Banking talent landscape

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Fintechs and a rapidly evolving regulatory environment is challenging the traditional talent landscape for banks.

Since 2010, traditional banks and fintechs have been fighting fiercely for top talent. To gain competitive advantage and win the battle for today's most coveted workers, a solid strategy and powerful allies are required.

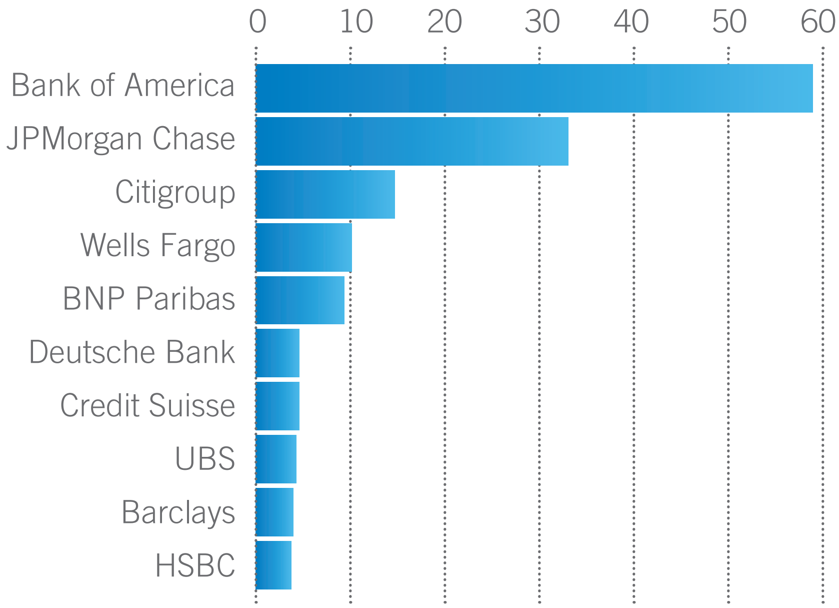
In some cases, management consulting firms are quickly proving to be that ally, offering fintechs the client-site scalability they need, and a venue for their innovative solutions. These tech innovators are becoming a key partner for implementing global banking reforms and acting as a trusted advisor on how to introduce technology break-throughs for regulatory initiatives. And for the banks, consultancies are often connecting their technologies, and those of the fintechs, directly to their banking clients – which is part of what's driving a revolution across the sector.

A complex series of events led to this trend. As traditional investment banks and blue chip brokerage houses were crumbling down and transformed into highly regulated "too big to fail" depository homes, the young and robust technology startups offered financial service alternatives based on the latest advancements in digital transformation. The financial crisis of 2008 displaced masses of top financial talent while bringing to a virtual halt a significant portion of trading activity.

A wave of regulatory reforms necessitated re-hiring back financial and technology professionals to transform the global banking industry in compliance with the new regulations. However, the good old days of bank incentives were gone, the pain of the crisis was still fresh and fintechs started to open their doors and wallets.

Today global and domestic regulatory reforms keep coming in as digital transformation increases pressures around cyber security, privacy, and adoption of new technologies. It's become increasingly difficult for a large financial institutions to attract experienced talent to work on regulatory compliance projects. Whether a result of low unemployment, a strong economy, or lucrative fintech alternatives, these dynamics are making the stressful, lower-pay trade compliance, financial and technology roles less attractive for today's experienced workforce.

» A lens into what's driven these changes and how banks can find the right expertise to drive competitive advantage. «



Bank fines with US regulators

Cumulative since 2007 ($bn)

Based on Financial Times article of May 28, 2015

A historical retrospective.

Since the financial crisis, regulatory and compliance projects made up an estimated 40% of T-1, T2 banks' technology budgets. The deadlines are tough, the changes to business workflows and technology infrastructure can be dramatic, and the penalties for non-compliance are severe.

Following the United States Federal Reserve referendums of 2009, the regulatory and compliance programs replaced the obsolete trade management initiatives while offering new employment opportunities for skilled finance and technology talent. During the slow-down years that followed, the newly created financial compliance roles were easily staffed by high quality subject matter experts exiting Bear Sterns, Lehman Brothers, and the likes. Even post-recession, the new regulatory reforms just kept on coming: in 2013 alone, 80,224 pages of regulations were added to the Federal Register, a 4% increase over 2012 (The New American Article, by Michael Tennant, 1/10/2014.)

The rise of fintechs.

Looking past 2012, the sentiment of continuous economic stability and accelerated technology growth resulted in a broad range of disruptive innovations. Initially driven by consumer industries, these tech breakthroughs rapidly spread into the financial sector. Fintech companies are now heavily funded by Fortune 500 giants and venture capitalists, and this area is growing faster than ever.

Disruptive innovation became the favorite buzz phrase: innovation labs, think tanks and fintech start-ups are in many cases an employer of choice for skilled, experienced, and highly motivated financial technology people – and even many of today's top young graduates. Blockchain, big data, the cloud, predictive analytics/ machine learning trends are fresh, exciting, intellectually stimulating as well as competitively compensated. Blythe Masters, the famed JPMorgan economist who is widely credited with creating the modern credit default swap is currently serving as the CEO of Digital Asset Holdings, the Blockchain startup with JPMorgan as one of its largest investors.

Finextra Research recently stated that "New York topped Silicon Valley for fintech venture funding for the first time in Q1 2016, raking in $690 million in investment flows compared to $511 million from the San Francisco Bay area. The data highlights the city's rapid rise as a fintech hub and a shift in emphasis away from startups that compete against financial institutions to those that partner with them." These are powerful trends that are having a huge impact on a sector that has traditionally lagged behind other industries!

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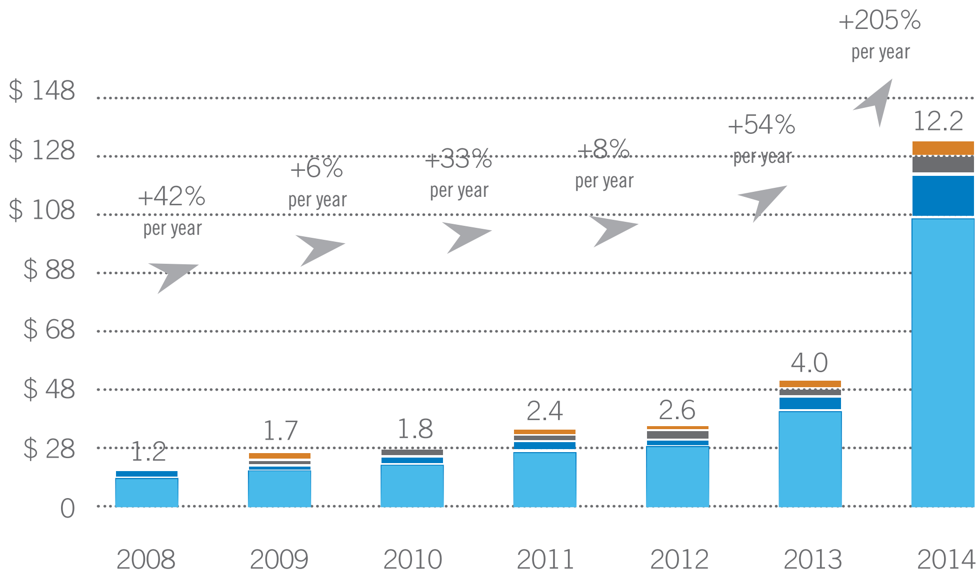
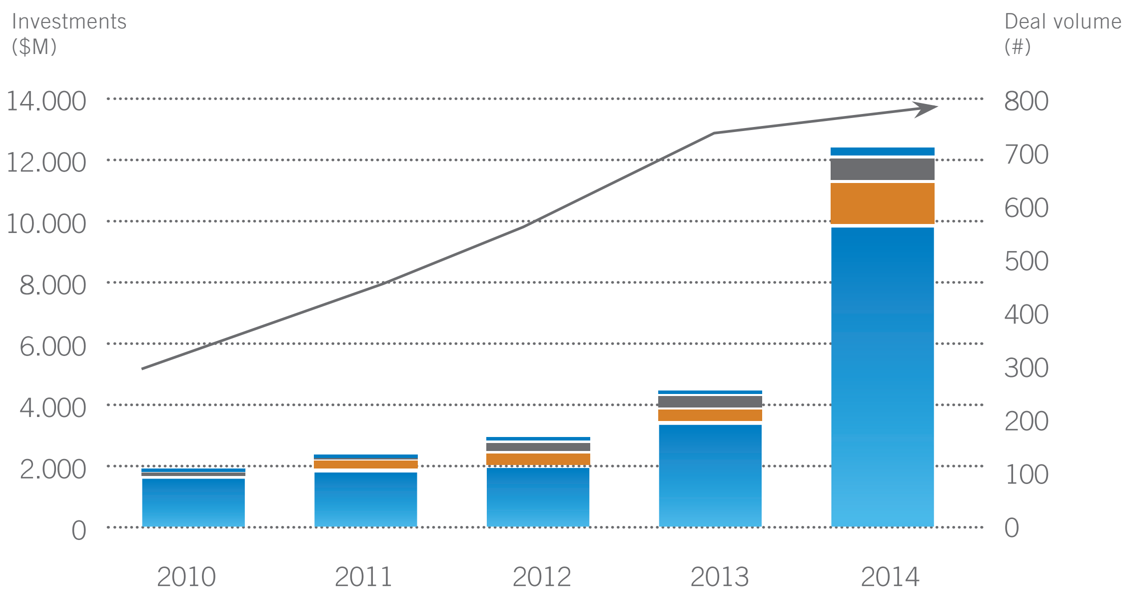
The level of venture-capital investments in financial technology has accelerated



Source: McKinsey & Company © February 2016 The Financial Brand

United States Europe Asia Pacific Other

Global Fintech Financing Activity



Source: Business Insider

Global deal volume Rest of the world APAC Europe US

Regulatory compliance maintains momentum.

2016 began with the U.S. Federal Reserve Board releasing supervisory scenarios for the 2016 Comprehensive Capital Analysis and Review (CCAR) and Dodd-Frank Act stress test exercises, and also issued instructions to firms participating in CCAR, which include 33 bank holding companies with $50 billion or more in total assets. Soon after the U.S. T+2 Industry Steering Committee (T+2 ISC) announced the industry target date of late 2017 for the U.S. move from a T+3 to a T+2 settlement cycle.

The Securities and Exchange Commission (SEC) published the Consolidated Audit Trail plan for a 2-months public comment expediting the date for when the plan provider is selected and a migration to the new market surveillance platform begins. Finally, in late 2016, a new U.S. president will be elected. With lessons learned from 2012, new regulatory decisions will certainly be put into law in the days thereafter.

However, the high quality financial and technology talent pool is vastly different now from what it was five years ago. Many financial, operations, and technology experts accepted employment with rapidly growing fintech startups - attracted by a combination of interesting work, good pay, and lighter regulatory overhead. The costly banking compliance projects, while may also include digital transformation initiatives, are conservatively funded, offering little incentive for today's top talent.

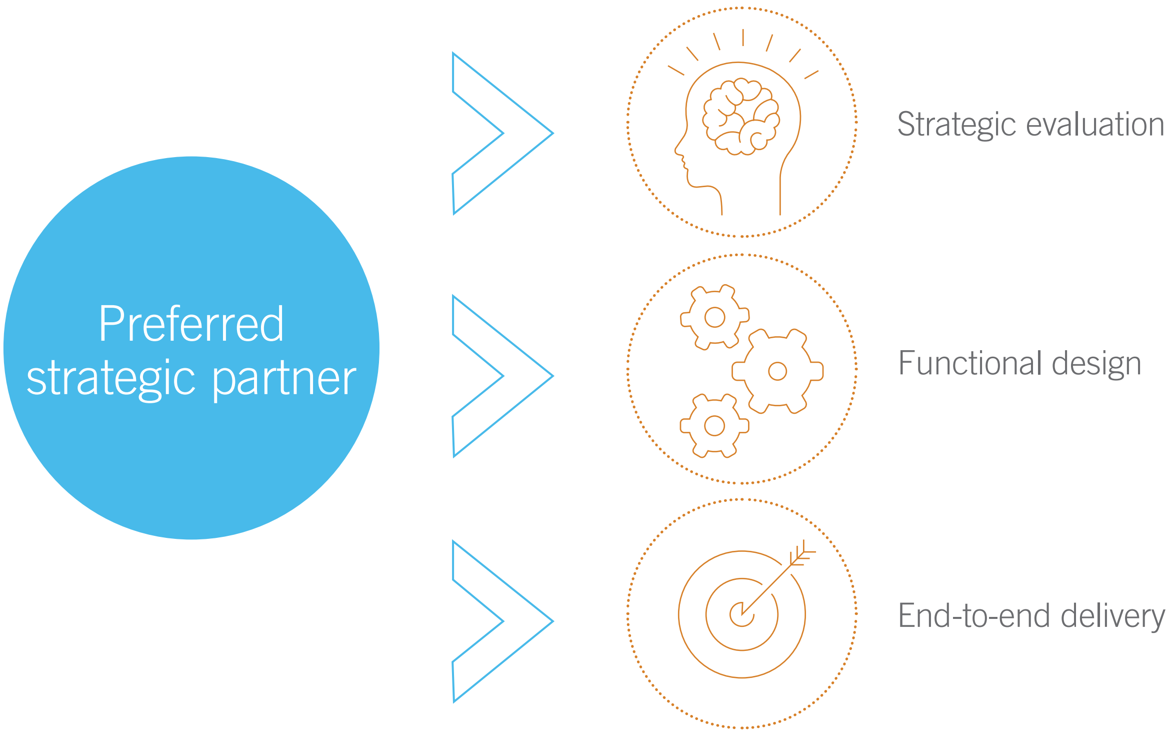
A strategic partnership-based approach.

Investment banks can no longer afford to maintain large proprietary talent pools for initiatives that do not offer them unique competitive advantage. Regulatory compliance monitoring and reporting areas have become massive cost centers. Major financial houses are moving away from owning non-essential technology, operational software and infrastructure assets. Business process outsourcing (BPOs), and utility-like shared resource formations have gained popularity on Wall Street, and continue to grow.

In the introduction to its 2015 report on Strategic Partnerships for Digital Age "Connecting Companies", The Economist Intelligence Unit states that "to gain advantage in this hyper-competitive environment, companies are finding that it is increasingly tough to go it alone."

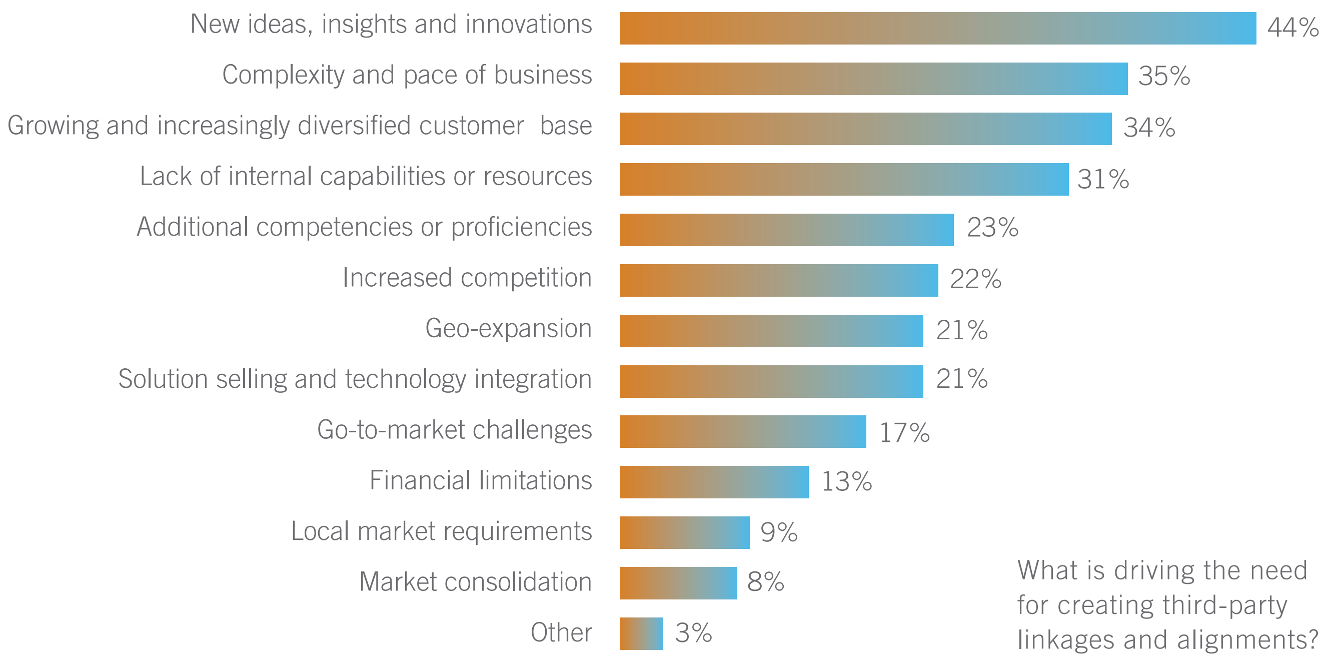
Forming strategic partnerships with accredited management consulting firms is rapidly offering banks a way to deliver complex, global, multi-phased projects with minimal change to the bank's permanent staff. There are a number of consulting firms that offer BPO and competitive rates through a combination of local and off-shore resources, and there are also a number of advisory firms that can provide strategy and prepare a target operating model based on the specifics of the new regulations and the current business model used by the bank.

A preferred strategic partner specifically for a T-1, T-2 bank offers "complete continuous solution" providing both strategic evaluation and functional design, as well as complete end-to-end delivery. That partner would also have strong relationships with fintechs and other technology innovators, and the know-how to introduce that technology to the partner bank, minimizing the risk of dependency on just a start-up. A large investment bank should look for a strategic partner that can offer scalability and a variety of skills and expertise, both financial and technical.



Strategic Partnership Drivers

based on a survey of more than 330 senior management executives in countries around the world . September 2014



Source: CMO Council / Business Performance Innovation (BPI) Network

The core of bank's business, and operational compliance team, needs to be made up of the subject matter experts with deep historic knowledge of bank-specific business flows and concepts that give the bank its strategic advantage. On the technology side, the team should include the IT experts in bank-specific technology configurations as well as bank's legacy proprietary applications.

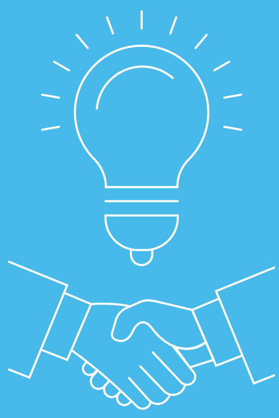
A strategic partner should bring to the table their expertise and best practices in implementing regulatory programs and common errors/risk zones encountered. They will quickly augment the core team with difficult-to-find talent, advise on upcoming regulatory or technology changes, and bring innovative industry trends to the conversation. Over time they naturally become the subject matter experts in the partner bank's operational and technology ecosystem, offering a much valued continuity of service.

Establishing long-lasting relationship with reputable partners.

Strategic partnership selection, formation and management has become a necessity for today's banking executive running complex compliance programs. It is increasingly difficult to continue attracting and retaining top talent to staff complex regulatory projects in the face of stiff market competition.

Establishing a long-lasting relationship with a reputable partner protects the banking community from financial and reputation damage of a missed regulatory mandate while retaining only a small pool of carefully selected in-house resources. The optimal partner also provides access to technology innovations and trusted advice on how to adopt emerging technologies in the day-to-day operation of the bank.

In summary, the rise of fintechs and a rapidly evolving regulatory environment is challenging the talent landscape for banks. In our view, the connecting dots bringing it all together is the strength and uniqueness that today's management consultancy can offer. The selection of the right partner is a mission-critical task that can drive competitive advantage and operational efficiency for today's evolving financial institution.



SUMMARY

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Author

Ella Flikop is a Senior Principal Consultant with Infosys Consulting. She is responsible for the overall management of the design, development and implementation of business technology solutions for banking and finance clients. She has over 25 years of experience as a solutions architect for capital markets, asset management, and broker/dealers. Ella specializes in automation and re-engineering of quantitative, analytics-intensive business processes, and holds a master's degree in statistics from Columbia University.

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