www.pwc.com/ceosurvey

Tackling the talent gaps

Key findings in the Financial Services sector

PwC 15th Annual Global CEO Survey

Sector summary



pwc

This is a summary of the findings on talent availability, deployment and management in the financial services sector, based on interviews with 368 financial services CEOs (121 from insurance, 125 from asset management and 122 from banking and capital markets) in 52 countries. To explore the full results of the 15th Annual Global CEO Survey, please visit www.pwc.com/ceosurvey.



Commitments to doing more business globally are accelerating in 2012, despite economic, regulatory and other uncertainties. CEOs see the fundamentals for future growth still squarely in place.

To understand how businesses are preparing for growth in their priority markets, we surveyed 1,258 CEOs based in 60 different countries and talked to a further 38 CEOs face-to-face for our 15th Annual Global CEO Survey. 'Delivering results: Growth and value in a volatile world' explores CEO confidence in prospects, and how they are building local capabilities and creating new networks for new markets.

CEOs are adapting how they go to market, reconfiguring processes and, at times, entire operating models. They are also addressing risks that greater integration can amplify and are focused on making talent more strategic to pursue market opportunities.

This is a summary of the findings on talent availability, deployment and management in the financial services sector, based on interviews with 368 financial services CEOs (121 from insurance, 125 from asset management and 122 from banking and capital markets) in 52 countries.

Introduction

Worldwide, the financial services industry is facing a severe shortage of talent. Nearly half of the industry leaders taking part in the latest CEO survey believe that the limited availability of key skills is a serious threat to their growth prospects. Only around a third are convinced that they have access to the talent they need to execute their company's strategy over the next three years.

These talent constraints are already impeding or even derailing, growth plans. Around a quarter of the financial services CEOs have had to delay or cancel a key strategic initiative over the past 12 months because the right people were not available to execute it. As financial services businesses reach into new markets and seek to keep pace with a rapidly evolving competitive environment, the debilitating strategic impact of the talent gaps is likely to intensify.

Many organisations are relying on recruiting the people they need from their competitors and by using expatriates from other parts of the business. Yet, the scale of the talent demand and shortfall they face means that such responses are no longer likely to be a sustainable strategy. Delivering on growth agendas depends on being able to institute well-informed and proactive strategic workforce planning. To be effective, these plans must be able to address the fundamental questions of: 'What skills do we require to deliver our strategic objectives and how do we ensure that we have the right people in the right places at the right time?'.

Eighty percent of financial services CEOs are planning to build up their business in Asia, Africa and Latin America over the coming year. More than half see emerging markets as more important than developed markets to their future.



Talent is crucial to growth in a tough environment

Financial services CEOs are facing the most challenging business conditions of their careers as profitable markets come under pressure, the focus of global growth shifts South and East, and businesses grapple with huge and potentially disruptive changes in regulation, technology and customer demand.

The quality and availability of key talent are crucial to success in this fast-moving marketplace, allowing businesses to seek out fresh sources of value and capitalise on opportunities that competitors without the right people may miss, or be unable to exploit. In turn, businesses must make sure their workforce reflects the changing nature of the marketplace and shifting focus of growth. More than 80% of financial services CEOs are planning to build up their business in Asia, Africa and Latin America over the coming year. More than half see emerging markets as more important than developed markets to their future.

"Our managers must be prepared to face changes, have an open, innovative attitude and must be prepared to keep learning continuously, every single day," said Francisco González, Chairman and Chief Executive Officer of Banco Bilbao Vizcaya Argentaria (BBVA) SA. When asked what qualities he is looking for in new joiners, Martin Senn, Chief Executive Officer of the Zurich Financial Services Group (ZFS), highlighted the readiness to accept change as a key criterion: "I look for globally-minded people with the capacity to anticipate change and the flexibility to accept it." Andrey Kostin, President and Chairman of the Management Board of VTB Bank OAO, also stressed the importance of an agile mind and global perspective: "We see such skills as strategic vision, quality of decision making and high performance efficiency as absolutely vital for group strategic success."

"Our managers must be prepared to face changes, have an open, innovative attitude and must be prepared to keep learning continuously, every single day,"

Francisco González
Chairman and Chief Executive Officer
BBVA SA

"I look for globally-minded people with the capacity to anticipate change and the flexibility to accept it."

Andrey Kostin
President and Chairman of the Management Board
VTB Bank OAO

"Recognising that the world is somewhat split down the middle between slow growth and rapid growth, you'd better be able to operate in both at the same time. You have to manage that difficult slow growth and then completely switch gears and go to high growth. You have to find ways of moving your resources – and for us it's talent – from where it's not being utilised to where it can be utilised."

Brian Duperreault
President and Chief Executive Officer
Marsh & McLennan Companies Inc

Talent constraints are holding back growth

Our survey reveals that much of the financial services sector is continuing to build up its workforce, despite the current market instability. Around 50% of sector CEOs are looking to increase their headcount over the next 12 months, with around a half of these anticipating staff increases of more than 5% over the coming year. Less than 20% are planning to reduce staff overall, though these headline findings mask more varied changes in skills needs, shortages and surplus numbers in particular locations. "Recognising that the world is somewhat split down the middle between slow growth and rapid growth, you'd better be able to operate in both at the same time. You have to manage that difficult slow growth and then completely switch gears and go to high growth. You have to find ways of moving your resources – and for us it's talent – from where it's not being utilised to where it can be utilised," said Brian Duperreault, President and Chief Executive Officer of Marsh & McLennan Companies Inc.

The problem financial services organisations face is the limited supply of appropriate people within their businesses, or readily available for hire within the job market to fulfil their growth ambitions. Financial Service CEOs see lack of availability of key skills as one of the biggest threats to their growth prospects, on a par with the downturn in consumer spending and challenges of financing growth.

As Figure 1 highlights, a quarter of participants has had to cancel or delay a key strategic have initiative as a result of these talent constraints over the past 12 months. A similar proportion have been unable to innovate effectively or pursue a market opportunity (for insurance and asset management this was around 30%). With market openings being thin on the ground in the current climate, these talent constraints are holding many businesses back.

Figure 1: Strategic impact of talent shortages

Q. Have talent constraints impacted your company's growth and profitability over the past12 months in the following ways?

	All FS (%)
Our talent-related expenses rose/will rise more than expected	45
We were/will be unable to pursue a market opportunity	27
We cancelled or delayed/will cancel or delay a key strategic initiative	25
We weren't/won't be able to innovate effectively	23
We couldn't/won't achieve growth forecasts in the country where we are based	23
Our production and/or service delivery quality standards fell/ will fall	15
We couldn't/won't achieve growth forecasts in overseas markets	15

Base: Financial services CEOs (369)
Source: PwC 15th Annual Global CEO Survey

As our survey further highlights, the talent gap is set to grow as demand continues to outstrip supply. Only around a third of financial services CEOs are certain that they will have access to the talent they need to execute their company's strategy over the next three years. Forty percent believe that it is getting harder to hire good people in their industry. Less than 20% believe it is going to get easier. As Figure 2 highlights, it is the high potential middle managers capable of taking the business forward who are in especially short supply. The vital importance of such people in today's market was highlighted by F. William McNabb III, Chairman, President and Chief Executive Officer of the Vanguard Group Inc.: "We have a huge advantage over a lot of our competitors in having a very deep pool of general managers who can actually do a lot of different things. That gives us flexibility to respond to new opportunities. It also gives you flexibility to respond when something changes in a way you hadn't anticipated."

Twelve percent of the some 4,000 graduates taking part in the poll would not want to work in insurance because of its 'image'. Among Asian graduates, the proportion was more than 20%.

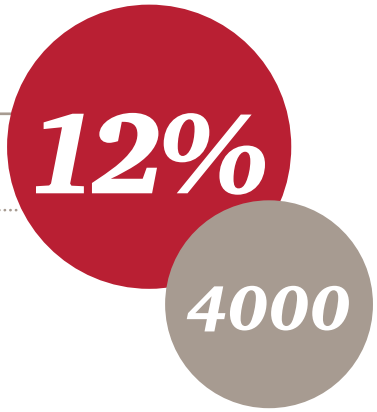


Figure 2: Gaps in the leadership pipeline

Q. With which of the following groups do you currently face the greatest challenges with regards to recruitment and retention?

	Global (%)
High-potential middle managers	59
Senior management team	35
Younger workers	30
Skilled production workers	23
Overseas unit heads	11
Don't know/Refused	8

Base: Financial services CEOs (369)
Source: PwC 15th Annual Global CEO Survey

The recruitment challenge is most marked in insurance, where some 50% of CEOs are concerned about their ability to attract the people they need. The difficulty of sustaining the talent pipeline was also highlighted in a recent PwC survey of millennials from around the world, which found that 12% of the same 4,000 graduates taking part in the poll would not want to work in insurance because of its 'image'. Among Asian graduates, the proportion was more than 20%.[1]

In turn, regulatory developments including Basel III, EU Solvency II and the US Dodd-Frank Act are heightening the pressure to attract people with particular experience and professional qualifications in areas such as risk. For example, Martin Senn of ZFS noted that: "In life insurance and insurance as a whole, there is a potential shortage of actuaries, particularly life actuaries. As experience of Basel II underlines, competition for key staff will escalate sharply as businesses move closer to the implementation wire, raising pay costs and heightening the potential disruption".

Short-term response is unsustainable

Many businesses believe they can hire or relocate the staff they need. Yet, as businesses chase openings, competition for good people is soaring and leading to rapidly rising pay costs within many businesses. Forty-five percent of financial services CEOs report that pay costs have risen more than expected (in insurance this was especially high at 53%). As costs across the business come under ever-greater pressure, continuing increases in pay could become unsustainable.

Particular pressure on talent is being felt in the growth markets of South America, Asia, Africa and the Middle East (SAAAME), where suitably qualified and experienced people are already in short supply. As these markets expand and become more crucial to industry growth, this squeeze on available talent is likely to increase. More than 40% of financial services CEOs are planning to move experienced employees from their home market to newer markets to circumvent skills shortages. If approached in a well-thought-out way, such moves can help to pass on skills to local staff and develop leadership potential among the assignees. Yet, relocating employees across boarders can be an expensive option, with assignees typically costing three to four times more than their local counterparts, once all the relocation, compensation and benefits costs are totted up.

Ultimately, this reactive response to talent introduces potential problems. The right people may not be available to hire or relocate in the numbers required. Reassignment and visa administration can take several months. It is also important to make sure that companies do not become overreliant on expatriates in senior and skilled positions, as this could limit career development opportunities for local people and discourage them from committing their future to the firm.

[1] Survey of recent global graduates (2008-2011) carried out by opinium for PwC in October 2011

Developing a long-term solution

Many participants recognise the need to explore more proactive and sustainable ways to manage talent. "In my opinion, any CEO's key focal points are to always have the right people in the right place at the right time and to secure beforehand candidates to replace top managers in case of need," said Andrey Kostin President and Chairman of the Management Board of VTB Bank. "Among all the tools available for a CEO, people are the most complex, flexible and intellect-driven to manage. The hand selection of the right people for relevant functions, the formation of results-oriented teams capable of addressing new challenges, and their professional and managerial development are all top priorities for any company CEO." he continued.

Overall, more than three-quarters of financial services CEOs are looking to change the way they manage talent over the coming year. More than 20% are planning a major overhaul.

Figure 3: Plans for getting around talent shortages

Q. To what exent do you agree or disagree with the following statement about the future of your global workforce?

	All FS (%)
In three years we will have made significant technology investments, specifically to circumvent skills shortages	33
In three years we will have partnered with other organisations, specifically to circumvent skills shortages	27
In three years we will have acquired other companies, specifically to circumvent skills shortages	16
In three years we will have moved operations because of talent availability	12

Base: Financial services CEOs (369)
Source: PwC 15th Annual Global CEO Survey

A key priority is the recruitment of local talent – cited by 70% of participants. As Figure 3 highlights, only a minority are planning longer term solutions such as technology investments, or strategic partnerships to circumvent talent shortages.

The key question is why talent gaps remain such a challenge, despite being an evident strategic priority. This is not a new issue. Our CEO surveys throughout the past decade have consistently highlighted the availability of skills as a significant strategic threat within the financial services sector.

In the current market, a key part of the problem lies in the weight of other seemingly more immediate concerns, as the eurozone crisis and other drivers of market instability continue to consume a huge amount of boardroom time. It is notable that nearly 70% of the financial services CEOs wish they could spend more time developing the talent pipeline within their businesses.

In the longer term, we believe that a lack of quality information is making it very difficult to anticipate strategic talent needs and plan ways to meet them in a timely, assured and cost-effective way. In short, many businesses are operating in the dark. Notable gaps include information on return on investment in human capital. As figure 4 shows, 80% of FS CEOs surveyed, who say that it is important to have information on return on investment in human capital upon which to make decisions, yet only 14% believe the data and analysis they currently receive is sufficiently comprehensive.

Figure 4: Operating in the dark

Q. When making decisions, how important is it to have information on each of the following talent-related areas?

	All FS (%)
Staff productivity	94
Employees' views and needs	92
Labour costs	81
Return on investment on human capital	80
Assessments of internal advancement	78
Costs of employee turnover	73

Base: Financial services CEOs (369)
Source: PwC 15th Annual Global CEO Survey

Figure 5: Operating in the dark

Q. For those areas that are important, how adequate is the information that you currently receive?

	All FS (369)
Labour costs	52
Employees' views and needs	32
Costs of employee turnover	29
Staff productivity	26
Assessments of internal advancement	26
Return on investment on human capital	14

Base: Financial services CEOs (369)
Source: PwC 15th Annual Global CEO Survey

Shaping the talent agenda

Fostering innovation

More than two-thirds of financial services CEOs see building up their capacity for innovation as crucial to success in an evolving market, which will have an important influence on the kind of people they are looking to attract and how they are managed.

Brian Duperreault of Marsh & McLennan Companies Inc. highlighted how sources of creativity and innovation are shifting: "To me, one of the interesting things that's changed globally, particularly in our company, is where innovation takes place and where it migrates to. Classically innovation resided in the developed world. We took ideas and moved them into the emerging world. There's now an equal chance, and maybe a greater chance, that innovative ideas will come out of the developing world, where the action is, where the need to deliver more for less is even more heightened. Today we're getting as many ideas out of, say, China and India as we were before out of the US and Europe." Daniel S. Glaser, Group President and Chief Operating Officer of Marsh & McLennan Companies Inc. highlighted the importance of creating the right climate for innovation: "You need an environment that's open and transparent, where it's safe to speak up and give your views, because there will be no innovation without some element of dissent. Innovation really starts with, Why do we do it that way?"

Encouraging management diversity

At a time when businesses are moving into new markets and their clients and workforces are becoming more diverse, it is important that senior management reflects this diversity. For international organisations looking to build up their business in SAAAME, promoting greater diversity within the management of the organisation would send a clear message that advancement is open to all rather than a developed market elite. While our survey found that a significant proportion of senior management in foreign operating territories is currently brought in from the home market, most financial services CEOs are keen to see local leaders taking the helm in the future.

Tidjane Thiam, Group Chief Executive of Prudential PLC, highlighted the importance of effective local leaders: "We have to have great country CEOs and the answer is to do that country by country. We are a local company in every country where we operate because we are a people-intensive business. We now have 131,000 staff in Indonesia. It's an enormous number and they're all Indonesian. So there's no doubt for Indonesian customers that we are an Indonesian company."

"We have to have great country CEOs and the answer is to do that country by country. We are a local company in every country where we operate because we are a people-intensive business. We now have 131,000 staff in Indonesia. It's an enormous number and they're all Indonesian. So there's no doubt for Indonesian customers that we are an Indonesian company."

Tidjane Thiam
Group Chief Executive
Prudential PLC

Where next?

Organisations cannot realise their growth objectives without the people to make it happen. While managing talent is a key priority for most financial services CEOs, the results are mixed. Businesses that are developing a well-informed and proactive approach to strategic workforce planning have an opportunity to gain a crucial competitive edge.

As businesses look to align business and talent strategies more closely, there are a number of key considerations they will need to address:

What kind of skills and capabilities do we need to compete in a changing global marketplace?

Could shortages of talent impede or even derail growth plans?

Where are the gaps in talent and how can they be bridged both now and over the longer term?

Is enough being done to attract local talent and prevent them from being poached by competitors?

Is there a process in place to make sure the right people are assigned to international placements?

Whatever the response to these considerations, we believe that there are four fundamentals that financial services firms will need to put in place:

- **Align your business plan and talent strategy – make sure every aspect of your talent strategy directly contributes to your overall business plan and to creating value. Change anything that doesn't.**
- **Face the future – look at where your business is heading, not where you've been. Keep questioning whether your talent management pipeline will give you what you need, when you need it.**
- **Pay attention to pivotal roles – get the right talent into the roles that have a disproportionate ability to create (or destroy) business value.**
- **Focus on the financials – make measurement, benchmarking and analytics part of your plan. Look to your return on investment in people.**

Giving your business the edge

We're working with a range of financial services organisations to help them develop effective talent strategies for a changing marketplace. If you would like to discuss any of the issues raised in this survey report, please contact one of the following or your usual PwC contact:

Contacts

Jon Terry
Partner
PwC (UK)
+44 (0) 20 7212 4370
jon.p.terry@uk.pwc.com

Christopher Box
Partner
PwC (Qatar)
+974 4419 2852
christopher.box@qa.pwc.com

Debra Eckersley
Partner
PwC (Australia)
+61 (2) 8266 9034
debra.eckersley@au.pwc.com

Contacts

Ed Donovan
Partner
PwC (US)
+ 1 646 471 8855
ed.donovan@us.pwc.com

Contacts

Bhushan Sethi
Managing Director
PwC (US)
+646 471 2377
bhushan.sethi@us.pwc.com



Download the main report, access the results and explore the CEO interviews from our PwC 15th Annual Global CEO Survey online at www.pwc.com/ceosurvey.

www.pwc.com/ceosurvey

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers does not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

For additional copies please contact Maya Bhatti, Global and UK FS Marketing, (PwC UK) on +44(0) 20 7213 2302 or at maya.bhatti@uk.pwc.com.

© 2012 PwC. All rights reserved. Not for further distribution without the permission of PwC. "PwC" refers to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL), or, as the context requires, individual member firms of the PwC network. Each member firm is a separate legal entity and does not act as agent of PwCIL or any other member firm. PwCIL does not provide any services to clients. PwCIL is not responsible or liable for the acts or omissions of any of its member firms nor can it control the exercise of their professional judgment or bind them in any way. No member firm is responsible or liable for the acts or omissions of any other member firm nor can it control the exercise of another member firm's professional judgment or bind another member firm or PwCIL in any way.