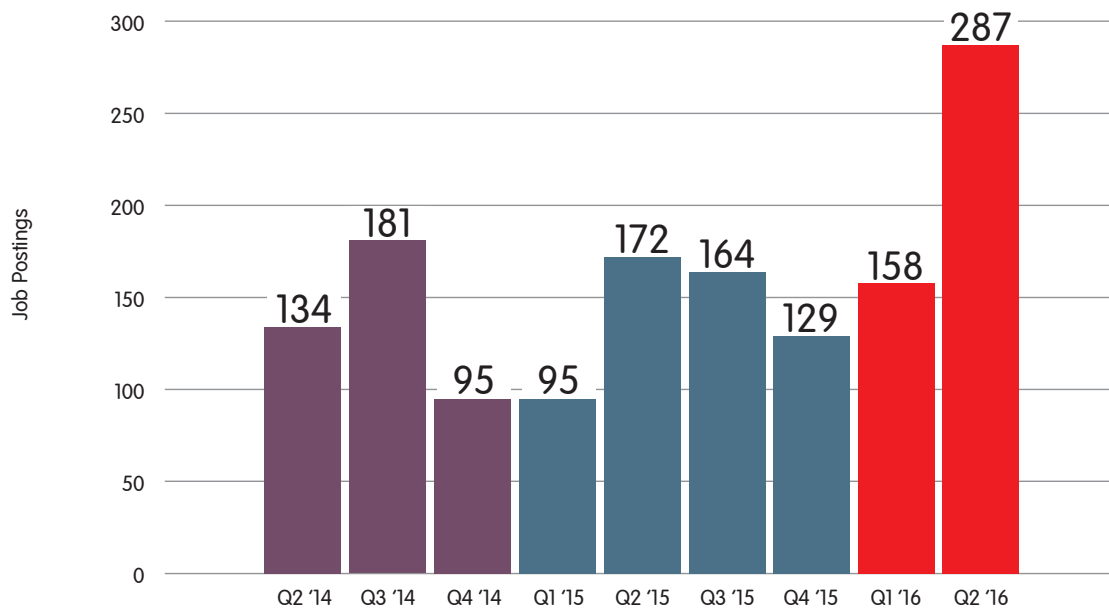
The UK financial services industry has already displayed a willingness to examine the problem with the Investment Association approaching **Nigel Wilson, Chief Executive of Legal & General**, to lead a task force on the issue.

Mr Wilson said the current system was 'very obviously not fit for purpose'.

No-one is expecting the level of executive pay to start falling over night but a move towards a more transparent measurable system could well be an outcome. The fact that 40% of FTSE100 Chief Executives saw a pay freeze in 2016 is no coincidence and no small thing either.

# Snapshot - UK Financial Services recruitment 2016 (so far)

**Jobs advertised per quarter within Financial Services Industry that require compliance as a skill**  
(Source: Burning Glass)



The first half of 2016 saw a number of similar recruitment trends within the UK financial services sector.

As usual London has dominated the demand for talent, with not far off half the demand in the whole country. When taken along with the South East that region accounts for nearly two in every three of every job adverts for the financial services sector. Both of these figures are similar to the previous year.

In correlation to this, the large banking institutions with workforces largely based in London are the ones with the highest talent requirements. JP Morgan Chase continues at the top while Bloomberg and Bupa slide out of the top five to be replaced by HSBC and Lloyds.

In terms of the type of talent required the top five most in demand occupation bands are exactly the same as in 2015. The dirty little secret in Finance these days is the

need for IT talent – two of the top five most in demand bands are IT related with Java Software Developer the 4th most desired job title. The only reason there aren't more in the top five is the sheer range of different specialisms required within the technology sector.

This demand is particularly strong with the General Insurance market, driven by concerns about competition from new players and the rise of InsurTech.

Unsurprisingly communication and relationship building remain the most important skill sets in an industry that requires high levels of customer service.

#### High Demand for Compliance

Scrutiny and regulation have been focused on the financial services in recent years and this is not expected to let up any time soon. With reform in banking regulation on the agenda for 2016 the market has seen

a spike in roles that require compliance as a skill set.

The CBI/PwC financial services survey reported this demand was particularly strong within the Banking and Investment Management sectors.

#### Brexit Teams

One impact of Brexit for recruitment so far has seen the large accounting and consultancy firms create specialist teams and new roles to tackle the issue.

KPMG appointed Karen Briggs to be 'head of Brexit' and a @Brexit Response Panel' while EY and PwC have created their own teams.

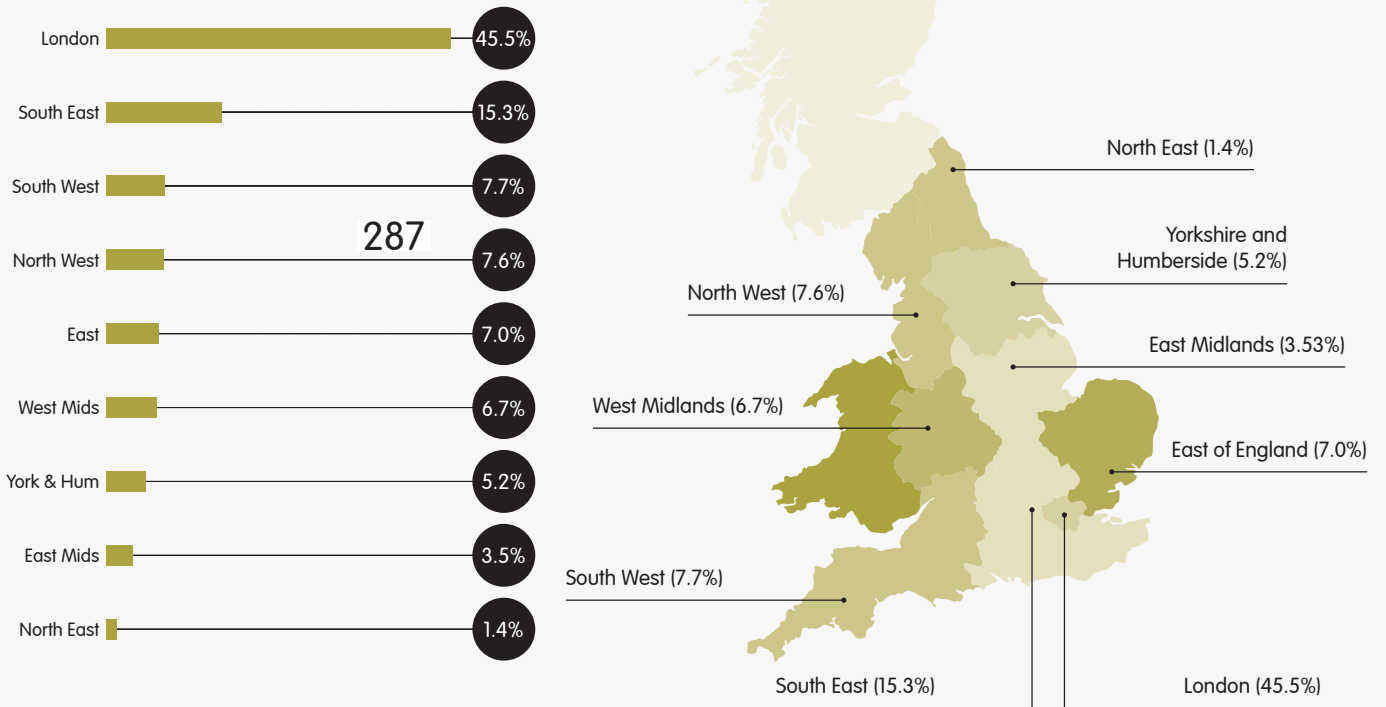
Adecco Group UK&I has also created a Brexit Response Team.

Even Theresa May's new cabinet now has a Minister for Brexit in the form of David Davis.

# Financial Services Sector Review / Q3 - 2016

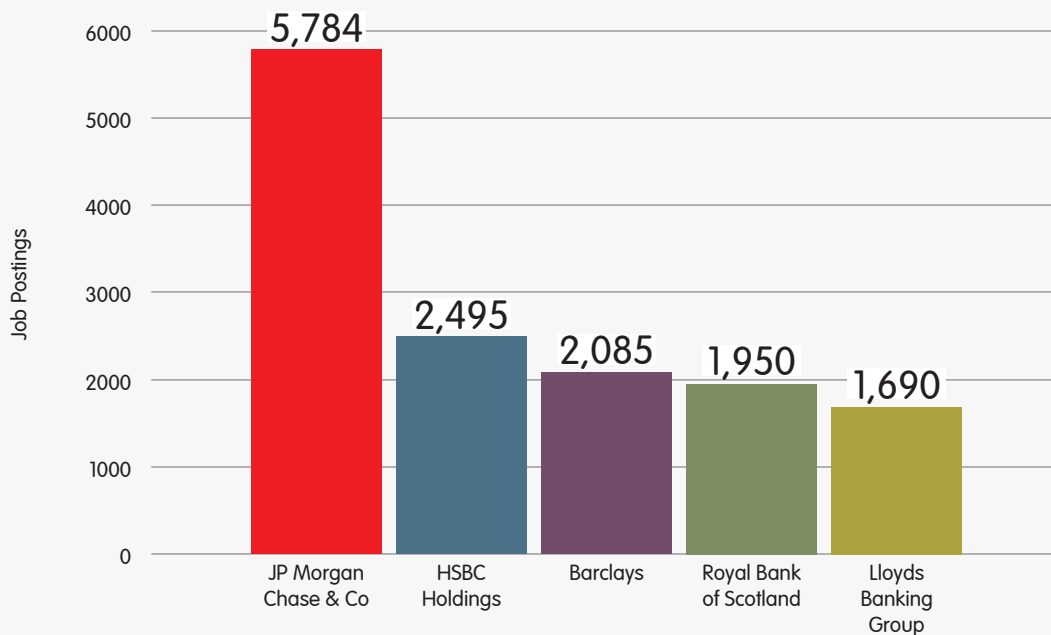
## Regional Split

(Source: Burning Glass)



## Top 5 Employers

(Source: Burning Glass)



## Top 5 Occupations

(Source: Burning Glass)



Programmers and software development professionals

Job Postings: 6.79%



Management consultants and business analysts

Job Postings: 5.79%



Finance and investment analysts and advisers

Job Postings: 5.19%



Business sales executives

Job Postings: 4.28%



IT business analysts, architects and systems designers

Job Postings: 2.85%

## Top 5 Job titles

(Source: Burning Glass)



Javascript Developer



Business analysts



Account Manager



Sales Executives



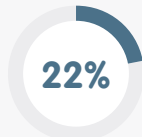
Business Development Executive

## Top 5 'Basic' skills

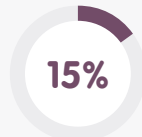
(Source: Burning Glass)



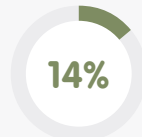
Communication skills



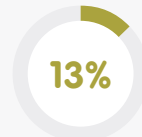
Organisational skills



Writing



Team Work/  
Collaboration



Detail-Orientated

## Top 5 'Job-specific' skills

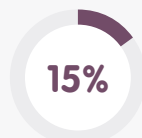
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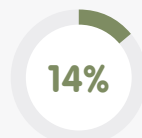
Building Relationships



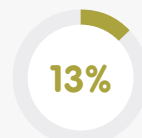
Business Management



Microsoft Excel



Customer Service



Project Management

## Top 5 Growth sectors, by employment % 2015-16

(Source: IbisWorld)

