



Global banking outlook 2016

Transforming talent

The banker of the future



EY

Building a better
working world

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Executive summary

Is technology a savior, enabler or destroyer of banks and their business models? One thing is certain: in the coming decade, technology will revolutionize the banking workforce. There will be fewer bankers in traditional roles, while the roles of those who remain will be fundamentally different. As a result, transforming talent is just as important to rebuilding a viable, successful banking franchise as transforming products and processes.

And yet, more compliance staff aside, the complexion of the banking workforce today looks remarkably similar to the one before the global financial crisis. Leading global banks have spent the years since the crisis reinventing themselves: refocusing on their core businesses, redefining their structure and reshaping themselves through the use of technology. This has been crucial in adapting to new regulatory and competitive constraints and trying to find a path to profitable growth. But in a rapidly changing world, reforming operating structures and technologies will take an organization only so far. If banks want to tackle the cultural challenges the industry faces and improve financial performance, they need to ask themselves, who is the banker of the future?

Some still see banking as an industry with an ethical deficit. It is perceived as having lost its social purpose, and its employees are viewed as motivated by financial rewards rather than customer outcomes. Innovation that improves the customer experience has all too often come from outside the sector. Banks must catch up with industries that pioneer innovations internally and encourage a culture of entrepreneurship. This will require new skills and a culture that supports and nurtures diversity of thought.

Where in the organization will people be needed? What skills will they require? How can those skills be harnessed to deliver better outcomes? Predicting the future is difficult, but we believe there are four specific actions banks can take today to ensure their employees will have the requisite aptitude to deliver success in tomorrow's world.

1. Understand the expectations of a new generation of bankers

Also known as Generation Y, millennials were born between 1981 and 2000 and will constitute 72% of the global workforce by 2025. Their aspirations and attitudes toward work will shape the workplaces of the future. Understanding this very different generation of bankers is vital to the industry's success. Banks must not only hire the right people for the right roles, but establish the right culture, targets and aspirations to retain and bring out the best in their staff.

2. Assess technology's impact on the workforce

Technological advancement will replace some roles that were previously played by employees. In many other instances, staff performance will be enhanced by supporting technology – for example, sales staff in branches will be aided by tablets with applications that support the sales process. Meanwhile, new roles will be created across organizations to develop and deploy new technology. Banks should review their operations to assess where technology will have the greatest impact on their workforce.

3. Change culture to encourage diversity of thought

It is no longer enough for banks merely to employ the best individuals – to outperform, they must employ the best combination of individuals in a team. There is considerable evidence that work cultures that encourage a diverse workforce deliver improved financial

performance. To overcome their traditional homogeneity, banks must draw talent from a broader pool and build a culture that supports and retains people from different backgrounds, with different views and experiences.

The future of the banking workforce

Organizations transition from scheduled work and broad-based roles to real-time coordination of task-oriented workforce

Companies facilitate innovation by employing a diverse workforce of employees, contractors and automated machines

34% of the American workforce can be classified as "freelancers"

Companies will engage talent in a more flexible and dynamic manner



Contractors



Employees



Automated machines

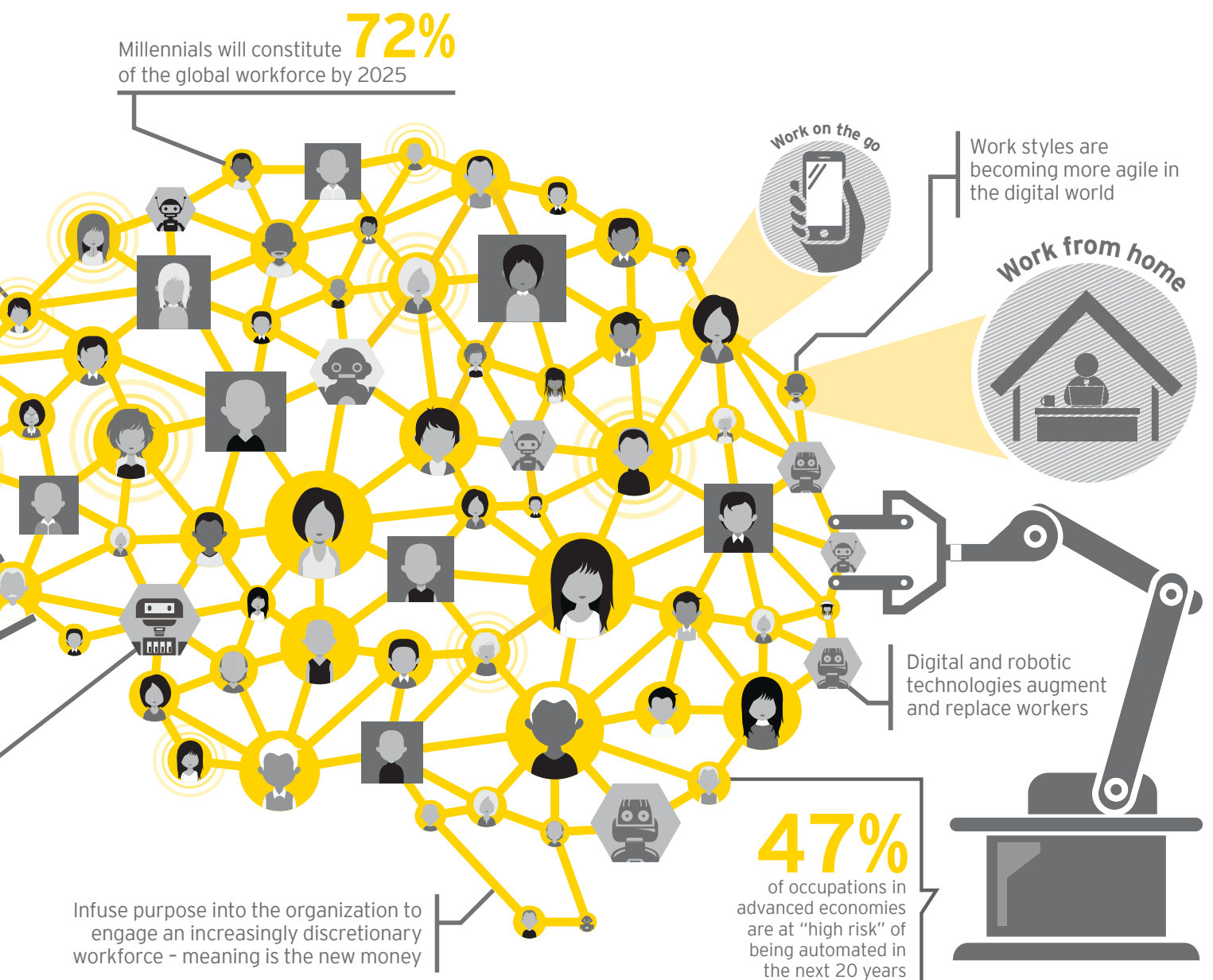
4. **Nurture and empower a collaborative workforce**

Although diversity of thought can be a positive, for organizations to function effectively, employees must coalesce around a common set of values and collaborate, with each individual bringing his or her skills to bear on a set of tasks. Banks

must rethink the HR life cycle – from recruitment to separation – to ensure employees remain engaged and motivated to deliver the best outcomes for all.

Both people and technology can have a transformative effect on banking. They can support and deliver some of the

best outcomes, but they can also create some of the worst problems. The current transformation of the banking industry should not only be about processes and products; it should also be about shifting mindsets and cultural values. It should be about people.



Redefining talent

Think about the future. How do you define a leading bank?



How will a bank's customers, regulators, investors and employees define it? Will it merely be defined by quarterly earnings numbers and an absence of regulatory fines? Or will it be defined by broader attributes, including its ethos, its purpose and the strength of its connection to customers?

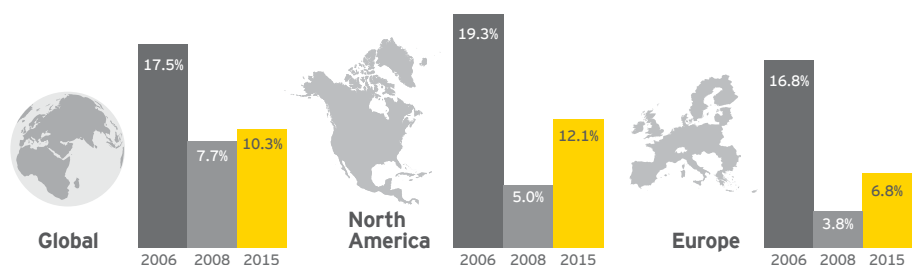
We believe it will be both. But banks will be unable to transform cultures, control costs and deliver fit-for-purpose organizational structures unless they completely reappraise their workforce. And yet, to date, they have been more focused on transforming products and processes than people.

Banking is at a point of inflection. Even in Europe, where the banking recovery has lagged that in the US, risk is returning. For the first time in almost a decade, risk-weighted assets

at the largest European banks grew as a percentage of the overall banking asset base. After contracting for three consecutive years, a return to positive growth for business loans in Europe is expected for 2015.¹ This suggests that the post-crisis era, where the focus was on survival and stabilization, is finally over.

Undoubtedly, challenges remain: low returns on equity (ROEs) (see Figure 2); structurally higher costs; more onerous regulation, coupled with more intense regulatory oversight; weak controls; and employee behavior that is unaligned with delivering client and shareholder value. However, we now see institutions stepping back from the raft of incremental change programs they adopted in the immediate wake of the crisis and attempting to take a more strategic approach.

Figure 2: Banking return on average equity (ROAE) since 2006 in %



Source: SNL Financial, EY analysis

¹ EY Eurozone forecast: outlook for financial services, Spring 2015.



Products, processes and people: the three keys to transformation

Many major banks have changed their strategic direction, withdrawing from capital-intensive businesses and investing in capital-light areas (see Figure 3). This trend is accompanied by change across the business, from front office to back. Leading banks are redesigning themselves as more flexible institutions, to be able to adapt better to the changing world, and redefining their core operations to support this change. Institutions are:

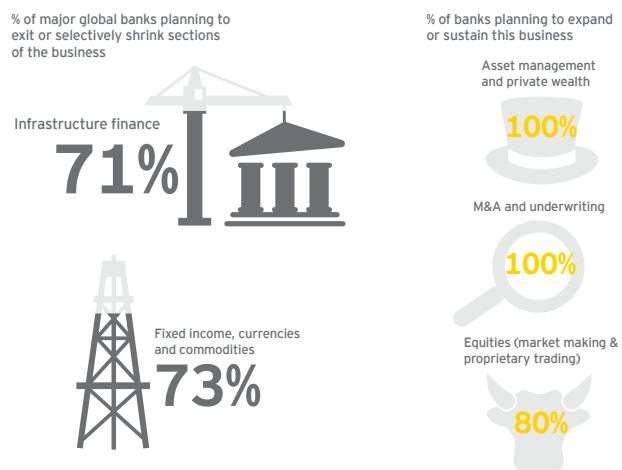
- ▶ Redefining their strategy, focusing on their core businesses and key customers and markets
- ▶ Rejuvenating distribution and sales by investing in omni-channel solutions and using technology to support sales staff
- ▶ Redesigning product development and manufacturing and releasing new products more aligned to the needs of emerging customers, while giving those customers more control in shaping bespoke products

- ▶ Transforming their infrastructure and exploring different service models to drive cost out of the business and deliver better service

Some institutions – especially as they try to change their cultures – are beginning to think about whom they want to work for them and what they need to do to motivate those individuals. This is critical as they seek to stem control losses, which have reduced investment banking ROEs by almost 3% every year from 2007 to 2014. And it is just as important for rebuilding trust. EY research has shown that the way customers are treated is critical to their trust in their bank, and that trust is what transforms customers from sources of revenue into advocates for their banks.²

As banks seek to rebuild trust, eliminate control failures and respond to pressures to reduce the size of their workforce, it is imperative they understand which employees really create value – by displaying the right behaviors and delivering the right performance – in order to increase

Figure 3: Changes in business models and strategic direction for major global banks



Source: IMF *Global Financial Stability Report*, October 2014, EY analysis

² EY *Global Consumer Banking Survey*, 2014.

the productivity and profitability of their workforce overall. Banks must ask: "Who are the best bankers, and what makes them best?"

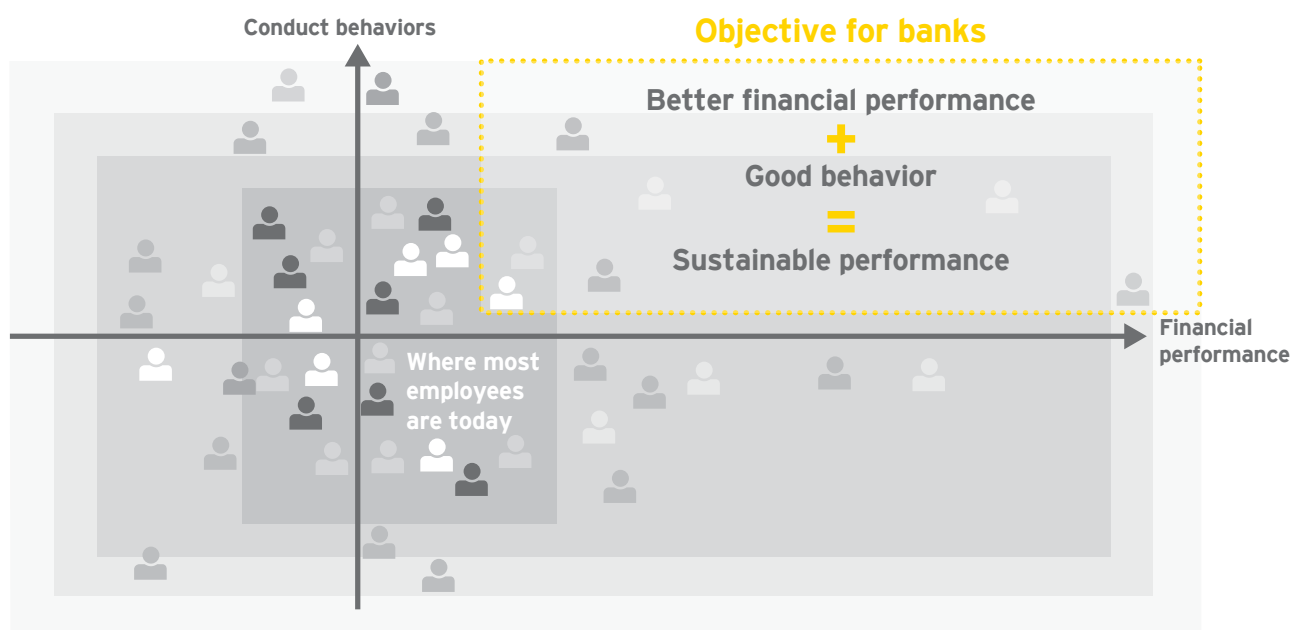
That insight should define whom banks need to retain, and the types they need to hire. Successful organizations will look for good practice in their current operations, using available data to identify the traits of high-performing individuals and teams. They will contrast and compare these with underperforming units and, by codifying the traits of high performers, will be able to drive change across the rest of the organization (see Figure 4).

But banks must not only hire the right people for the right roles, they must establish the right culture, targets and aspirations for their staff. This is particularly important in light of research that raises concerns about the impact of a compliance culture on the workforce – that employees' heightened focus on regulatory compliance may come at the expense of customer and other stakeholder outcomes.³ With this compliance culture, employees are motivated by the fear of doing something wrong, rather than the desire to do what's right.

Banks must do more to bring out the best in their employees at a time when the global workforce is changing.



Figure 4: Spread of employee performance – demonstrating the right behaviors and delivering the right financial performance



Source: EY analysis

³ EY, *The challenges of risk, culture, behaviour and corporate integrity in financial services, Findings from the MoralDNA™ of culture and conduct in global financial services, 2015.*

Four global megatrends are reshaping the workforce

Banks are not operating, or transforming, in a static environment. Before they can develop the tools and processes to build and integrate exceptional teams, it is essential for them to understand the impact of some of the ways the world is changing.



1 Global marketplace. The gap between developed and emerging markets is narrowing, and a truly global marketplace is developing. For banks, this increased competition means labor will be more expensive and in short supply. Rising staff costs will force banks to explore cheaper ways to deliver services while greater mobility will exacerbate talent shortages in some markets.



3 Digital business. Digital innovation continues to transform banking, changing the customer experience and improving industry efficiency. Applications of new technologies, such as 3-D printing, will enable institutions to transform processes and drive efficiency. For banks, this means there must be a rebalancing between roles that are the preserve of bankers and those tasks that are largely undertaken by machines.



2 Demographic shifts. While new entrants to the workplace switch jobs more frequently, average job tenure is actually increasing in key developed markets, such as the UK and the US. As retirement ages increase, organizations face a challenge to ensure their workforce remains engaged and motivated. The needs and skills of aging employees must be balanced against those of younger employees just entering the workforce. Furthermore, banking lags behind a number of other industries in gender and ethnic diversity, and there is increasing pressure from governments, investors and business leaders to shape a workforce that more broadly reflects the outside world.



4 Changing workforce. Global working patterns are changing. As competition for labor increases, so too will the premium paid to skilled workers. Furthermore, rising entrepreneurship in the workforce is changing the types of jobs that attract employees and the aspects of those jobs that motivate them. Thus, banks must rethink employment criteria. With highly skilled employees increasingly expensive to recruit and little evidence that pay correlates with performance, banks should consider recruiting and training staff from a broader talent pool and retaining them in new ways.

Redefining talent

Understanding the expectations of a new generation of bankers

Beyond global megatrends, banks are also trying to adapt to a new generation of employees in the workplace

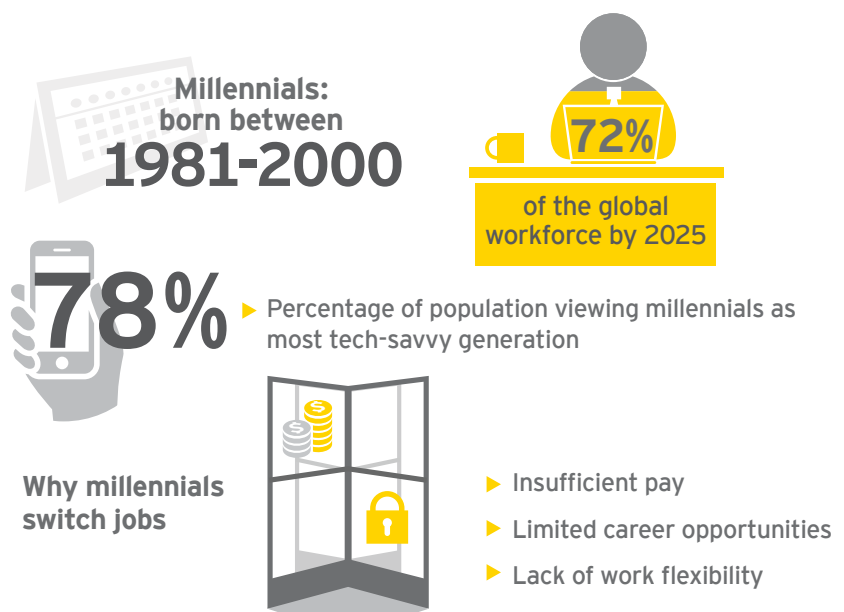
Millennials – or Gen Y – are young and generally tech-savvy people born between 1981 and 2000. We estimate they will constitute 72% of the global workforce by 2025 (see Figure 5). Their career aspirations and attitudes toward work will be instrumental in shaping the workplaces of the future.

There are a number of ways the industry is adapting to accommodate these new workers. For example, some banks have announced “lifestyle” programs designed specifically for this group, partly because they are concerned that leading talent is choosing other industries over banking. But it is uncertain whether these institutions have actually established what the group really wants and what is needed to motivate them at work.

In order to best attract and retain them and maximize their performance at work, banks will need to make sure they understand this new generation. Generalizations are dangerous, of course, but some particular characteristics differentiate millennials from earlier generations. These include:

- ▶ **Greater labor mobility.** EY research suggests millennials are more likely than previous generations to switch jobs if they feel they are not being paid enough, there are insufficient opportunities to advance or their work is insufficiently flexible.⁴ They are also more likely to have “portfolio” careers.
- ▶ **Greater technological capabilities.** Millennials were also raised in transformative years for technology, particularly the internet. They

Figure 5: New generation, new expectations



Source: EY Global Generations survey, 2013.

⁴ EY, *Global Generations: A global study on work-life challenges across generations*, 2015.

Where different generations present specific skills gaps, they can be a critical weakness for a business.

typically make extensive use of digital tools (mobile and online) to connect with their friends and peers. Blogs and social media websites are integral to their lives for socializing and sharing their experiences and opinions. Unsurprisingly, a recent EY survey showed that millennials are viewed as the generation that is most technologically capable – 78% see millennials as the most “tech-savvy” generation.⁵

- ▶ **More entrepreneurial, more entitled.** Millennials are also seen as being more collaborative, adaptable and entrepreneurial than other generations. They are also more eager than earlier generations to be asked for input, given feedback and to earn recognition and respect. However, while generally seen as enthusiastic, members of Gen Y aren't perceived as “team players” or particularly hardworking, or even productive parts of their organization. In addition, they are perceived as being difficult to work with, feeling a sense of entitlement and (perhaps less surprisingly) lacking relevant experience.

The generational differences spanning the workforce, therefore, offer a wide-ranging skill set to businesses, but banks need to manage those skill sets carefully to ensure they are used in the right way. Where different generations present specific skill gaps, they can be a critical weakness for a business.

Understanding the way the global workforce is changing – and the increasing depth and breadth of talent available to banks – is important for banks looking to transform their workforce.



⁵ EY, *Global Generations: A global study on work-life challenges across generations*, 2015.

Redefining talent

Assessing the impact of technology on the workforce

Less scare-mongering, more strategizing

“Give up and go home” is the message to bankers if claims that robots will be running the City within 10 years – rendering investment bankers and analysts redundant – are to be believed.⁶

We believe that such claims are overblown. Nevertheless, it is certain that many jobs will go. It is undeniable that an array of technology, including robots, is already revolutionizing banking and having a transformative impact on the workforce. As this trend accelerates, banks must rethink ways of working and balance the benefits of technology with the benefits of, or requirements for, human value-adding intervention.



⁶ “Bankers beware: City ‘will soon be run by robots,’” *The Telegraph*, 2014.

As robots develop human-like creative problem-solving capabilities, more and more complex tasks can be completed by technology alone.

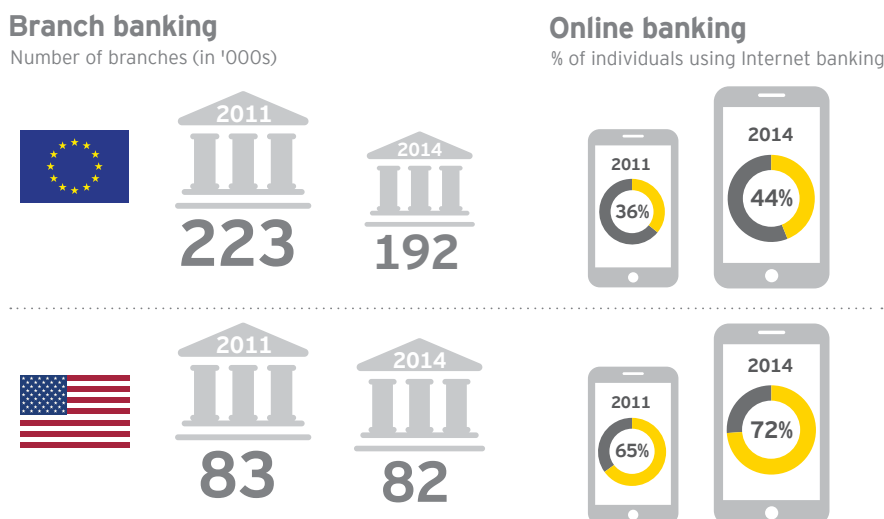
How technology has already revolutionized the workplace

First, much investment in technology is focused on the automation of manual processes to drive greater efficiency, lower cost and improve speed and accuracy. This use of technology is about reducing simple “task-based” roles – or, at least, allowing banks to reallocate staff to other areas of the business. This is highlighted by the ever-increasing investment in, and penetration of, online banking. As online technology has improved in developed countries, banks have been able to increase operational efficiency, improve customer service and reduce their branch footprint (see Figure 6). Similarly, the use of machines in branches to perform a range of basic activities – transactions such as depositing or withdrawing money – has allowed the number of staff typically required in each branch to be reduced, too.

Second, technology is used as a tool to improve productivity. This has often involved roles in which face-to-face contact with customers is still important – such as when customers are purchasing investment products. For example, by equipping advisors with tablets, banks have been able to reduce the risk of products being mis-sold, diminish the time spent by advisors on paperwork and provide customers with advice on, and access to, a wider range of products than might otherwise be available.

However, the development of autometrics and advances in machine learning means the line between these two, relatively distinct, applications of technology to banking are blurring. As robots develop human-like creative problem-solving capabilities and customers become more confident about interacting with machines, more and more complex tasks can be completed by technology alone.

Figure 6: Branch banking vs. online banking in Europe and the US



For example, in wealth management, the traditional domain of personal relationships, robots have started to make their presence felt. In Asia, one bank’s mass-affluent private banking clients (those with a net worth close to US\$1m) are being advised by robots. As these customers are not considered wealthy enough to warrant a full-time relationship manager, they interact with their bank through enhanced online platforms underpinned by algorithms. This is just one example of the increasing trend of banks – and Fintech firms – turning to cognitive computer systems that understand natural language, are able to learn and can serve as chat advisors.

Source: FDIC, ECB, US Federal Reserve, Eurostat



Three smart steps to balance investment in technology with that in people

Technology is advancing so rapidly that banks are faced with the challenge of pre-empting how it will reshape their workforce. How and where must they deploy and invest in technology and people across the business, and which processes must they have in place to maximize the potential of both?

1. Identify where technology will automate roles

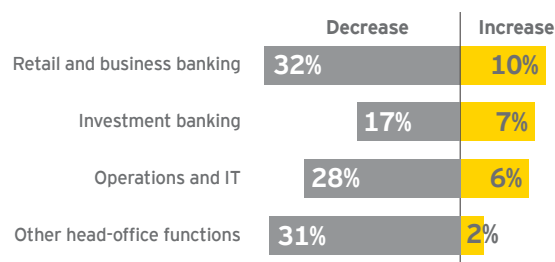
There is evident scope for banks to reduce human friction and eliminate more task-based roles through automation. As illustrated in EY's *European Banking Barometer – 2015*, the majority of these will be in operations and other head-office functions, as well as in retail banking (see Figure 7).

Within bank branches, artificial intelligence is threatening most of the remaining roles of the staff, and there is a high probability that the roles of bank tellers, loan officers and mortgage brokers will be automated in the near future.⁷ Notable examples of automated roles include:

- ▶ One firm has introduced a robot worker programmed to sense customer emotions and speak 19 different languages, enabling it to greet customers and assist them in different services offered by the bank.

- ▶ Another global bank recently announced the use of robot technology to help its clients with basic tasks such as money transfers – customers are able to interact with and be walked through processes by an artificial intelligence (AI) system similar to those found in mobile telephones.
- ▶ Technology is also reducing the role of humans in some areas of investment banking. The use of algorithms, which are already commonplace on trading floors, can resolve complex mathematical equations, drawing nuanced, logical conclusions within seconds. This is not new. As far back as 2001, a team of robots was able to beat humans in a trading simulation, and we expect the number of trading roles in banks to continue to fall.⁸
- ▶ Beyond sales and trading, one leading global investment bank is already exploring the use of “automated writing” to supply its clients with research reports, and another is looking to automate as much of the IPO process as possible.

Figure 7: In which areas do you expect banking headcount to increase or decrease?



Source: EY *European Banking Barometer – 2015*

⁷ Carl Benedikt Frey and Michael A. Osborne, *The Future Of Employment: How Susceptible Are Jobs To Computerisation*, 2013.

⁸ BBC, *Robots beat humans in trading battle*, 2001.

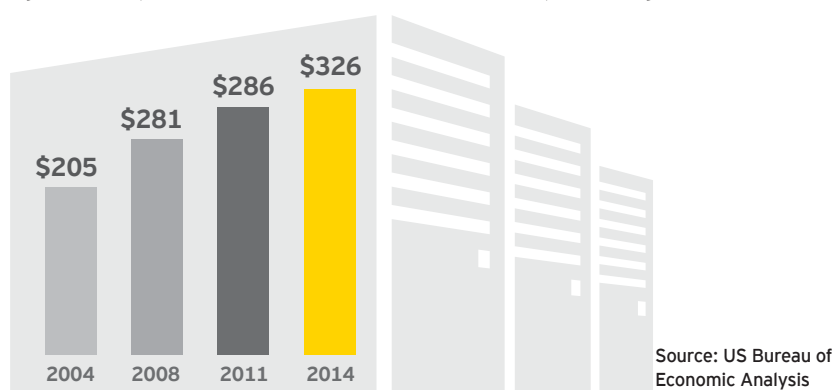
We believe that the next decade will see the increased hollowing out of roles and greater application of technology across banks. Therefore, banks must plan effectively for change. They should establish a working group, including HR personnel and technologists, map roles across the organization against the steps in each process, and identify likely targets for future automation. And as technology advances, and computers are better able to learn from experience and adapt to new situations, what controls need to be in place to manage that technology? It is important to understand where, even if automation is possible, it may not be desirable. This will enable banks to reallocate investment across the business and develop plans to retrain and redeploy staff to other parts of the organization.

2. Identify where technology will augment individuals

There will still be interplay between technical and interpersonal skills in many roles. The view that key roles will “combine routine technical tasks with the set of non-routine tasks in which workers hold comparative advantage – interpersonal interaction, flexibility, adaptability and problem-solving” – will be central to how banks structure their workforce and recruit, train and remunerate their employees.⁹ Where the emphasis of a role is on interpersonal skills or on problem-solving capabilities and communication, it is likely the role will attract a salary premium.

Over the last decade, across industries, investment in computing technology has dramatically increased (see Figure

Figure 8: US private fixed investment in information processing (US\$b)



8), but while a large number of roles within banks are targets for automation, not all of them are – if only for customer-service reasons.

One barrier to full automation of the workforce lies in the nature of existing jobs. While machines can in a number of instances perform specific technical tasks better than humans, existing jobs bundle a range of tasks, including those that require “flexibility, judgment and common sense” and remain challenging to automate.¹⁰ Notable examples of roles where interpersonal skills are important include:

- ▶ **Research analysts.** The ability of machines to advance clients’ thinking, rather than report on the facts, remains limited. Analysts have the advantage of maintaining relationships with executives at the companies they cover, speaking with them directly and interpreting the nuances in their comments. While the data-crunching can be automated, the role itself requires a degree of human interaction and – critically – judgment that cannot be as effectively marshaled by machines.

- ▶ **Call center employees.** While there is some automation within bank call centers, and employees have scripts to help them solve problems, when these employees are only able to stick to the script, they can frustrate customers. What is required to deliver high-quality service in such a role is a problem-solving capability and an engaging manner with customers.
- ▶ **High-net-worth personal advisors.** While the mass affluent may have their wealth management needs served by robo-advisors, high- and ultra-high-net-worth individuals (UHNWIs) are likely to continue to expect dedicated personal advisors.

However, despite the continued emphasis on interpersonal skills in these roles, many positions will still require greater interaction with technology. Even those staff advising UHNWI will be heavily reliant on an array of technology.

Furthermore, at a basic level, technology is central to enabling the changes in work styles that allow the workforce to become more agile in the digital world. We already see fewer staff

⁹ David H. Autor, “Polanyi’s Paradox and the Shape of Employment Growth,” MIT, 3 September 2014.

¹⁰ Ibid.

tied to desks in offices – technological advancement will mean more people better able to work “on the go” or from home. Augmenting human capabilities with technology is critical to improve productivity, including in front-line roles.

The challenge for banks is to strike the right balance between automation and interaction. They must assess each role carefully and develop a view of the scope of personal interaction required vs. the scope for automation. They must also assess how technology can enhance staff, enabling them to do their jobs more efficiently and spend their time on more value-adding aspects of their role.

Whatever balance a bank decides is right for its staff, its customers and its profitability, the rapid advance of technology means skills gaps among staff are inevitable. Banks should act now to identify how technology will change roles across their business and adapt their recruitment and training programs to reflect the increased emphasis that will inevitably be placed on technical skills.

3. Identify where new roles and skill sets are required

Advancement in technology will force greater reliance on technologists. Banks must find a way to employ teams that are always at the cutting edge of innovation – not only to improve business performance, but also to manage risks.

This is highlighted by the use of algorithms in banking and their application to increasingly complex

tasks. For example, a leading global bank recently invested in a start-up company that creates algorithms to quickly analyze hard-to-structure data – a cheaper option for a traditional role. However, the use of algorithms is not without risks: it is an area that is increasingly scrutinized by regulators, as highlighted by recent regulatory actions dealing with spoofing and layering. There have also been concerns as to whether algorithms, combined with high-frequency trading, were a contributory factor in the 2010 “flash crash.”¹¹ Banks will need to increase their investment in:

- ▶ **Innovative IT staff.** As the work of bankers is increasingly automated or augmented by technology, new skills will be required. Not only will people be required to develop and maintain innovative technology, but they will need the skills to manage and monitor new technology to ensure it is being used correctly and safely. Banks will turn to technologists who are developing artificial intelligence, rather than those with basic programming skills. Already, one global investment bank employs more software engineers than a leading social network.

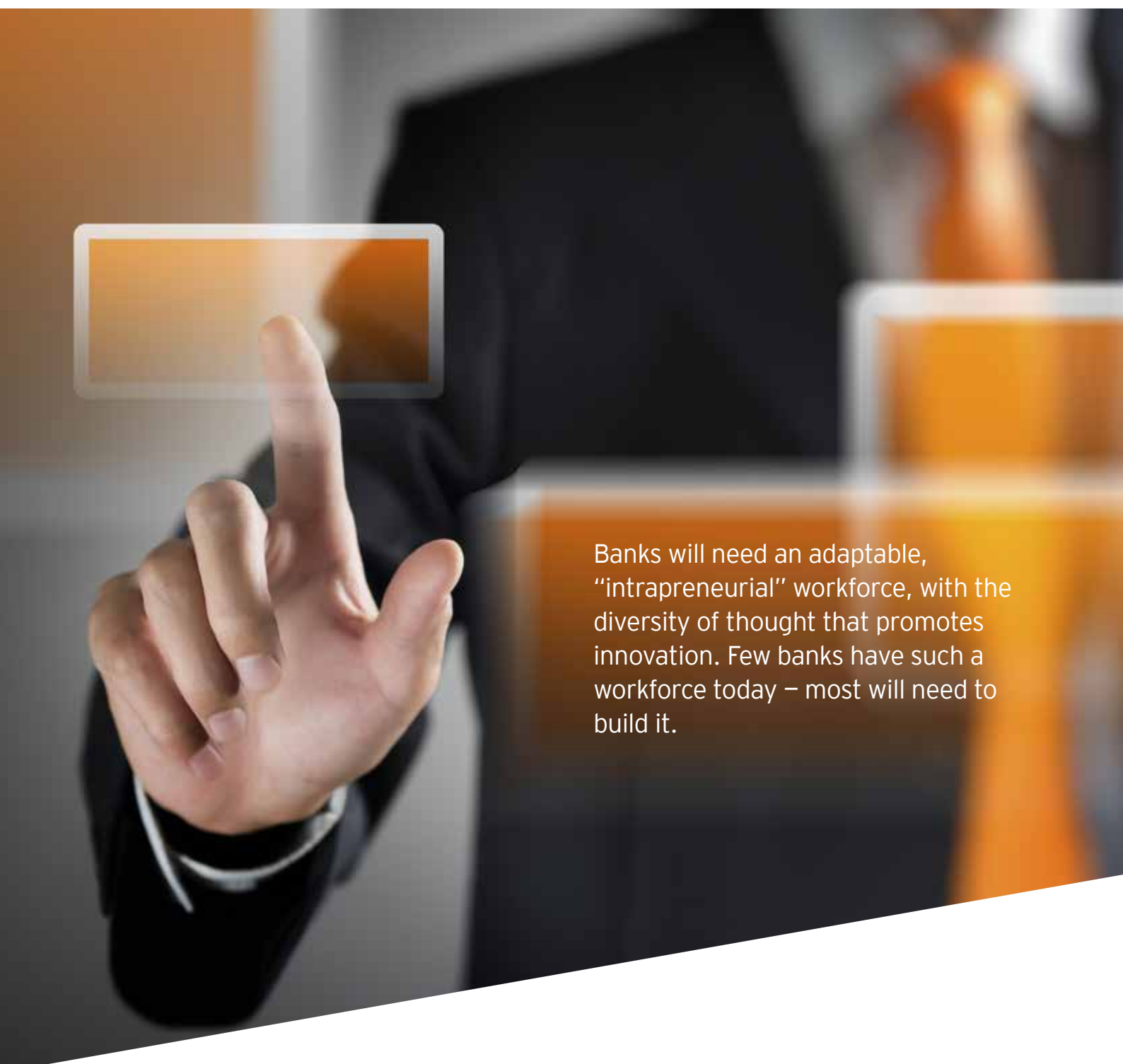
- ▶ **Legacy IT staff.** Unless banks invest billions in overhauling their core banking platforms, they will still need technologists who are competent in the programming languages of half a century ago. The question for banks will be how to access these diverse skills: they will have to decide whether they want to employ such individuals directly or whether they want to “buy in” certain technology skills.

The latter option may be the preferred choice in areas involved with either legacy technologies or new and innovative technologies that are not a competitive advantage but are beyond the core capabilities of the banks. Ultimately, the banking workforce may be transformed by outsourcing the vast majority of its technology roles.

It is clear that technological innovation will drive a radical transformation of the banking workforce – eliminating, evolving and creating roles across the business. Banks that merely react to these changes will struggle, while the most successful banks will be those that anticipate the changes and couple leading technology with an exceptional workforce. To do so, however, they must first undertake a comprehensive review of existing roles across their organization and assess how innovation is likely to shape them in the future.

Next, they must recognize that the skill sets required in the future will be radically different from those of today. Employees’ capabilities must evolve as rapidly as technology itself. Banks will need an adaptable, “intrapreneurial” workforce, with the diversity of thought that promotes innovation. Few banks have such a workforce today – most will need to build it.

¹¹ Technical Committee Of The International Organization Of Securities Commissions, *Regulatory Issues Raised by the Impact of Technological Changes on Market Integrity and Efficiency*, 2011.



Banks will need an adaptable, “intrapreneurial” workforce, with the diversity of thought that promotes innovation. Few banks have such a workforce today – most will need to build it.

Transforming talent

As banks continue to reduce costs by automating as many tasks as possible, what will the role of a banker actually become? And if banks are adopting the latest technologies, what are the skill sets their staff will need?

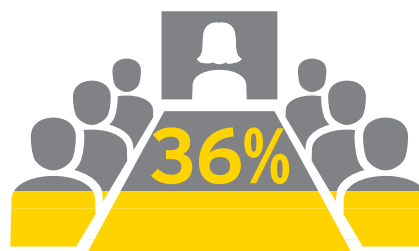
One thing is clear: for banks to successfully rebuild their franchise, improve efficiency and re-establish trust, they must transform their workforce.

This means banks must focus on the employee life cycle – that is, ensuring recruiting, onboarding and existing processes promote the desired cultural and behavioral traits and are accompanied by training programs to reinforce them, as well as monitoring procedures to detect problems. In essence, banks need to get better at attracting, developing and retaining the right talent – both culturally and technically – for the right roles.

The time has come for banks to transform talent.



Figure 9: Out-performance of boards with a higher-than-average percentage of women (2005-14)



Source: EY, *Women. Fast Forward: The time for gender parity is now*, 2015.

Changing culture to encourage diversity of thought

The key to a stronger, better banking world

Demand for skills is changing. How do banks connect with a new generation of customers, especially with the rise of social media? How do they market products to them? How do they create a culture that balances customer demand for innovation with compliance concerns?

In many ways, the present workforce is not fit for purpose. It is too often compliance-led, out of touch with customers and insufficiently innovative. Compliance should be a by-product of doing the right thing, rather than following rules for the sake of satisfying regulators. Banks need to create an internal culture of entrepreneurship and innovation. They need to find new ways

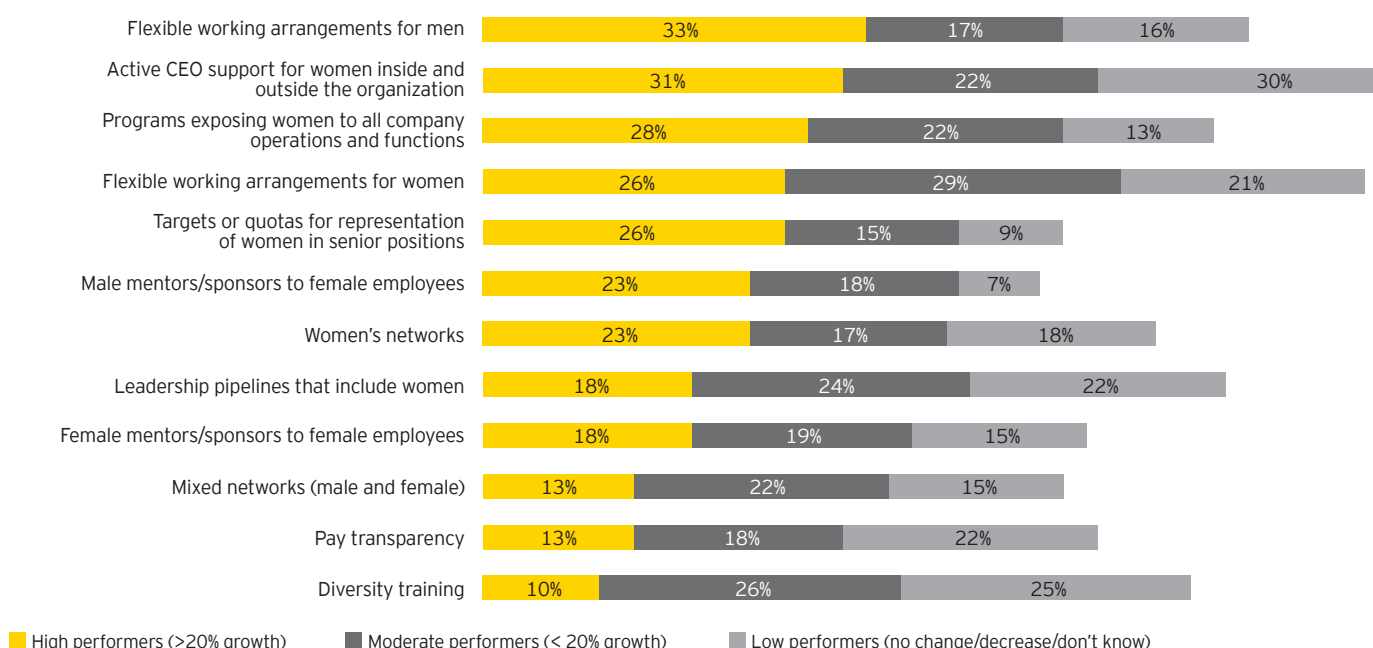
to connect with customers and to drive business. We believe that the key to achieving this is encouraging diversity of thought.

How diversity drives financial performance

The benefits of diversity are clear across all levels of the organization:

- ▶ Research shows that there is a positive correlation between greater gender balance on boards, higher share price and better financial performance. From 2005 to 2014, boards with a higher-than-average percentage of women outperformed those with a lower than average percentage by 36% (Figure 9). Companies with women board members also outperform those without them on a range of

Figure 10: What does your company provide to actively support women?



Source: EY, Women. Fast Forward: The time for gender parity is now, 2015.

metrics that includes return on equity, net income growth and price-to-book value.¹²

- ▶ Diversity is also critical beyond senior management. Emerging research suggests trading desks with more women may outperform male-dominated desks in periods of market downturn due to physiological differences.¹³ Whether or not these differences, such as different levels of testosterone, really hold the key to outperformance, the finding is only the latest in a series of studies

suggesting that in trading and asset management, women generally outperform men over the long run.¹⁴

Although much of this evidence is correlation, not causation, it implies that the culture in more ethnically and gender-diverse companies provides support for employees to perform better across the board. It suggests they permit – or, in fact, encourage and reward – greater diversity of thought.

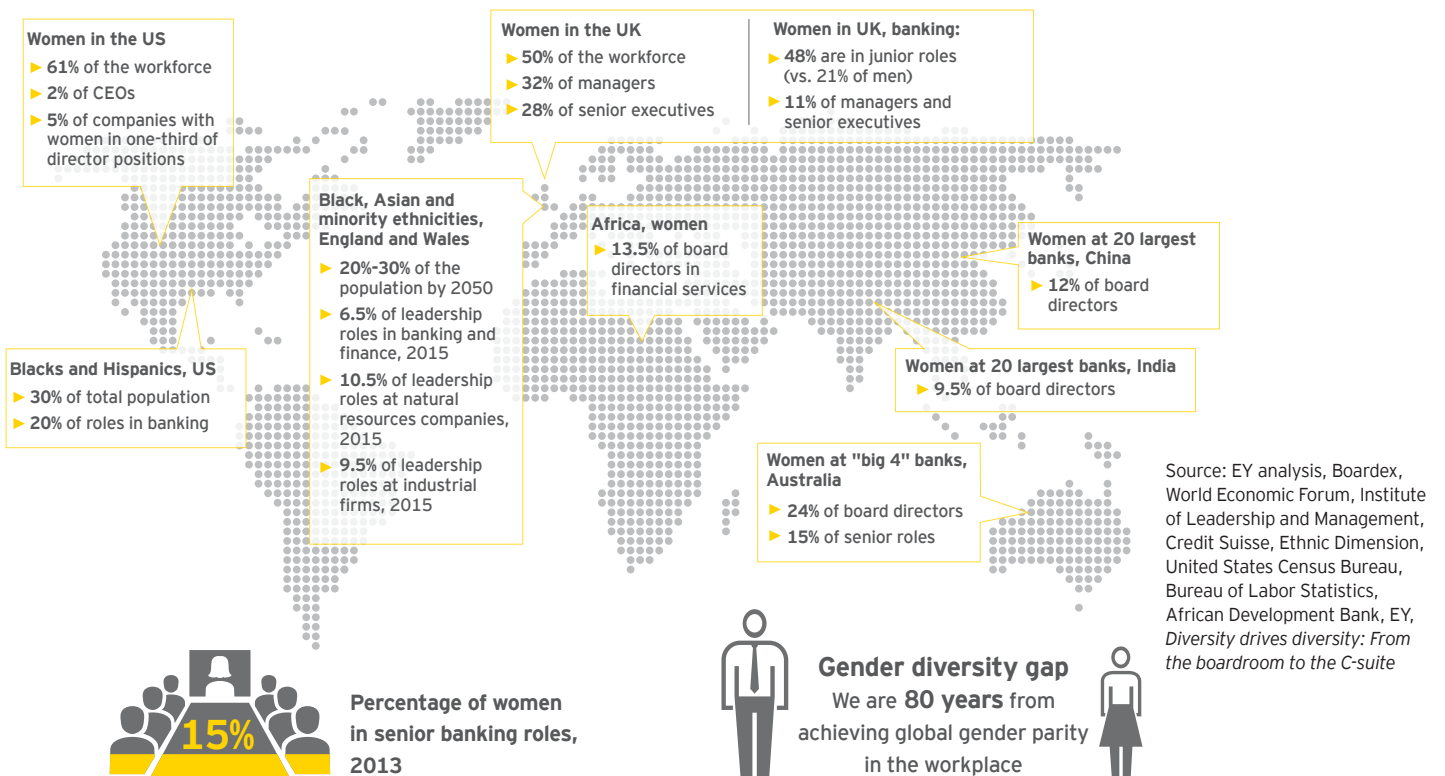
Discriminatory or narrow selection criteria usually result in ineffective utilization of the talent pool available

to banks and risk homogeneity in top management positions. These are not the attributes of leading organizations. We find this illustrated in EY research across a number of industries showing that the highest-performing companies invest more in the advancement of women than their peers (see Figure 10).

Why banking remains a homogenous industry

The banking industry is still a long way from reflecting the makeup of society in terms of gender, ethnicity or background, at least at the

Figure 11: The banking industry is still a long way from reflecting the makeup of society in terms of gender, ethnicity or background



¹² Credit Suisse, *The CS Gender 3000: Women in Senior Management*, Research Institute, 2014.

¹³ *The Economist*, "The molecules of mayhem: testosterone and taking risks," 2012.

¹⁴ *Washington Post*, "Behavioral economics shows that women tend to make better investments than men," 2013.



senior levels of its workforce (see Figure 11). It doesn't start this way at junior levels, but barriers tend to appear as individuals progress through their working lives. Recent EY research suggests that 68% of women and 70% of men believe that women are likely to experience challenges to accelerating their career before they reach senior management.

Lack of parity is not just about seniority either; it is about the roles people hold as well. In financial services, there is typically more diversity in non-profit-and-loss (P&L) roles, such as compliance, human resources, legal departments and marketing, which are not typically seen as contributing revenue to the business.¹⁵

Even banks' standard entry requirements – often at least an upper-second university degree (equivalent to a 3.5 grade point average in the US) – dramatically limit the talent pool that banks recruit from, exacerbating the homogeneity. Nor is past academic attainment necessarily a good predictor of aptitude and potential, especially for students from more challenging backgrounds.

Approaches to change are too tactical

Many European countries have issued mandates to boost the number of women in corporate boardrooms. In fact, the European Commission recently adopted a proposal for legislation requiring women to make up 40% of board director seats by 2020.

At the same time, a number of banks are already working to improve diversity at senior levels, introducing policies ranging from targets for the number of senior management roles to be held by women to banning all-male short lists for such roles. Although these may be positive moves, they are tactical solutions.

Improving diversity of thought, as well as of personnel, calls for breaking the patterns and conscious and unconscious biases that have led to the problems of the past. It is not just about targets or retaining staff – a more fundamental rethinking is required if the cultural change that supports diversity and high performance is to be effective and permanent.



The European Commission recently adopted a proposal for legislation requiring women to make up 40% of board director seats by 2020.

¹⁵ "Women in S&P 500 companies," Catalyst, 2015; "Women in Finance," *London Business School Review*, 2015.



Three smart steps to increased diversity and transformed cultures

We believe that to successfully build a diverse workforce, banks need to change the way they enable people to progress through their careers.

1. Broaden horizons

Traditionally, the siloed career paths of bankers have created technical experts, but not necessarily the leaders that banks need. It has also led to certain employees being unable to fulfill their potential.

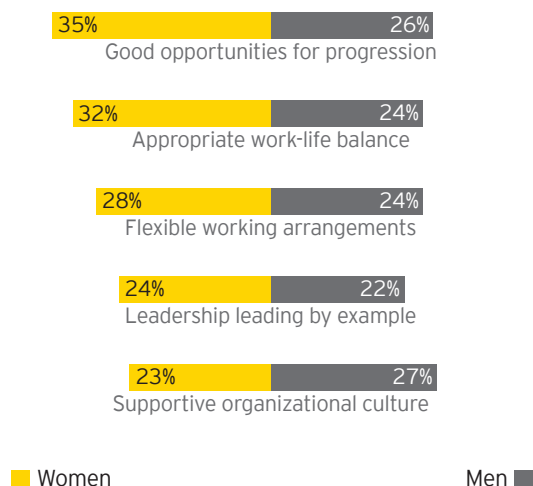
This is highlighted by the participation of women in banking. There are precious few women role models in the upper echelons of banking and capital markets leadership. The next senior management layer is better, but not by much, the majority of those roles are in shared services, such as human resources and legal.¹⁶ This means there are even fewer women in roles with strategy and P&L responsibility – i.e., in the roles that are the training ground for top senior leadership positions, including CEO.

EY research shows that good opportunities for progression are critical to achieving career advancement (see Figure 12). Obviously, individuals bear a degree of responsibility for advocating for themselves, but for them to do this successfully, it is also critical that organizations work to make the path to leadership clear – highlighting career opportunities across the breadth of the organization to match individuals' skills and ambitions (Figure 13).

In EY's experience, internal and external leadership programs can help people pursue top positions once they see the path forward.

Once a clear route to advancement has been established – and it is apparent that there is no single set of qualities or attitudes required to reach senior positions – companies can help

Figure 12: What have you personally experienced or witnessed as the most important enablers of women's acceleration in the workplace?



Source: EY, *Women. Fast Forward: The time for gender parity is now*, 2015.

¹⁶ Credit Suisse, "The CS Gender 3000: Women in Senior Management," Research Institute, 2014.



individuals navigate their careers in many different ways. For example, as a number of banks are already doing, they should focus on developing leadership pipeline programs, introducing measurable targets for leadership representation, appointing sponsors to support specific employee groups and developing employee networks, to ensure all employees are aware of the breadth of opportunities open to them across the organization.

2. Foster flexibility

This is particularly important in promoting gender equality. Our research shows that better work-life balance and more flexible work arrangements are key enablers of progression for women. This is not surprising. The International

Labor Organization has highlighted the detrimental impact on women's advancement at work caused by interruptions in careers, often as a result of their more often taking responsibility for family commitments, including child rearing, for example.¹⁷

Lack of flexibility stalls careers. It can slow the progress of any employee who must balance such demands as dealing with young children or aging parents while trying to advance their career to a senior level. This risks driving people out of the industry, thus reducing diversity.

We believe firms should help employees meet these conflicting demands head on. They should offer flexible work arrangements for both men and women. When men have more flexibility, they can devote more time to child care and

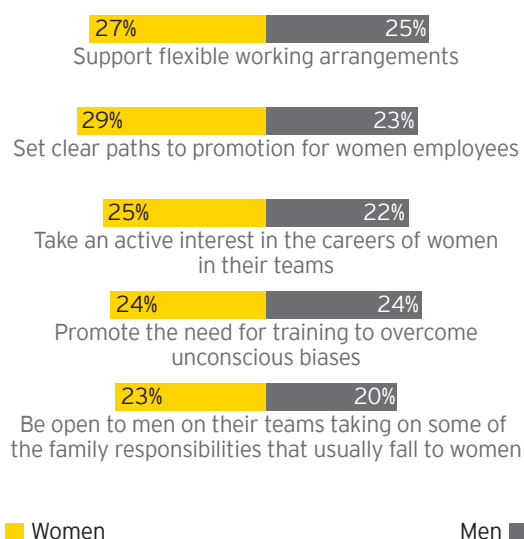
household responsibilities, as well as to other interests. That can help free women to spend more time on their careers. And as more men take a greater role in family responsibilities, it also helps eliminate some of the unconscious biases of the workplace.

In our experience, leading firms are those that shift the focus from effective work-life balance to effective work-life integration. This means going beyond formal flexible work arrangements (although these may still be beneficial for many employees) and encouraging and supporting informal flexibility in where, when and how men and women work – i.e., offering greater opportunity to work from home when needed or to work nonstandard hours. This should not be limited just to staff with care-providing responsibilities but should be available to all employees.

There will inevitably be some roles where working flexibly isn't always viable. However, even in those, firms can do more to support their staff by providing concierge services, if work commitments mean staff require short-term child care arrangements, for example. Clearly, such services come with a cost, but this must be viewed in light of the productivity and profitability gains to the organization that such services enable.

One thing is certain, however. EY research shows that a "flexibility stigma" – a perception that people with flexible working arrangements are penalized with a lack of pay and promotion opportunities – is a key reason for workers to leave organizations.¹⁸ This presents a particular challenge in the financial sector, especially the front offices of

Figure 13: What more can men do to support the advancement of women in their careers, in order to promote gender equality?



Source: EY, *Women. Fast Forward: The time for gender parity is now*, 2015.

¹⁷ ILO, *Global Employment Trends for Women*, 2012.

¹⁸ EY, *Global generations: A global study on work-life challenges across generations*, 2015.

investment banks, where there is often a culture of long hours and “face time.” This means that whatever the working arrangements, it is crucial that flexibility be seen as a benefit for all employees, not an accommodation for some.

3. Eliminate bias

A supportive culture throughout the organization is the third key enabler of diverse individuals’ acceleration through their companies. This is a critical issue for banks, which often try to encourage competition rather than collaboration between staff to drive financial performance. The challenge of unsupportive environments is clearly highlighted by – but not limited to – questions of gender equality.

More men view a supportive culture as a key enabler for women than any other organizational initiative. This is perhaps because, as EY research found, unconscious bias was listed as the main barrier men had witnessed affecting the acceleration of women’s careers.¹⁹ And if unconscious bias is applied to one group of employees, it is probably applied to others as well.

The question for banks is how they can combat this sort of bias to eliminate its impact. A first step is educating management about conscious and unconscious bias and inclusive leadership through management-training programs. But training isn’t everything – initiatives must go beyond policies, communications and training programs; they must effect cultural change.

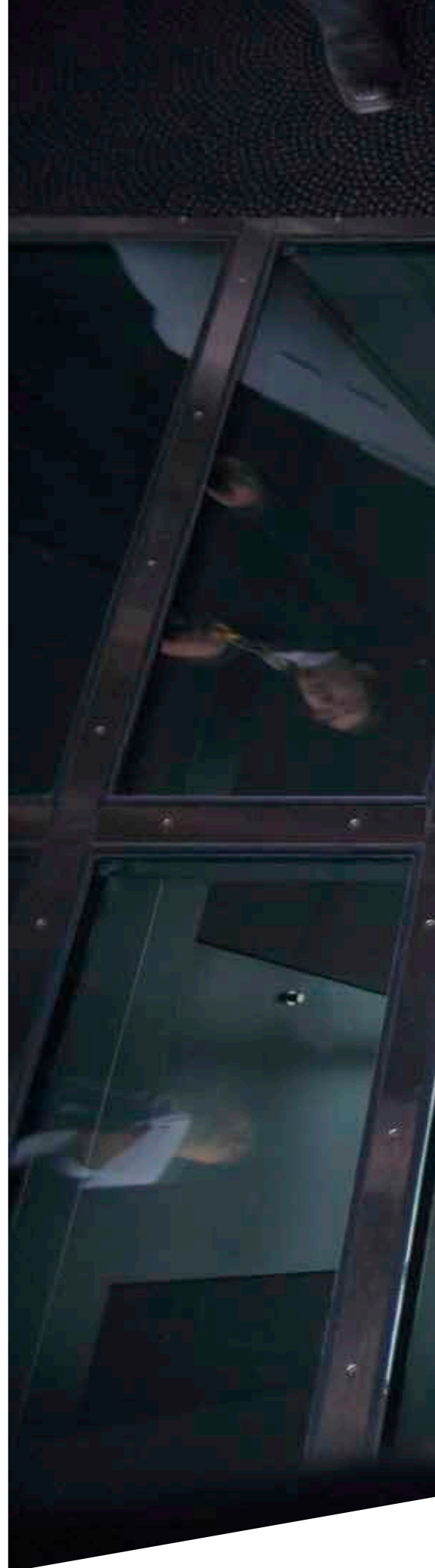
This means tone from the top – the actions of business leaders are just as important as training. Senior executives must spread an organization-wide message that bias is unacceptable and advocate that everyone take responsibility for learning about his or her own bias and adjusting their behavior. A further requirement is for active leadership that visibly supports the advancement of diverse individuals, for example, through formal and informal sponsorship programs. In our experience, the presence of a sponsor can be vital to help a person advance his or her career.

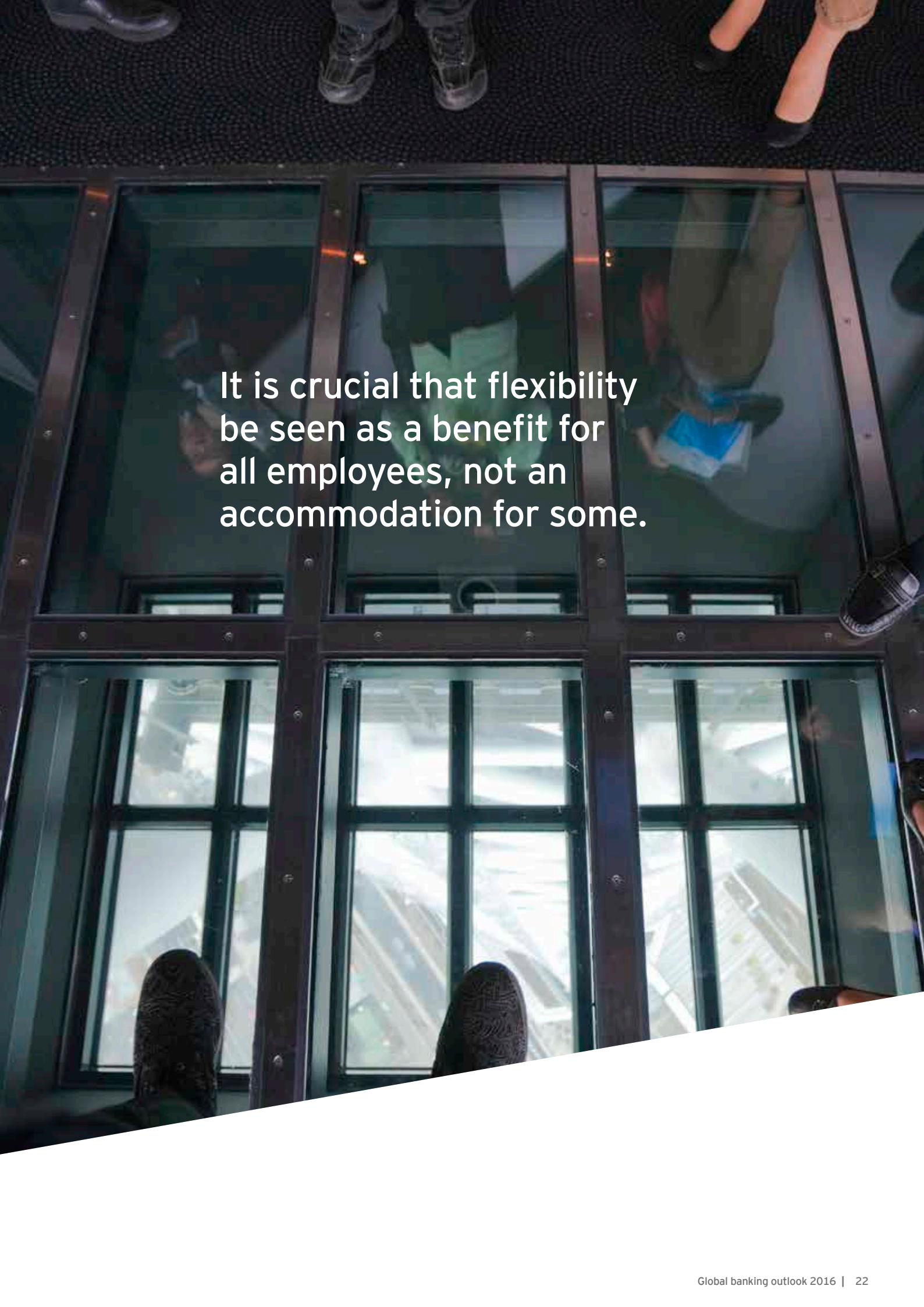
With leaders demonstrating the right behaviors, this change in attitude can cascade throughout the organization, especially when coupled with a variety of programs that support women and minorities and help eliminate the effect of any unconscious bias that pervades the workplace.

Encouraging diversity of thought by creating an environment that will attract, retain and advance a diverse group of individuals will be crucial to banks that want to employ genuinely high-performing teams with the aptitude and skills to adjust to a transformed workplace.

Achieving this goal will not just require the right tone from the top and reward for good behaviors. Banks must also ensure there are consequences to failure, particularly where employees’ actions do not reflect the values of the organization.

¹⁹ EY, *Women. Fast Forward: The time for gender parity is now*, 2015.





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Transforming talent

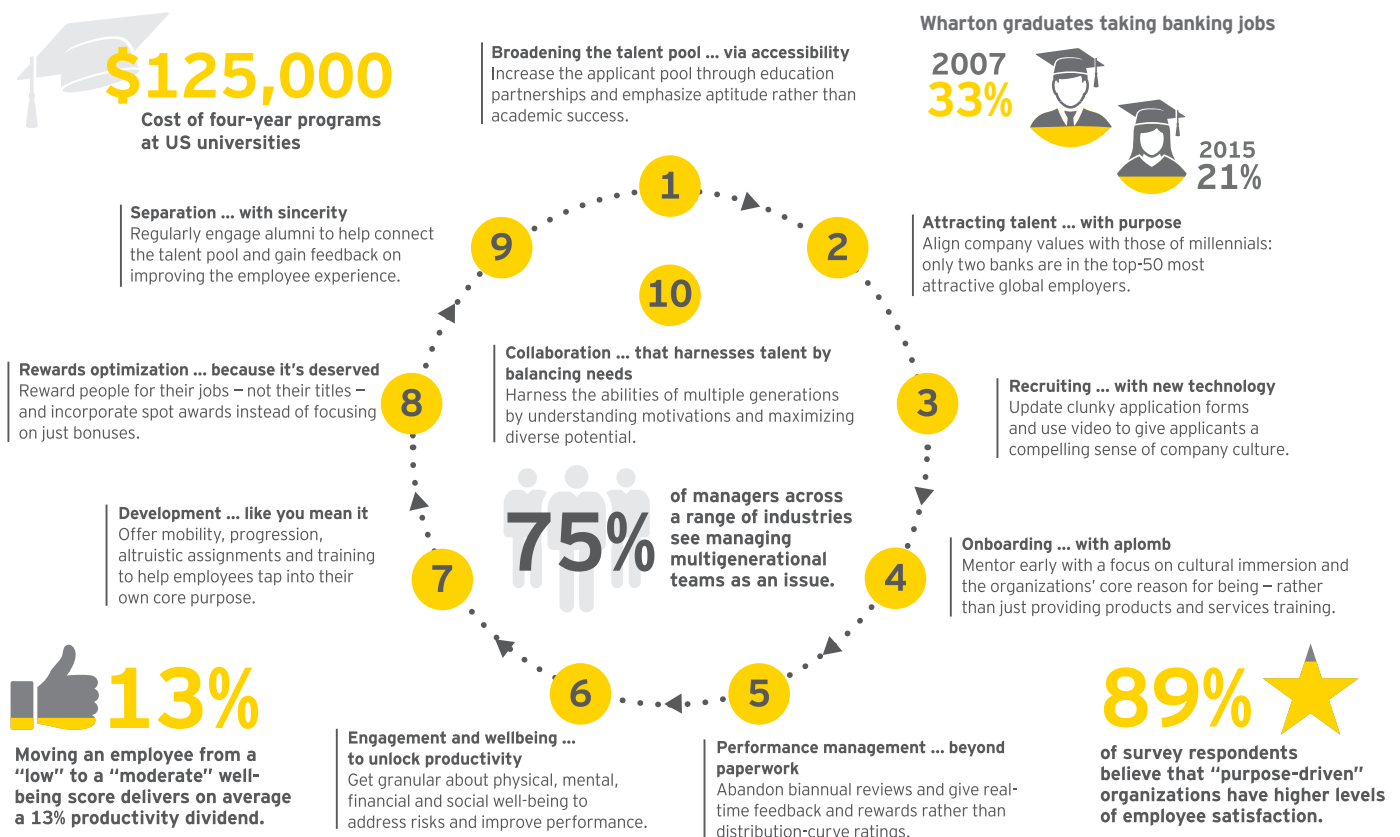
Nurturing and empowering a collaborative workforce

If banks are to retain leading talent, encourage a culture of “intrapreneurism” and enable employees to develop the cutting-edge new ideas and innovative projects required to rebuild a sustainable banking industry, they must nurture a collaborative workforce by transforming their employee propositions.

Greater diversity of thought and personalities in banking is a positive development toward this goal, but it also brings challenges. Employees still need to coalesce around common visions, values and goals, and banks must ensure that the right processes are in place to harness the skills of this new workforce.

To successfully build a diverse, collaborative workforce, banks need to transform the way they recruit and progress people through their careers (see Figure 14).

Figure 14: Stages of the HR life cycle in banking. How do you make diversity a success?



Sources: EY analysis, company reports, EY Beacon Institute, CollegeBoard, EY Generations survey, 2015.



Ten stages of the HR life cycle in banking – and how to do them better

1. Broadening the talent pool ... via accessibility

With the cost of university education in certain countries high and rising – up to US\$125,000 for some students in four-year programs at US universities²⁰ – banks should follow the lead of other industries and sponsor high-potential individuals through their education, in return for a commitment to work for the firm for a fixed period on graduation, and provide benefits that will help them manage the significant financial burden that accompanies ever-increasing student loans. However, such sponsorship programs should place greater emphasis on aptitude than past academic success.

This doesn't mean dispensing with academic qualifications entirely, but it removes them as a barrier to getting a foot in the door. A growing body of research suggests that screening students based on academic performance alone is too limited and restricts the applicant pool.

For example, banks might consider targeting unconventional universities for applicants or transforming recruitment by removing academic entry requirements. Such processes can open up opportunities for talented individuals regardless of their background and provide greater access to the profession, as well as, critically, helping banks re-engage with society.

In the UK, one bank successfully trialed a suspension of its academic entry requirements for cashiers, making

it possible to employ more people from the local community – who were better able to connect with the bank's customers – in its branches. The trial demonstrated how the right training schemes, desirable motivations and aptitude are at least as important as historic academic achievements.

Banks should also look at partnering with universities to design and deliver courses that build a pipeline of employees for specific roles. But this approach requires caution as firms should still recruit from a wide range of backgrounds to avoid the danger of fostering group-think.

2. Attracting talent ... with purpose

Who wants to work in a bank? Not the highly skilled IT and engineering graduates banks will need in the future. They're increasingly likely to join technology companies rather than financial firms. Banks have little brand appeal to new employees; there is no bank ranked by IT and engineering graduates in the top 25 most attractive companies to work for, and just two in the top 50.²¹

To attract the talent they need, banks must transform their employee value proposition, especially toward millennials who are attracted to companies whose values align to their own. "Purpose" matters to millennials – and banks must emphasize their purpose.

²⁰ CollegeBoard, *Trends in college pricing*, 2014.

²¹ Universum, *The World's Most Attractive Employers – Engineering/IT students*, 2015.



This is a challenge for an industry that is seen as traditional and focused on risk management and compliance, rather than creativity and flair. Banks need to better understand how a sense of purpose, challenge and creativity can be conveyed to potential recruits.

However, compliance still matters, and banks are faced with the challenge of attracting millennial employees without pandering to their perceived sense of entitlement. As employers, they must appeal to the positive traits of this group and not give in to their negative ones.

3. Recruiting ... with new technology

There's little sense in marketing banking as a high-tech, purpose-driven industry to new joiners if their first interaction with a firm is through an outdated recruitment process. Millennials use social media and mobile-friendly applications more than traditional recruiting channels. Many banks are exploring using these channels, but often, their online application processes are too "clunky" and poorly streamlined. Banks should make better use of video application forms and interviews to give applicants a compelling sense of the company culture.

4. Onboarding ... with aplomb

Illustrating purpose is just as important in onboarding as in attracting candidates.

EY research has highlighted an evolving view of a corporation's role that increasingly emphasizes the corporation as a partner in societal well-being. Eighty-nine percent of survey respondents believe that "purpose-driven" organizations have higher levels of employee satisfaction.²² And corporate dialogue around purpose is changing, with organizations' purpose increasingly including reference to their core reason for being – rather than merely the products and services they offer. This language is being used to engage a range of stakeholders with shared values, including, significantly, employees.²³

New employees need to be better engaged and integrated into the organizational culture. The best way to achieve this is by ensuring the alignment of organizational purpose with individual purpose. This can be accomplished through early mentoring programs and a focus on "cultural immersion" as part of the onboarding process.

5. Performance management ... beyond paperwork

In most banks, performance management is still viewed as a mechanistic performance evaluation tool. Employees are subject to periodic formal evaluations that are central to their remuneration. But, as illustrated by mis-selling and rate-rigging scandals, the way employee goals are structured and measured – even when banks attempt to employ a balanced scorecard – have a significant impact on the behaviors they drive. Not only must this change to achieve a cultural shift, but also because traditional methods of performance management are ineffective with the upcoming generation of employees.

Millennials prefer continuous feedback. Structured performance management – in the form of the semiannual and annual reviews typical across the financial sector – is seen as constraining. Millennial employees typically prefer real-time feedback highlighting their positive contributions or their progress against key competencies.

Banks must radically change their approach to performance management. They should consider building flexibility into the performance cycle for promotions and bonuses to help millennials achieve a sense of accomplishment that's merit-based rather than time-based. Some organizations outside of the banking sector are already moving away from time-consuming, process-led performance management systems and "forced-distribution" ratings, which are

²² Harvard Business Review Analytic Services and EY, *The Business Case for Purpose*, 2014.

²³ EY and University of Oxford Saïd Business School, *Analysis of how and why top leaders of global organizations leverage purpose to transform*, 2015.

Millennials' primary motivation is not necessarily money – they're more likely to respond to praise, promotion, responsibility, nurturing and change.

often seen by staff and managers as tick-box exercises rather than a means to motivate employees and help them develop.

Greater flexibility will allow management to give the proper attention and rewards to high performers when earned rather than waiting for an annual cycle that may force managers to review a large number of employees in a short period of time and give insufficient attention to the performance management process. And as banks change their approach to performance management, they'll also need to develop the coaching and mentoring skills of line managers in order to adapt appropriately to the new regime.

6. Engagement and well-being ... to unlock productivity

There is a clear link between employee well-being and employee productivity. Employees with low job satisfaction, or who are impacted by poor health at work or are absent through sickness, are less productive than their peers. However, employee health and well-being are generally seen as a low priority for HR teams. Banks should take action to understand the risk profile of their workforce – where poor health or disengagement is impairing productivity and where they need to invest to secure improved performance.

This means going beyond traditional employee satisfaction surveys and seeking to understand employee engagement and well-being in a more holistic sense in terms of physical and

psychological health, how employees feel they are led and supported; their financial well-being; their engagement with work and their work community and support networks.

EY's experience of developing detailed productivity and well-being profiles illustrates how this more granular insight into the workforce enables firms to target their investment in people better. Moving an employee from a "low" to a "moderate" well-being score delivers on average a 13% productivity dividend.

7. Development ... like you mean it

Personal development can be as enticing to millennials as career development. A growing inclination toward portfolio careers means they look for regular opportunities to expand their skills and try new things, preferring breadth of experience to depth of experience.

Companies need to be able to meet the ongoing educational expectations of new talent. Offering learning opportunities outside of the standard career path will allow millennials to tap into and develop their own core purpose. Banks should explore varied learning opportunities, including continuing education courses and horizontal progression into different roles rather than vertical promotions, global mobility, altruistic engagements and experiential education through additional job responsibilities.

This is especially important for bankers in high-pressure front-office roles, where "burnout" can lead the organization to

lose talent. Banks that offer employees various career options by instituting policies to break down internal barriers and facilitate smooth internal job transfers will also reduce the likelihood of unwanted attrition of high-performing staff frustrated by a lack of career development opportunities. As an alternative, banks can also put leading staff on special rotational assignments more frequently to give them a sense that they are moving toward something and gaining experiences in the varied aspects of banking.

Where banks offer internal classroom or web-based learning opportunities, they should revamp those learning opportunities with fresh technology and gamification techniques – outdated technologies, training methods and topics do not resonate well with millennials.

8. Rewards optimization ... because it's deserved

Millennials' primary motivation is not necessarily money – they're more likely to respond to praise, promotion, responsibility, nurturing and change. In fact, our analysis shows that in investment banks, pay can bear little correlation to performance.

But financial rewards must also change fundamentally to reflect the fact that in the technology-driven world of the future, people must be rewarded for their jobs – not their titles. For example, how do you recognize highly skilled technical employees, even when junior?

This is a radical change for most banks, where higher rewards have often been targeted primarily at higher ranks. Yet seniority has not always reflected contribution – and in the future, managers may have more of a coordinating role than one that drives actual business performance.

Banks must reassess their rewards programs and reward roles rather than titles, as well as explore programs that incorporate experiential recognition or “spot” awards instead of focusing on regular cash bonuses. To do this, banks will need to provide more flexibility to middle management to provide these spot rewards and recognition.

9. Separation ... with sincerity

When employees leave a bank, whether voluntarily or involuntarily, it's self-evident that if the experience is a positive one, it will increase the

probability of their returning, should the opportunity arise. It will also improve the possibility of an employee being a positive ambassador for future recruits.

Banks should therefore monitor their alumni groups for feedback on ways to improve the overall employee experience and regularly engage alumni to help identify and connect the pool of experienced personnel, should opportunities for recruitment materialize.

10. Collaboration ... by balancing motivations

How banks manage the differences between various types of employees will be crucial to harnessing their combined abilities. Banks may face a challenge in integrating the diverse ideologies and the attitudes of millennials, Generation X or baby boomers, but working out how to do this is critical.

For example, across financial services, older, more experienced staff are typically better advisors to clients. However, they are frequently less skilled at adapting to the new technologies and tools used in the sales process. While millennials may be more tech-savvy, they may lack the knowledge, experience and gravitas required in the sales process.

The challenge for banks is how to harness the abilities of multiple generations and get them to collaborate to maximize everyone's potential.

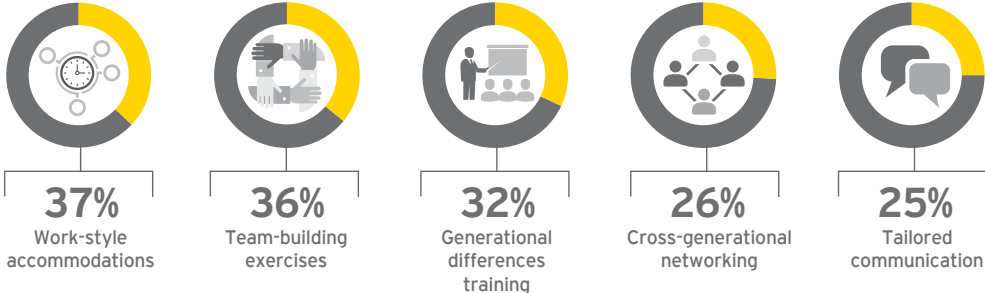
EY research shows that 75% of managers across a range of industries see managing multi-generational teams as an issue, with 77% citing different work expectations as a key challenge. But more than two-thirds (69%) of respondents also said their organization had made at least some effort toward alleviating the difficulties in managing a generational mix, by taking a range of actions (see Figures 14 and 15).

Although these actions are important, they will only be truly effective if banks make further efforts to understand what motivates the different generations that constitute their workforce (Figure 16). Those that do so, and do all they can to retain key talent, will be best placed to exploit the talents of a diverse workforce.



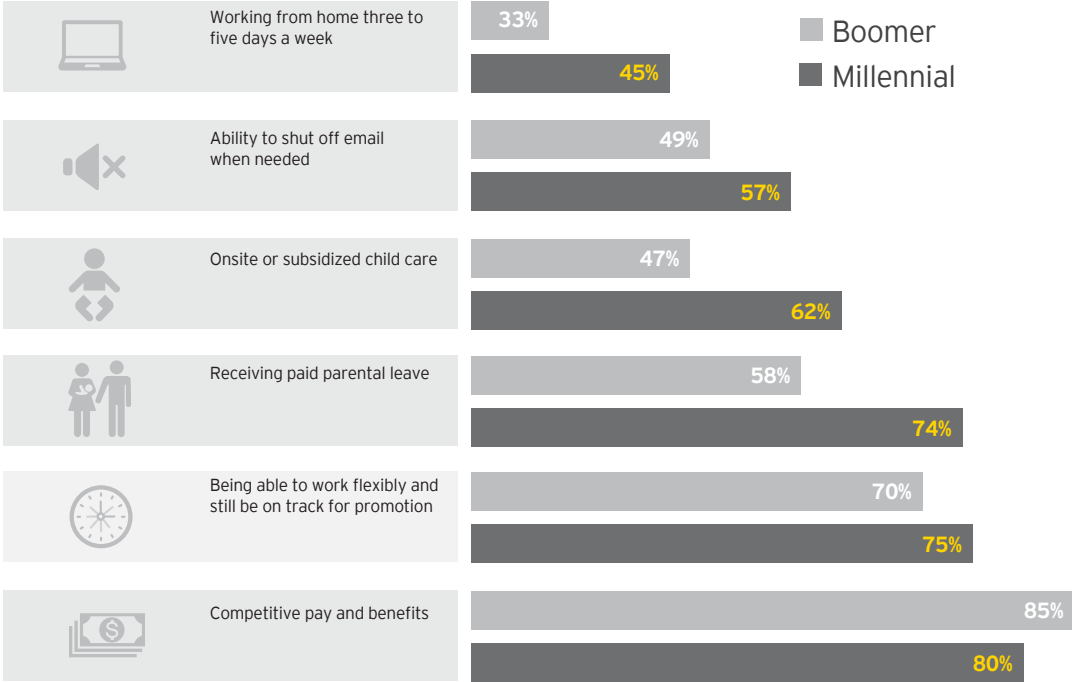
The challenge for banks is how to harness the abilities of multiple generations and get them to collaborate to maximize everyone's potential.

Figure 15: Actions being taken to alleviate the challenge of managing a generational mix



Source: EY Generations survey, 2015.

Figure 16: What's important in a role?



Source: EY Generations survey, 2015.

Mobilizing intelligence

The 1980s saw the Big Bang deregulation of financial markets. It also saw the traditional image of the banker with a bowler hat replaced by one in pin stripes and braces. Once again, the workforce is undergoing a radical transformation: the banker of the future is more likely to be a young female technologist.

The essential task for banks over the next decade will be adapting their existing policies and processes to a new generation of workers while managing the expectations of their existing workforce and redeploying them to new roles.

Business leaders and HR functions face a sizable challenge in managing a workforce that is more fluid in its working style than ever before. They must ensure they look holistically at total compensation, benefits and rewards to account for the work and life needs of all employees.

They will need to work with the business to prevent and eliminate stigmas commonly associated with parental leave and flexibility. Where a flexible work style is permitted, organizations will need to make sure that results, rather than “punching the clock,” are rewarded.

HR functions and managers will also play a critical role in identifying, recruiting and retaining a talent pool that is more technology-aware than ever. At the same time, organizations must reassess their entire workforce to make sure they are making the most of the abilities of diverse personnel and also addressing knowledge and skills gaps. The digital aptitude of the millennial generation is of little use without the tacit knowledge, experience and people skills of Generation X.

Building and managing the workforce of the future will be about ensuring the right people with the right skills are in the right place at the right time. HR functions in banks will no longer be seen as supporting resource management; they will be seen as mobilizing intelligence.

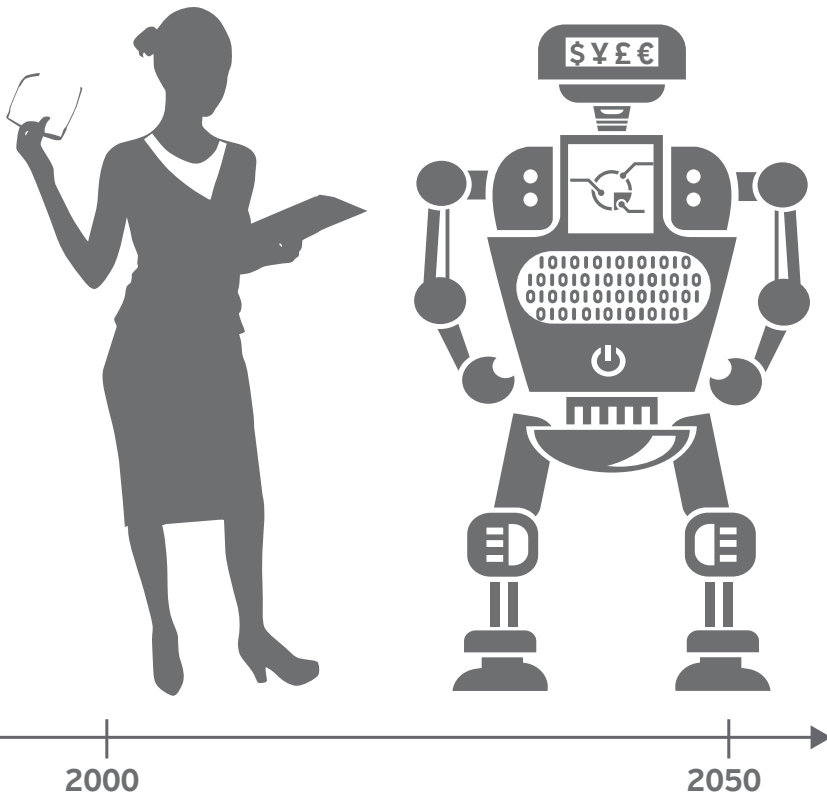
Effecting this change will be difficult for banking leaders. This is not a short-term transformation, and those responsible for delivering it today may not be those that benefit from it tomorrow. Success is unlikely to be measured and rewarded in the short term; even with a shift to measuring non-financial performance, the true impact of these changes will not be seen immediately. But it is a change that ultimately will result in a more sustainable, profitable bank that is better connected to the markets in which it operates and the communities it serves.

Delivering this change will take a visionary and resilient leader who recognizes that although success may not be achieved swiftly, re-engineering the workforce is potentially more important than the next quarter’s earnings and will be an important aspect of his or her legacy.

Are you that leader?



If banks want to rebuild a viable industry, then transforming the banking workforce is as important as transforming products and processes.



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