PIVOT TO DIGITAL
ENGAGING A THRIVING WORKFORCE FOR THE FUTURE OF FINANCIAL SERVICES
Big changes are looming for the financial services sector as it emerges from the decade following the 2008 crisis. The transformation to digital is already radically altering how employees of banking, asset management and insurance companies do their work and how customers use their services. While automation is removing jobs that handle routine transactional tasks, new roles are emerging — especially for employees who can develop and execute the digital-powered business plans that will reshape the future of work in the industry.

But faced with an aging workforce and the rise of millennials, who place less value on high pay compared to rewards, most companies in the financial services sector are not well positioned to draw the talent they need. The most successful organizations will be the ones that focus on building strong employee engagement practices designed to attract people with the right skills and help them thrive.
AN ESTABLISHED INDUSTRY BRAVES A NEW ERA

For a quarter century, the financial services sector was the destination for the best and brightest minds in business. The deregulation of the financial industry in the 1980s allowed companies to offer very high compensation and bonuses for certain positions, and recipients of these pay packages were expected to work hard and perform. Despite the long hours and aggressive competition, top graduates were drawn to financial services positions for the large bonuses and prestige, and this worked for companies — as long as profits remained high.

The Global Financial Crisis (GFC) in 2008 and the subsequent downturn shook the industry severely. For better or worse, banks took the brunt of the blame, and regulators around the world tightened rules to impose stricter governance. The banking industry has been rocked by scandal and an increasing scale of regulatory fines.

The insurance sector was affected as well. Although its business models weren’t directly hit, investment portfolios suffered significant losses from the crash, and some major errors and omissions cases led to multimillion-dollar claims. In recent years, insurance premiums have remained low, severely impacting profitability. The financial and insurance industries both have struggled to return to their past glory days.

Once-venerable financial services companies — now focused more on compliance issues than high profits — lost some of their luster as attractive places to work. Meanwhile, Amazon, Google and other tech companies have blossomed with exciting new products and services for consumers, and digital firms have pulled ahead in the race for talent with fast growth and promotion opportunities.

Today, the financial services sector has largely recovered from the GFC and is looking at a new phase of growth, taking advantage of an expanded and more interconnected global economy as well as leveraging rapidly emerging technology to provide greater customer value. However, this new world is quite different from the pre-GFC one: regulation is tighter and more complex than ever; new and more complicated risks have emerged, such as those related to cyber crime; and barriers to entry in some market segments have been lowered by technology, allowing agile new competitors such as challenger banks, fintech and insuretech firms to erode the market share of banks and insurers.

Creating new customer value in this brave new world largely depends on how companies embrace digitization. Financial services companies are being pushed to adopt new technologies, automate processes and move data to the cloud — all while maintaining cyber security and protecting customers’ data as well as adapting to the challenge of new competitors. In reality, incumbent players in the industry are making the transition in different ways and at different speeds. We believe that the industry may gradually bifurcate between a small group of advanced players that will succeed in transitioning to digital and adopting new practices quickly and efficiently and another potentially larger group of incumbents that will struggle to move quickly enough. These laggards may eventually be swallowed up or relegated to a group of second-tier participants with limited or niche product offerings.

Finally, in parallel with these seismic shifts in the competitive landscape, a growing number of incumbents are buying and partnering with tech start-ups in order to acquire rather than develop in-house the necessary know-how to succeed, raising yet further challenges of integrating new business ecosystems. The pivot to digital in financial services is truly a revolution that is forcing players to re-imagine the way work gets done.

For more history and research on engagement, see Mercer | Sirota’s paper, Engaging Today’s Workforce: Insight From 25 Years of Research, at https://www.mercer.com/our-thinking/career/engaging-workforce-insights-from-research.html
SPEED OF CHANGE IN FINANCIAL SERVICES IS ACCELERATING — DRIVEN BY TECH

COMPETITIVE DISRUPTION
• Technology enabling new, more agile competitors
• Barriers to entry dissolving in some segments
• New financial ecosystems evolving, differentiated depending on geography
• Incumbents facing buy, build or restructure decisions

TOP-LINE GROWTH
• Inflection point in interest rates improving spread business
• Global economic growth improving confidence
• New and evolving customer segments and geographies
• Sophisticated customer and market analytics opening new opportunities

RISK AND COST MANAGEMENT
• Risk, regulatory capital and legacy infrastructure overheads persisting
• Artificial intelligence and Internet of Things offering possibility of future cost reduction, but significant investment still required
• Geopolitical risk driving global footprint optimization
• Focus on cyber security and data protection

REGULATION
• Increasing complexity across multiple business units and geographies
• Multiple regulatory regimes
• Focus on conduct and compliance
• Damaged brand and perception

PIVOT TO DIGITAL
• Digital disrupting both customer-facing and internal operations
• Significant shift to cloud, process transformation
• Data ownership transferring from provider to customer
• Seamless customer experience proving elusive

IN THE SPOTLIGHT: TRANSFORMATION TO DIGITAL

Successfully managing the transformation to digitization is therefore a top priority for financial services executives. Digital technology is changing how companies do just about everything — from interacting with customers to conducting internal operations and making investments. Historically, spending on technology within financial services has been primarily focused on systems that handle processing and compliance requirements in the back office. Companies are automating many of these processes, such as underwriting and claims adjusting in the insurance space, and data entry and re-entry for compliance, reconciliation and accounting purposes in banking.

According to Mercer’s research, demand for full-time financial services employees will contract in the coming years due to automation and the rise of on-demand workers from external talent pools. The remaining in-house positions will be refocused to new tasks that require specific technical and analytical expertise and more relational and problem-solving skills. For example, bank customers are now conducting more routine transactions online, but they are also using apps to schedule in-person appointments for more complicated, one-off issues. The employees who meet with these customers must be skilled in understanding complex financial products and know how to find solutions for client retirement needs.

Since 2017, many bank CEOs have started signaling major job losses¹ or job re-skilling² in response to digital transformation.

² Ang J. “Citi Launches Professional Conversion Programme to Upskill Staff,” Human Resources, February 7, 2018.
But that’s not all. In the coming years, successful companies will discern patterns in available data to anticipate customers’ evolving financial needs and then develop seamless, highly personalized digital experiences that provide them with solutions – taking a cue from tech companies like Amazon, Netflix and Uber. Regulation, such as the Revised Directive on Payment Services (PSD2) in Europe, is already emerging to promote innovation while protecting consumers in online banking in response to the pace of change. The people powering these efforts in financial services must understand the role of technology in modern life, have the ability to work with data and develop algorithms, and be willing to take risks and experiment.

More technology means more security measures must be taken. Across financial services, data is being moved to the cloud at a rapid clip, and the exposure to data fraud and theft is growing. Business leaders cite cybersecurity and data protection as growing concerns, and these issues are becoming major priorities. Some firms simply would not be able to weather the damage that a major cybersecurity breach would leave in its wake. Employees with cybersecurity knowledge and skills are in demand. The US Bureau of Labor Statistics projects 28,500 job openings for cybersecurity professionals and a 28% growth rate in demand for that role between 2016 and 2026.

The Future of the Workforce in Financial Services
The Impact on Jobs and Skills

The size of the workforce, its composition and the required skills will change over the next 5–10 years...

1. **FS will get the job done with significantly fewer employees**

   - The impact of automation
   - Up to 20% of total

2. **FS will access more skills via partners and the “on-demand” workforce**

   - The impact of on-demand workforce
   - 35%–50% of total

3. **FS employees will have a fundamentally different skills profile**

   - The need to upskill
   - Up to 60% of total

Careful analysis of the pace of technology adoption across your individual value chain required to define the plausible range for your future workforce size, skills composition and shape.

* Financial services  ** Full-time employees

CHANGES AT WORK

The technology skills needed for the move to digitization are not widely present in the workforce of financial services organizations. Specifically, their HR functions report a scarcity of skills in sales, data analytics/predictive modeling and digital leadership. Other industries urgently need technology skills and leadership as well, and the competition to lure qualified employees is on the rise. Talent is tight overall, and company boards across industries point to increased competition for workers in 2019.

A recent study by Mercer highlighted three jobs that are particularly in demand across all industries — data scientist, cyber engineer and cloud engineer. Workers in these roles exhibit all the expected traits of scarce talent, such as high turnover, base pay premiums and attractive relocation packages. Financial services companies not only have to compete against other industries for this talent but also against new players in their own industry — that is, fintech and established tech companies encroaching into finance. The war for talent just got hotter than ever.

The changing demographic structure of the workforce is also posing new challenges. Companies must prepare for the skill and talent drain left by retiring baby boomers or find creative ways to keep those seeking to work past the age of 65. At the same time, organizations are adapting to the needs and preferences of the millennial generation, born between 1981 and 2000. These workers will account for half of the workforce in 2020 and 75% in 2025.

In addition to demographic shifts, the workplace itself is changing with the rise of the gig economy (people who work independently as freelancers or independent contractors on short-term assignments), and financial services firms need to figure out how to better access this channel of workers to augment full-time employees. Finally, workers are demanding more flexible working environments: Mercer’s 2018 Global Talent Trends survey revealed that more than 70% of thriving individuals said their companies offer flexible work options, and more than half of all employees want more flexibility.

Our research has also revealed that, given digital work is often ideally suited to remote working, the job market for these in-demand skills is increasingly global, with Europe facing a particular shortage of critical digital workers. Another Mercer paper pointed to emerging tech hubs, such as Tel Aviv and Bangkok, starting to rival established centers like Silicon Valley’s sources of skilled tech workers. This raises further questions for the financial services industry as to how to attract, manage and retain employees dislocated across a multitude of places, time zones and cultures.

The Future of Work — Leading the Way to Digitization

While the business world often emphasizes the importance of tech skills, problem-solving and cultural awareness are equally important for leaders overseeing digital transformation. Long gone are the days when vendors sold prepackaged tech products to an organization, perhaps to executives who didn’t fully understand how the technology worked, and employees became frustrated as they were forced to use products that were not a good fit. Increasingly, vendors or in-house tech developers work closely with business leaders and employees from the first stages of the design process. They engage in constant feedback every step of the way to create successful technology platforms and processes that work well for all stakeholders.

The most effective digital leaders who oversee these projects share three key qualities:

- They ask questions and make sure solutions address the right problems.
- They have solid knowledge about how technology works — not necessarily specific skills — that allows them to select the best tech solutions for their organization.
- They are adept at managing the change processes involved with new technology.

All of these qualities require a deep understanding of how employees interact with technology and the skills and training they need.


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4 Ibid
BUILDING TOMORROW’S ENGAGED WORKFORCE IN FINANCIAL SERVICES

In the pivot to digital era, the question for financial services organizations is how to attract, retain and develop these employees without relying on compensation as the chief motivator, as pay is not as influential as it once was. In fact, research from Mercer | Sirota’s normative database, which includes survey responses from well over one million employees, shows the number of financial services employees who would choose to stay in their current job even if they were offered the same pay elsewhere is trending downward. All other industries, including government organizations, continue to see improvement in this area.

I WOULD CHOOSE TO STAY EVEN IF OFFERED SAME PAY ELSEWHERE

Financial services shows the least amount of improvement in “intention to stay” when compared to other industries.

Source: Mercer | Sirota 2018

Financial services companies may face an uphill battle, as public sentiment toward the sector has been less favorable in recent years, but the opportunity is significant for organizations that can curate a compelling employee value proposition (EVP), enhance the employee experience along the whole life cycle of employment, build a successful digital workplace and optimize cost and risk management.

What challenges will come along in financial services to enable future industry growth, taking into consideration the changes in business models, and attracting and retaining the workforce?

- Curating a compelling employee value proposition
- Building a digital workplace
- Enhancing the employee experience along the whole life cycle
- Optimizing cost and risk management
Another key part of the EVP is the opportunity for engaging work and growth. Among millennials, career development and learning opportunities may be more important than remuneration, and across all ages, more than 80% of employees want opportunities to grow, both personally and professionally. This emphasis on career growth is spurring many employers to consider the experience of employees for the duration of employment. HR leaders are looking at ways to strengthen employee engagement by building career pathways and helping employees thrive by providing the right training and professional development opportunities to meet their goals.

Financial services has the lowest scores regarding employees having the tools to do their jobs. Additionally, financial services has the least amount of cooperation among departments within the organization to meet company-wide goals.

Source: Mercer | Sirota 2018
While compensation is still important to employees in financial services, successful companies will define a strong purpose in their EVP, explaining how they serve the best interests of markets and consumers and communicating how employees contribute to that purpose. A compelling story of purpose and meaning — one that resonates with tech workers specifically — is essential as the competition for this particular type of talent heats up across all industries. An EVP must also clearly demonstrate the employer’s commitment to providing its employees with autonomy, flexibility and work/life balance, along with the compensation and benefits component.

Building a digital workplace environment is another critical task for financial services organizations. Successful companies must consider the impact of technology and digital applications in every aspect of their business, including HR and employee engagement. Take the EVP as an example: Data analytics are starting to help with this effort by identifying the most important desires and needs of successful employees. Looking at the life cycle of employment, some of our clients are already starting to consider career pathways informed by analytics that identify which jobs will be eliminated by automation, the skills required for new jobs and the best online training programs for these new positions.

There is nothing the digital workplace will not touch, and that includes optimizing cost and risk management. Companies are seeking to cut costs — often by automation and other technological improvements — while growing revenue through new products and services that utilize digital technology. Managers are also minimizing risks that could undermine growth, and data analytics are increasingly guiding risk management practices. From the workforce perspective, companies must consider how these business decisions affect employees’ experiences, engagement, compensation, training and other issues.

Contract to Thrive

What does it mean to thrive?
Organizations have been working for years on employee engagement initiatives, and now forward-thinking companies are looking to help employees thrive at work. Thriving employees are more connected to their organization, and they are motivated to help it succeed.

What makes a thriving organization?
Mercer asked over 800 HR and business leaders and found that companies committed to developing a thriving workforce care about learning, growth opportunities, equity in their workplaces and innovation. Three-quarters of employees who are thriving say their company has a strong sense of purpose.

How do you know whether an individual is thriving?
Employees who are thriving feel they are growing in their jobs, and they are 10 times more likely to feel empowered in their careers. Additionally, they are energized and feel they can bring their authentic selves to work. Perhaps most important, they believe they can contribute their ideas and opinions at work.

What are the results?
When employees thrive, organizations thrive. Increasingly, research is showing that companies with energized and committed employees outperform their peers.

TAKING NOTES FROM HIGH TECH

As financial services employers develop their employee engagement strategies for the years to come, they would do well to examine why top professionals have been flocking to high tech firms over the last decade. What can financial services employers learn from their tech counterparts to entice talented workers?

Innovative culture: In the tech industry, leaders have long realized that the current and future growth of a company is tied to employees who think outside the box. They place a strong emphasis on cultivating a culture of innovation. Conversely, financial services has typically been more risk averse when it comes to trying new ideas. According to Mercer | Sirota data, financial services employees’ depiction of innovation at their companies came in well below other industries (13 points lower). To stay competitive, financial services organizations will need to intentionally create environments where people can try new ideas that could bring significant value to customers.

Partnership approach: High tech executives are constantly considering what can be done differently to help employees succeed, whereas in financial services, it is far less common to hear leadership discussing how to partner with workers. Instead, communication in financial services tends to be focused on providing strong leadership and guidance to employees. While this kind of top-down communication is necessary, financial services needs to allow opportunities for employees to communicate upward as well. What opportunities are available for employees to offer suggestions and have management listen and react to those ideas? When communicating, are discussions only on a need-to-know basis? To have true partnership and guide companies in the right direction, employees need to be part of transparent discussions. Additionally, with more involvement in tough decisions, employees are more likely to take increased responsibility in the organization. They can be involved in decisions rather than having decisions thrust on them.
Feeling valued: While tech employees consider pay and rewards important, they are also attracted by opportunities for promotion, recognition, work/life balance, professional development, diversity and more. But it is more than just recognition; it is about being able to contribute their knowledge to the organization in a meaningful way and being recognized for these contributions. In short, they want to feel valued. Mercer | Sirota research has found that financial services trails high tech when it comes to the perception that companies care about the well-being of their employees (see data below).

**BEING RECOGNIZED AND VALUED FOR CONTRIBUTING TO THE OVERALL SUCCESS OF THE ORGANIZATION**

![Chart showing comparison between high tech and financial services on employee perception](chart.png)

Financial services trails technology in a number of different areas, indicating the need for a more partnered approach within organizations in this industry.

*Source: Mercer | Sirota 2018*

While financial services organizations should pay attention to tech’s prowess in the area of employee attraction and engagement, they won’t be able to simply mimic the tech approach because they do have to contend with tougher regulations and more embedded risk management practices. And yet these things cannot become an excuse. Too often, financial services companies say they cannot be innovative because of the regulatory environment, but that is not true — they merely have to look at the possible solutions a little differently. The challenge is to understand the constraints within the industry and the need for thorough risk management while also finding new and creative ways to make the financial services workplace more attractive.
TAKING ACTION TO ENGAGE AND THRIVE

What can financial services companies do to ensure they have the right talent for the future? Companies need to develop effective engagement programs that win over talented professionals and set them up to thrive.

Action: Gain insights through your employee engagement program

To truly understand what financial services employees think about their work, pinpoint their motivations and create a compelling EVP, companies need comprehensive employee engagement research. The typical annual engagement surveys have been around for decades, and they serve a purpose, but too many companies conduct these surveys, generate a score report the results — and that’s it. Of 80% of HR professionals who say they have a formal engagement program, only 50% are utilizing their data. Surveying for the sake of surveying doesn’t make an impact on employee engagement.

Today’s technology platforms make it possible to conduct employee research in new ways. Engagement surveys are one of many data points that can be collected, along with data at the time the employee joins a company, at regular and on-demand intervals during employment, and when they leave, as well as information about their health, personalities and career goals. Knitting these data points together and applying analytics can yield valuable information about employee engagement, commitment and performance. Employers can better understand why employees leave or stay, what happens when specific motivators change and how to improve the EVP. For example, Mercer | Sirota worked with a large financial institution to investigate customer service and its relationship to engagement. An improvement in employee attitudes was linked to an additional $28 million in revenue due to increased customer satisfaction.
**Action: Think strategically about future jobs**

As digital transformation changes the way companies do business, the job skills needed in the workplace are changing, too. Positions that handle routine transactions are being eliminated through automation, while new roles are emerging in areas such as advising and consulting. But companies often do not have a clear line of sight into what this means for their workforce, and they need help envisioning what their specific workforce composition will look like and how it will change over defined periods.

One large financial services organization approached this issue by working with Mercer | Sirota to develop a heat map of its jobs. The map showed all the different jobs throughout the organization and how the various positions would change over the years — with some eliminated and others added. The project helped the company pinpoint the skills needed for the coming new jobs and create a roadmap for training workers to take on these new roles.

**Action: Impact business results by engaging employees and helping them thrive**

Companies with thriving employees are known to outperform peers in stock market performance. One study demonstrated that companies with high morale posted an average percentage gain per year in double digits, compared with below 5% for low-morale companies. But instead of accepting this general research and moving on with one-size-fits-all engagement practices, companies now have the opportunity to integrate their unique employee perception data with business results — from revenue to customer satisfaction and productivity — to truly understand the value of their efforts to engage employees and help them thrive.

For example, a global organization wanted to know whether manager engagement impacted team-level engagement and sales revenue. Mercer | Sirota examined the data and found that a team’s sales results, engagement levels and retention are higher for teams that have more engaged managers. The ability to connect engagement to business outcomes offers powerful new opportunities to financial services organizations.

**IT ALL STARTS WITH ENGAGEMENT**

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<th>Committed</th>
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<td>Wanting to stay with the organization and feeling passionate about its mission</td>
<td>Motivated to help the organization succeed</td>
<td>Feeling energized and looking forward to coming to work</td>
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*Stay longer, Are better “corporate citizens”, Have more innovative ideas*
Financial services companies must make changes to give employees the freedom they need to be fully engaged and thrive. To do this, company managers need tools that are deliberately designed with the accountability, strategy and focus components necessary to drive these changes in their own work groups. A key part of this effort is opening up multiple feedback channels — from virtual focus groups to snapshot surveys and engagement labs focused on design thinking. With continuous, comprehensive feedback, companies can continue to take the steps needed to create a work environment that inspires employees to do their jobs well and put their best ideas forward.

Action: Make culture changes to foster innovation

Research shows that nearly one-third of employees are held up by bureaucracy while trying to get their work done, and the same amount do not feel appropriately involved in decisions that affect their work. Within financial services specifically, only 31% of employees say their company makes it easy for them to innovate — the lowest of any industry and well behind high tech at 54%. This poses a major problem for a sector that needs to encourage agility and innovation to meet the business needs of the future.

Financial services companies must make changes to give employees the freedom they need to be fully engaged and thrive. To do this, company managers need tools that are deliberately designed with the accountability, strategy and focus components necessary to drive these changes in their own work groups. A key part of this effort is opening up multiple feedback channels — from virtual focus groups to snapshot surveys and engagement labs focused on design thinking. With continuous, comprehensive feedback, companies can continue to take the steps needed to create a work environment that inspires employees to do their jobs well and put their best ideas forward.

Financial services companies have some work to do to create engagement programs that will help them put up a good fight for talent in a tight market where all industries are vying for skilled professionals. We are at a critical decision point where continued inaction, or even half-hearted action, will result in a less engaged employee population, severely lacking innovation and inferior business results.

The good news is that the opportunity is great for those financial services companies that take action now to build an engaged workforce. Not only will these players create a happier, more productive base of employees, they will also emerge as leaders in the industry’s digital revolution.
**Mercer's Financial Services practice**, composed of experts with years of industry experience, continually invests in the health, wealth and careers solutions that enable complex organizations to thrive. Located in major financial centers across the globe, this team supports over 1000 banking and investment institutions in solving some of their most complex global and local challenges. Technological advancements will transform the financial services industry over the next five years — requiring leaders to radically re-think their people strategy. We partner with our clients to develop unique strategies to drive performance and long-term business success.

**Mercer’s Insurance industry practice** is a leading provider of strategic advice and execution support to over 700 clients across the globe. In an increasingly complex global environment, insurers are challenged to build more flexible organizations to take advantage of new technologies and distribution channels, manage evolving regulations and enter new markets to grow and thrive. With extensive industry experience, the team has a deep understanding of the forces shaping the future — and how to turn disruption into opportunity. This perspective, along with extensive research of global markets and the trends driving change, enables us to partner with clients to develop profitable growth strategies.

**Mercer | Sirota** is a well-established global brand with more than 40 years of experience, conducts surveys with more than one million employees annually across 130 countries and 80 languages. Combined with sophisticated analytics and data mining tools, Mercer | Sirota’s surveys help clients get real-time insight from engagement data. Mercer | Sirota then uses advanced analytics to help HR identify where leaders, employees, strategy and culture are misaligned, uncovering hidden factors that drive performance and support positive change.

**Sources**
- Mercer | Sirota. Employee engagement research data.

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