THE ADECCO GROUP

Financial Services

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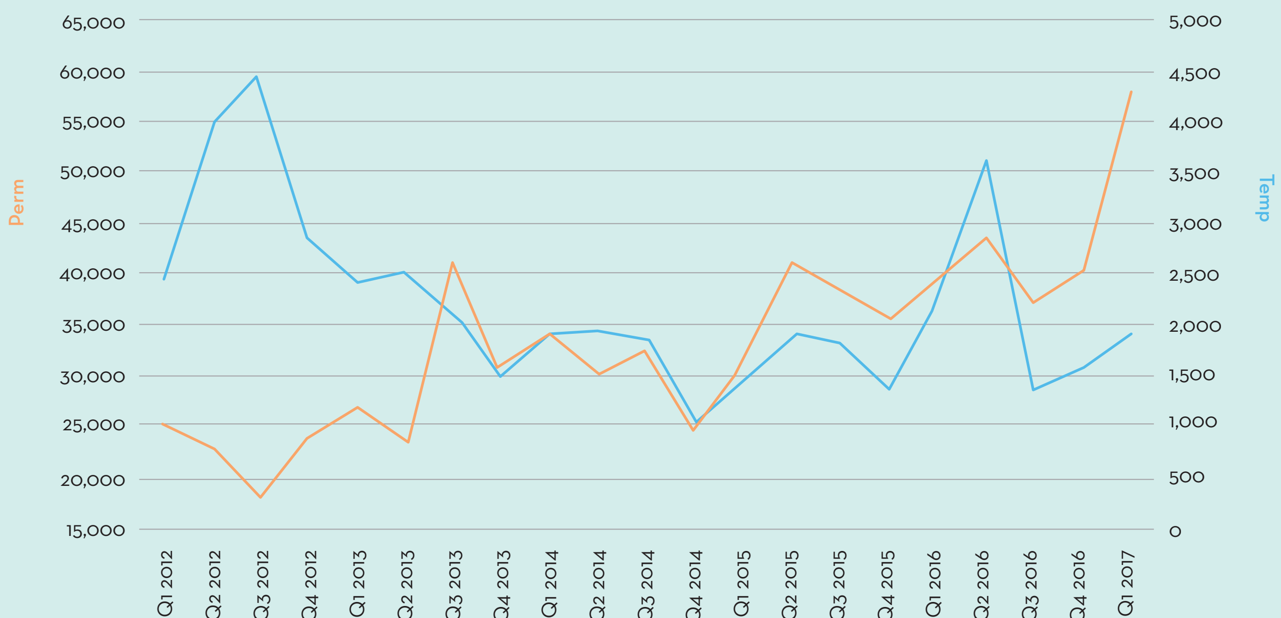
Demand for Labour in the Financial Services

Financial Services demand for talent
(Source: Burning Glass)



This data covers the first quarter of 2017 and so unsurprisingly paints a positive picture of demand for talent in the Financial Services sector, the first quarter of a year in any sector almost inevitably does.

Demand was more 37% higher than the final quarter of 2016 but more importantly 27% more than the year before – this is despite fears over Brexit. What is also surprising is that demand is being fuelled, seemingly, by demand for permanent staff which is up more than 40% both compared to last quarter (+43%) and last year (+47%).

Although the first quarter is always positive there was little expectation of that much confidence in the market, the CBI/PwC Financial Services Survey had registered four consecutive quarters of falling optimism within the sector.

That said the survey did predict this upturn in demand by registered a plateauing in optimism and increase in desire to recruit staff during the first quarter of 2017.

This upturn in confidence could be due to increasing confidence and stability – although Brexit is coming at least there is a solid timetable for it. In fact, the Financial Services survey did expect employment to rise for a third consecutive quarter. That survey was conducted before the announcement of a snap election in the UK which may throw a spanner in the works for the next few quarters in terms of recruitment – all UK companies are likely to be less confident about investing in their workforce during this period.

Ian Stewart, Chief Economist at Deloitte, said: "CFOs believe the Brexit headwinds have eased and see far less damage to their spending plans than earlier expected. While most still see Brexit having an adverse effect on the business environment, even here the degree of negativity has fallen."

"Crucially, two longstanding sources of risk – concerns about weakness in emerging markets and the Euro area – have fallen significantly. The decline in concern about the Euro area is the largest recorded for any risk factor, indicating growing confidence about Europe's recovery," Stewart said.

The market continues to be dominated by London and the South-East, which accounted for more than half of all vacancies in the UK during the first quarter.

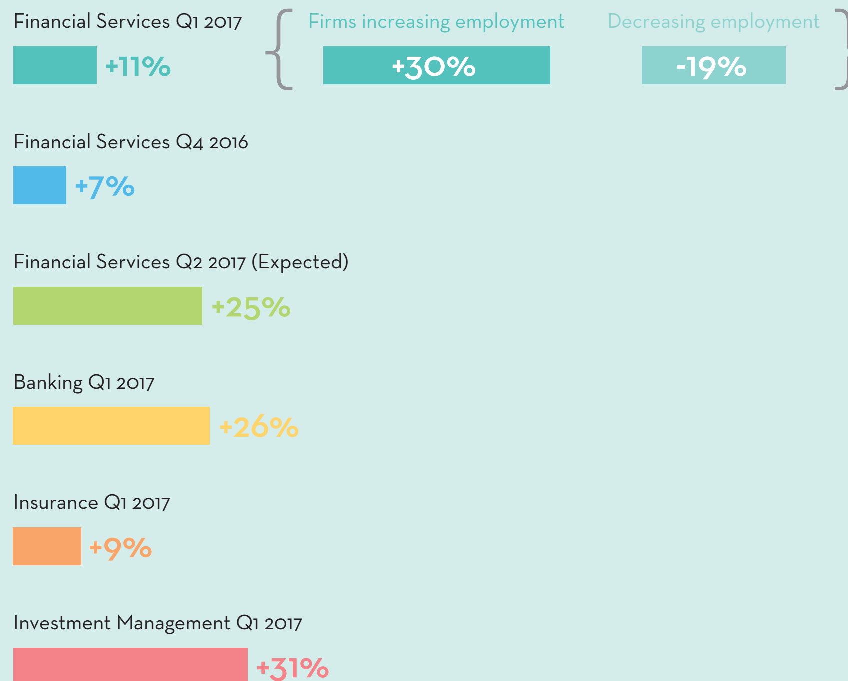
What this means

Even by the time this report is completed this data is likely to be out of date, such is the speed with which the economic situation in Europe and the UK is changing currently. Elections in France, Germany and the UK itself could have huge implications for the financial services industry across the continent.

With this is mind recruitment trends are likely to fluctuate between quarters but it seems less likely that companies will invest in the form of higher wages. That said the spectre of increasing inflation may cause employees to demand higher salaries at pay review time.

Demand for Labour in the Financial Services (cont'd)

Balance of employers increasing employment
(Source: PwC/CBI Financial Services Survey Q1 2017)



Finance concedes passporting

> "You will start to see movement in a reasonably short period of time."
>
> Jes Staley, CEO, Barclays.

As the first quarter of 2017 closed there seemed to be a changing of the wind within financial services, a tacit acceptance that Brexit will happen and that it is unlikely to gain full access to the European market it craves while retaining a European base in London.

Jes Staley, Chief Executive of Barclays even admitted that passporting was not the key issue for the sector anymore, access to talent was – he called it 'tremendously important'.

To that end a number of employers sent out signals that they were at least seriously considering moving some of their workforce to the continent.

The highest profile was the announcement that Lloyds of London is to set up a subsidiary insurance company and base it in Brussels, in time for 1st January 2019. Goldman Sachs also confirmed that "hundreds" of roles would be moved out of London and onto the continent.

Lloyds Bank has decided to upgrade their Berlin office to a base of European operations, this would certainly involve increasing the 300 people currently based there and probably reducing some of the London workforce.

Barclays and HSBC have already admitted that plans are close to being triggered with Barclays moving 150 roles to Dublin and HSBC taking 1,000 to Paris. "You will start to see movement in a reasonably short period of time" said Jes Staley.

"You will start to see movement in a reasonably short period of time" Jes Staley, Chief Executive, Barclays

Deutsche Bank has also said up to 4,000 of the 9,000 workforce could move – initially 2,000 client facing roles with a further 2,000 if regulators insisted that support functions be conducted there. That said the bank has also just committed to a new UK headquarters at 21 Moorfields in the City.

German media reported that, in total, seven banks currently based in London are preparing to open branches in Frankfurt. Reuters suggested that the European Central Bank was considering fast-tracking applications from British-based banks which are moving operations away from London to the continent.

One German MEP, Manfred Weber, suggested that all financial business denominated in euros should be moved to a location inside the European Union.

Weber said his remarks on relocating business from London were general but added they were about "European supervision, the European Banking Authority (EBA) and defending European jobs".

Adam Farkas, Executive Director of the European Banking Authority (EBA), has also previously admitted that a vote to leave the EU would "likely lead to a removal of the EBA from London." The Authority employs 900 highly skilled individuals. As an aside this is also true of the European Medicines Agency.

In contrast Jamie Dimon, Head of JP Morgan, has changed his mind apparently and suggested that 'not many' roles will leave the UK. Last year he said thousands would go. This said there have been reports that the bank has been considering leasing space in Dublin for a thousand workers.

London Mayor Sadiq Khan warned that a lack of assurance around and interim/transitional deal would generate this kind of response with the city losing thousands of jobs.

Potential Impact

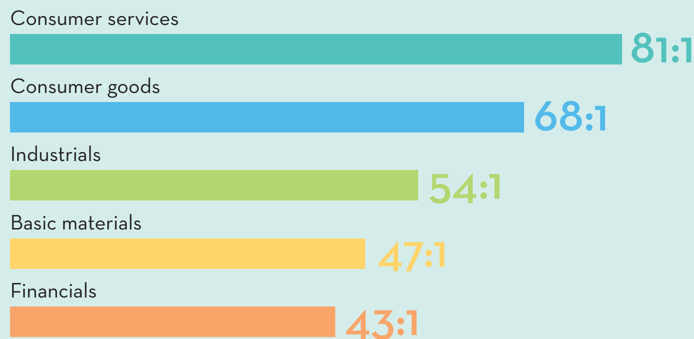
There has been a steady stream of research on the potential impact of Brexit on the financial sector and this continued. A report from the Political Economy Research Institute, based at Sheffield University, suggested that clearing and asset management roles are the most at risk with 130,000 currently in the City (80,000 in clearing and 50,000 in city-based asset management firms). The Irish Development Agency has a five-year plan to add 10,000 roles to the financial sector. The German research arm of the Helaba bank estimated that London could lose as many as 32,000 jobs to an array of rivals.

A lack of talent may also impact future growth and innovation as the co-founder of Transferwise, Taavet Hinrikus, said if he were to do it all over again he would not choose London.

In the short term it was always going to be likely that financial institutions would hedge their bets. Some roles will be moved to the continent but by no means the majority until more is known.

Managing shareholder engagement

FTSE 350 pay ratios by sector
(Source: Pay Ratios: Pensions & Investment Research Consultants)



The behaviour of senior members of the financial services industry has been under scrutiny for a number of years now. From the financial crisis through to libor the public and certainly the public has developed a distrust of highly paid bankers.

Over the last year a new issue has been creeping in, excessive pay specifically for chief executives. The value of bonus payments to senior figures in the business community has been a subject of some interest to the public ever since the financial crisis but over the last couple of years that focus has narrowed onto those in the top job. Now this is not a specifically financial services sector issue but it will definitely be a target.

Last year saw shareholders in a number of FTSE 100 companies vote against the remuneration packages of their Chief Executives. These votes were not binding but were a signal of intent and some companies have been getting out in front of it during the first quarter of 2017.

Pay Ratios are a Political Target

Part of the reason for this being such a high profile discussion is because Prime Minister Theresa May campaigned on bridging the gap she saw in society during the Conservative leadership election. She initially talked of forcing companies to disclose pay ratios and put workers on boards.

The Equality Trust produced pay ratio data which showed that the average FTSE100 chief executive earns £5.3 million a year which is 386 times a minimum wage worker and 190 times the UK average.

Further research by the Pensions & Investment Research Consultants identified the FTSE 350 companies with the highest and lowest ratios for chief executive to average employee. Financial services was not at the very top of the table but was still in the top 5.

Shareholder Action

Asset management company Blackrock were very bold on this issue during the first quarter of 2017. They led the charge by encouraging a tougher stance with pay awards to CEOs to be reflective of increases in the wider workforce. The company is the largest fund manager in the world and threatened to incite shareholder rebellions if companies were not able to justify increases to remuneration packages.

Both Barclays and Standard Chartered have been caught in the crosshairs. Standard Chartered faced a protest for the first time from shareholders on the grounds that Bill Winter's targets were too easy to reach.

Barclays have faced ongoing problems with the remuneration package for Chief Executive Jes Staley since the start of the year. Initially the package was to remain static for the next three years following previously confrontations over the pay packets of his two predecessors Bob Diamonds and Anthony Jenkins.

Mr Staley now faces investigation by the Financial Conduct Authority and Prudential Regulation Authority after he admitted attempting to identify an internal whistleblower using the bank's internal security team. The bank will also cut his pay packet by as much as £1.3m, the equivalent of his annual bonus.

It has also been suggested that shareholders may abstain on his re-election to the board at the next annual general meeting.

One top 20 shareholder, Euan Stirling, Head of stewardship at Stirling Life Investments even went as far as to warn that it was 'entirely possible' that the issue could cost Mr Staley his job.

What this means

Senior finance executives are going to have to be even more careful to ensure their behaviour is beyond reproach and remuneration packages justified in the near future. They may also have to content with increased legislation – in theory this could ward off some high skill individuals but has not proven to thus far.

Senior Executives may also have to be careful of the scrutiny that may come from within their own workforce, they must be careful that perceived overpay does not damage motivation levels. Research from the CIPD in 2015 found that 59% of employees cited disproportionate levels of executive pay as something that would impact their output.

This is an area that has already come under political scrutiny and a recent report by the House of Commons Business Committee recently told the City in no uncertain terms that it needed to correct failings on corporate governance and pay or the government would do so for them!

These plans would include ideas such as legal requirement to publish CEO pay ratios, annual binding votes on remuneration and forcing remuneration committees to step down if their policies were rejected.