Financial Services Sector Review

Q4 / 2016

Adecco Group UK & Ireland

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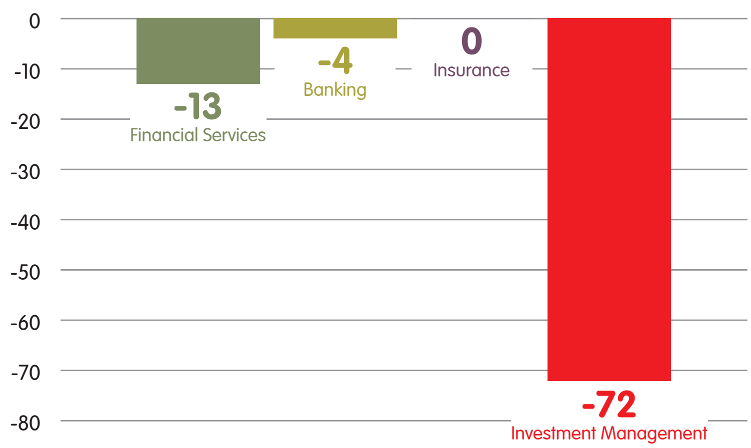
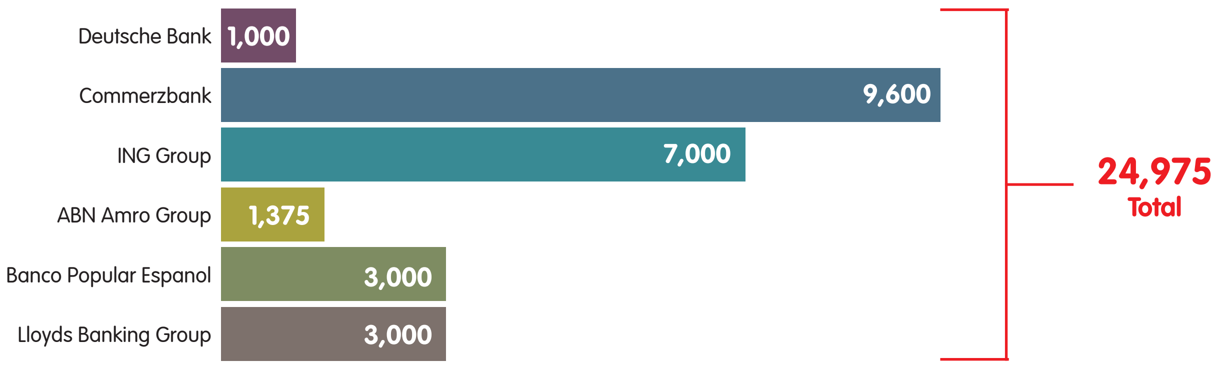
Vacancies, jobs and business confidence

Confidence change for three months to September 2016



European banking job cuts announced during Q3 2016



The Financial Services Survey compiled by PwC and the Confederation of British Industry (CBI) reported that confidence amongst financial services firms fell for the third consecutive quarter in the three months to September 2016. This was felt particularly within Investment Management.

Richard Buxton, Chief Executive and Head of UK equities at Old Mutual Global Investors, believes the market has already entered - a "pretty significant recession".

Jobs

Job cuts were in evidence during the third quarter throughout Europe, related in some ways to falling confidence levels – although which way the causal relationship flows is debatable.

Lloyds Banking Group will close 200 branches, which will cost 3,000 jobs in the UK by the end of 2017. This is on top of the 200 branches and a last tranche of 9,000 roles scheduled to be lost by the end of next year.

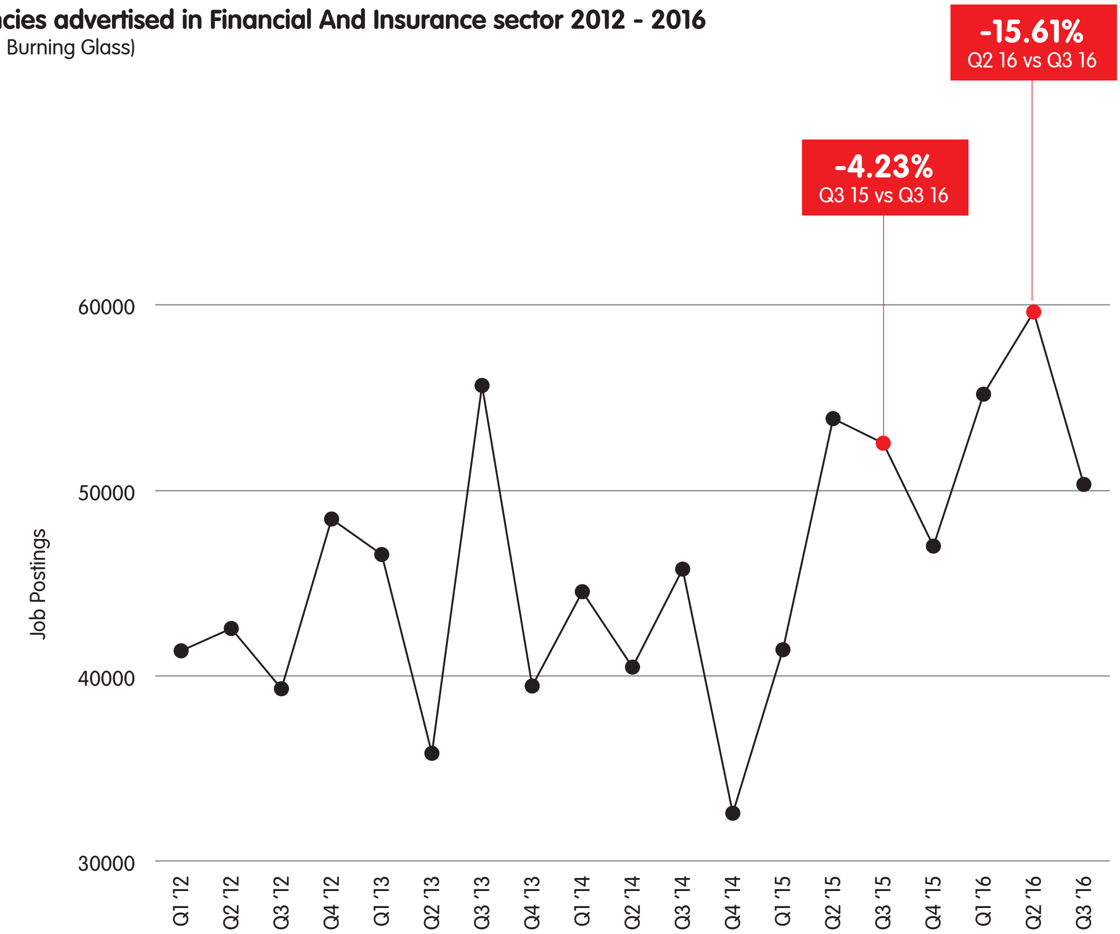
With the announcements from across Europe the total number nears 25,000.

- Deutsche Bank
  - 1,000 job cuts in Germany,
  - to add to the 3,000 announced last quarter,
  - and a further 10,000 being considered.
- Commerzbank – 9,600 jobs, 20% of the workforce
- ING Group – 7,000 positions over five years
- ABN Amro Group – 1,375 roles, 6% of the workforce
- Banco Popular Espanol – 3,000 roles

Bloomberg reported that headcount across 26 European banks has fallen by more than 150,000 to 2.1m staff since the end of 2007.

Vacancies, jobs and business confidence (cont'd)

Vacancies advertised in Financial And Insurance sector 2012 - 2016
(Source: Burning Glass)



Vacancies

It stands to reason that alongside falling confidence and redundancies there would be fewer vacancies in the industry and this appears to be true.

Adecco Group UK&I, in partnership with Burning Glass, found that vacancies in financial and insurance activities fell by 15% in Q3 2016 compared to Q2 2016. The third quarter is often quieter than the second as it covers the traditionally quiet, summer period but the quarter was also 4% lower than a year ago.

In periods of uncertainty industries would usually resort to contract workers but counterintuitively temporary vacancy numbers have fallen by more than a quarter from a year ago and are barely a third of what was experienced in the second quarter of 2016.

What this means

Financial services firms have been highly vocal about the negatives of Brexit but it should be noted that they have a vested interest in the outcome and are aware of the power of public perception.

Antonio Horta-Osório, Chief Executive of Lloyds said: "Following the EU referendum the outlook for the UK economy is uncertain and, while the precise impact is dependent upon a number of factors, including EU negotiations and political and economic events, a deceleration of growth seems likely."

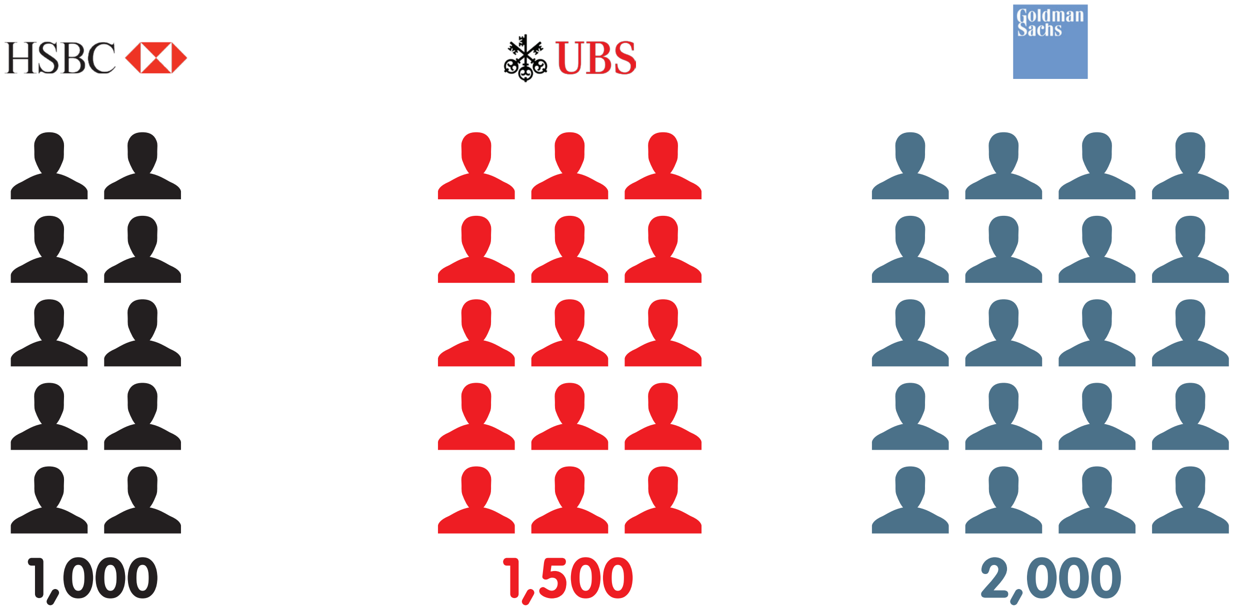
There are a number of factors at play in the European financial services sector here – it is not all about Brexit.

Simon French from Panmure Gordon said: "I think problems facing the European banking sector are symptomatic of a Eurozone monetary policy which isn't appropriate for large parts of the economy. In an ideal scenario monetary policy would be a lot looser for the southern periphery and quite a lot tighter for Germany."

Technology is also having a significant impact, due to competition from innovative fintech startups and the temptation to replace jobs with automated programmes. "Banks are increasingly looking to use new technologies to further automate their services," **PwC analyst Andrew Gray** said.

People movements

Companies considering moving staff out of London



The third quarter of 2016 saw a number of large financial services firms say they are considering or prepared to move staff to European locations, away from London, if they do not receive the post-Brexit conditions they require.

The IN Camp

One name that has committed to maintain his workforce in the UK is **Jes Staley – Chief Executive of Barclays.** He was joined by **Douglas Flint, Chairman at HSBC** who will not change his plans to maintain the global headquarters in London following a 10-month review completed in February.

"We are a British bank, our history is here in the UK so first and foremost we are staying anchored in London and anchored in Great Britain," Mr Staley said.

Thinking About It

The British Bankers' Association (BBA) has warned that large are ready to relocate out of the UK as early as the start of 2017. "Their hands are quivering over the relocate button," claimed **Anthony Browne, Head of the BBA**.

Head of financial development for Luxembourg, Nicolas Mackel, claimed that the country had experienced strong interest from US and other non-EU firms since the referendum. By the same token he suggested that no more than 30,000 staff would leave London – split largely between Luxembourg, Frankfurt and Dublin.

Thinktank Open Europe believes these moves are more likely to happen nearer to the end of 2017 than the beginning.

Despite keeping their HQ in London HSBC is considering moving around 1,000 staff to Paris whilst both Goldman Sachs and UBS are considering around a third of their London workforce to continental Europe. **Lloyd's of London Chairman, John Nelson,** has also suggested they might be forced into making a similar move.

One US hedge fund has even started betting on the fact that many of these jobs will be moving. Marathon, worth £10bn, has bought retail space, office buildings and residential homes in Frankfurt, Paris, Dublin and the Netherlands in the expectation that these areas will see growth in financial services jobs.

What this means

These decisions are generally dependent whether the UK accepts what is commonly now called 'Hard Brexit' and would involve businesses losing 'passporting' rights. This may not involve companies being forced to leave the UK but it would likely involve them need to set up a presence on the mainland to continue being able to sell services. This would involve a redistribution of labour away from London.

Overall a 'Hard Brexit' could cost the financial services industry in the UK between 65,000 and 75,000 jobs and up to £38bn in lost revenue.

It is important to remember at this point however that the financial services industry is also potentially exaggerating the situation in order to achieve their goals from the negotiation process. Consultancy firm EY has been tracking every public statement made by 232 financial firms and found that while one in five investment banks has made negative predictions and quarter have committed to remain in the UK. Furthermore 10% of insurance firms actually believes that Brexit could lead to positive moves and new opportunities.

Talent & Business mobility

Number of authorised financial services firms in the EU

Total: 13,484

The hard fact that Britain will eventually have a border with the rest of Europe engenders a discussion around the mobility of both talent and businesses. There are contentions that both may leave London over time but how easy will that be and how easy would it be for others to come in and replace?

Passporting is currently among the biggest topics of discussion within the financial services industry and the possibility of losing it is driving falls in confidence in many areas. Passporting essentially means that, authorised, financial services firms can sell their services in other EU countries without having a physical presence in that country. This means that companies don't need to be that mobile.

If Britain loses this right then financial services firms will at best have to relocate assets to continental Europe in order to operate or, at worst, move their entire operation. This is an expensive operation, fraught with danger – what happens if a business chooses the wrong location, maybe one with a deep enough talent pool?

"Passporting rights are tied to the single market and would automatically cease to apply if Great Britain is no longer at least part of the European Economic Area (EEA)," said **Jens Weidmann, President of Deutsche Bundesbank.**

A number of alternatives to passporting have been suggested, including the idea of equivalence (essentially the same as passporting) but Anthony Browne argues that none of them would allow the UKs financial services industry to continue unhindered. "In truth, the alternatives are poor shadows of genuine passports" he said.

Bill Michael, Global Head of banking and capital markets at KPMG, broadly agreed but also comments that the government may struggle to keep the industry equivalent for any significant period of time, as the financial sector is "an area that is going to always be moving".

Skills

Data from LinkedIn suggests that financial services firms are at high risk from losing access to EU talent following Brexit. EU nationals are 50% more likely to be working in this industry than their UK counterparts.

Chancellor Philip Hammond has already suggested that the UK would look to 'facilitate the movement of highly skilled people between financial institutions and businesses in order to support investment in the UK economy'.

In a report published by PwC, The City of London Corporation has offered a regional visa as a solution. There would be a 12-month visa for those recruited to fill a skills shortage or one for six years to fill a permanent role that could also lead to permanent residency after five years. Individuals entering the UK on the longer term visa would be permitted to purchase property in the area where they had been granted permission to work.

City of London policy Chairman Mark Boleat, said: "This is not a London solution to a national problem, but actually something that can support growth outside of the capital across a wide variety of sectors.

"Local businesses are best placed to know their employment needs in their area, so they should be playing the lead role in filling job vacancies internationally and addressing local skills shortages."

What this means

Passporting is extremely important to the UK financial services industry but it is important to bear in mind some context – certainly with regard to employment in the UK.

There are nearly 5,500 firms based in the UK with passporting rights to operate throughout Europe. In the event that the UK loses that right they would be forced to move at least a token workforce inside the EEA but that is only 42% of all currently approved firms. The remaining 58% are based on continental Europe but would have an interest, at least in the short term, in continuing to operate in one of the world's global financial centres.

It's possible to envisage a scenario where London might even add to its workforce. Especially with 58% of financial services firms viewing London as a 'top three tax regime' according to analysis by KPMG.

The skill conversation also benefits from some context. Leaving the EU does not mean that those workers will never be allowed to work here ever again – the UK already has more than 1.2 million non-EU nationals engaged in the workforce as proof of that.

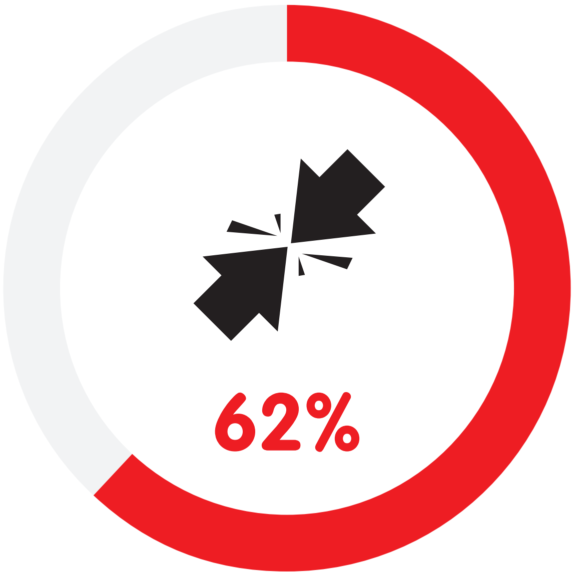
The uncertainty is not good for business and any future immigration processes may make hiring more expensive but the opportunities will be there for vital skills regardless.

London already has a number of ingrained advantages when it comes to attracting talent as well. The Global Innovation Index ranks London as the second most innovative city in the world alongside the social scene that places such as Frankfurt would struggle to match.

It should always be remembered that the financial services sector has a vested interest in the outcome when considering the implications of their comments and opinions.

A change in pay culture?

62% feel that unjustified bonuses cause resentment in the office which can affect the environment.



Following a summer where investors voiced their disapproval at executive pay and given the public perception of earnings in the financial services sectors it was interesting to see some moves to alter the situation during the third quarter of 2016.

A report from the Investment Association set out a 10-point plan to tackle what it sees as 'excessive' and 'ineffectual' executive pay. They claim the plan will 'rebuild trust' in business. The association is chaired by **Legal & General Chief Executive Nigel Wilson.**

"We need to restore public confidence in executive pay," said Mr Wilson, adding more transparency is needed. "Our report shows shareholders, boards and executives agree the current approach is not working."

The report called for greater clarity around calculation, an end to the three year 'long term incentive plan' and showing the salary as a multiple of the lowest paid employee.

The proposals received the backing of the Financial Reporting Council, with their **Chief Executive Stephen Haddrill** adding: "Corporate governance in the UK has a strong global reputation but this and confidence in business is being tarnished by those companies which are doing too little to recognise legitimate shareholder and public concerns on remuneration."

A study by the Chartered Institute of Management Accountants (CIMA) found that is not just the general public who are unhappy. More than a third of finance professionals believe the bonuses achieved by top earners are unjustified. Furthermore 62% feel that unjustified bonuses cause resentment in the office which can affect the environment.

Neil Woodford announced that he had removed all bonuses from his wage structure since April 1st 2016 in order to discourage "short-term decision-making and wrong behaviours".

Alongside this more than 70 leading financial services firms have signed the Treasury-led Women in Finance Charter. Firms such as Aviva, Barclays and PwC will now link executive pay to targets for helping women into senior positions.

At the same time the Co-operative Bank has announced it is considering raising base salaries in response to regulations that do not permit them to pay bonuses during loss making periods.

What this means

The discussion around pay rates is a difficult one for employers to get right but also present some opportunities.

Employers looking to take a stance similar to that of Neil Woodford will understand that lowering the potential earnings will make them a less attractive proposition to a number of potential candidates. Altering the method of incentivising staff will also mean examining the internal workplace practices. Will management be able to ensure or maintain the same levels of drive and enthusiasm.

By the same token the move generates news headlines, positive news headlines and potentially makes the company more attractive to a different set of candidates – potentially ones that would never have considered it before. Due to their nature their candidates may be less financially driven and more intrinsically, reducing the need to alter practices as the same worries are less prevalent.