# Skills scenarios for the Financial Services Sector in the European Union

## Executive Summary

LOT 15
of
Comprehensive Analysis of Emerging Competences and Economic Activities in the European Union

undertaken for the
European Commission
Employment, Social Affairs and Equal Opportunities DG
Unit Working Conditions, Adaptation to Change

VT/2007/090

by

Danielle Kaisergruber
Kurt Vogler-Ludwig

in cooperation with
Anna Kwiatkiewicz

Munich, 9 June 2009

DG Employment, Social Affairs and Equal Opportunities

*This publication is commissioned under the European Community Programme for Employment and Social Solidarity - PROGRESS (2007-2013).*

*This programme is managed by the Directorate-General for Employment, social affairs and equal opportunities of the European Commission. It was established to financially support the implementation of the objectives of the European Union in the employment and social affairs area, as set out in the Social Agenda, and thereby contribute to the achievement of the Lisbon Strategy goals in these fields.*

*The seven-year Programme targets all stakeholders who can help shape the development of appropriate and effective employment and social legislation and policies, across the EU-27, EFTA-EEA and EU candidate and pre-candidate countries.*

*PROGRESS mission is to strengthen the EU contribution in support of Member States' commitment. PROGRESS will be instrumental in:*

- *providing analysis and policy advice on PROGRESS policy areas;*
- *monitoring and reporting on the implementation of EU legislation and policies in PROGRESS policy areas;*
- *promoting policy transfer, learning and support among Member States on EU objectives and priorities; and*
- *relaying the views of the stakeholders and society at large*

*For more information see:*
*http://ec.europa.eu/employment_social/progress/index_en.html*

*The information contained in this publication does not necessarily reflect the position or opinion of the European Commission.*

Taking the present world financial crisis into consideration, the endeavour to formulate skills scenarios for the European financial services sector appears to be courageous, if not pretentious. Little is still known about the real extent of financial risks and their potential effects on the world economy. Nevertheless, thinking about the future of this sector is needed more than ever in such a period of great trouble.

The scenarios, however, can hardly escape the actual uncertainties. Accepting this fact, the study is designed as an input to the discussion about the European financial services by developing alternative "worlds" for the future. These alternatives might become a reality under the selected assumptions and thus strongly depend on the decisions actually taken by the actors involved – banks and insurance companies, customers, and governments. The different pathways are then extended by asking for the major policy options, in particular the adequate human resource policies and training policies which constitute the focus of this study.

Financial services, mainly the banks, will probably not remain the same after this crisis even if some trends of the past are strong enough to continue in future. It is therefore particularly important to develop a clear understanding of the numerous mechanisms of change and of the present crisis. The first parts of the study therefore design the statistical map of the sector, identify main trends and drivers of change, and look for emerging competences. Three alternative scenarios are then developed on this basis up to 2020 taking the present financial crisis as a starting point and asking for the possible structural answers to this challenge. Finally, the implications of these alternatives on skills, education and training policies and sector-related policies are discussed and condensed in recommendations for actors at EU level, Member States, regions and the sector itself.

## Main characteristics of financial services

### *The European financial services sector*

Financial services include three main sub-sectors:

- banking industry with retail banking and wholesale banking acting on the global financial market
- insurance industry (life insurance, non-life products and re-insurance)
- insurance and financial intermediaries

The banking sector is pluralistic as it is composed of private banks, co-operative banks, and savings banks. Similarly, the insurance industry consists of private and mutual insurance companies. Public social insurance is excluded.

Europe is one of the world leaders in financial services, comparable to the American financial services industry. It is concentrated in the main financial cities such as London, Paris and Frankfurt. The sector remains very diversified but some of the European groups have become global players. In 2007, 7,345 banks with 218,000 branches were registered in the EU27 area.

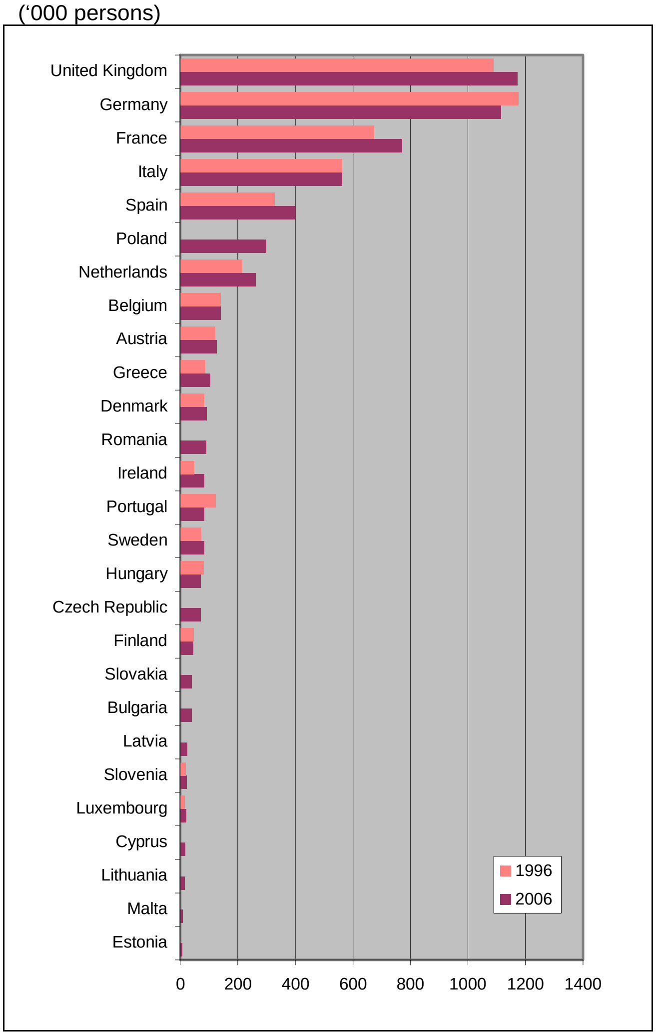
**Market performance of EU27 financial services**

| | 1998 | 2007 | % change |
|---|---|---|---|
| **Banking** | | | |
| Number of banks | 2,996 | 7,345 | 145 |
| Number of branches | 103,188 | 218,234 | 111 |
| Commercial bank assets (bn euros) | 12,517 | 40,403 | 223 |
| Commercial bank loans (bn euros) | 6,222 | 17,232 | 177 |
| **Insurance** | | | |
| Premium per inhabitant (euros)* | 1,100 | 2,145 | 95 |
| * 1996-2006 | | | |

Source: EBF

The European banking market has tripled since 1998 with regards to both assets and loans. The insurance market showed a similar performance with a 95 % increase of average premiums per inhabitant between 1996 and 2006. Growth rates are close to US developments while Asia only grew by 8 %. This is also due to the slow expansion in Japan. New competitors should not be ignored: China and India are starting to develop this sector, Russia will take a serious share in Eastern European markets, and Australia has large financial groups which are expected to improve the relative importance of this market place.

**Employment in financial services by country**
('000 persons)




Source: Eurostat

### *Employment*

5.6 million persons were employed in EU27 financial services in 2007. 65% of these worked in banks, 20% in the insurance industry and 15% for intermediaries. The sector represented 2.7% of total employment in Europe. This appears to be a small share in comparison to the USA where the sector had a share of 4.7% of total employment.

In contrast to market growth, the increase of employment was very slow. Overall, EU27 employment only grew by 0.5% annually between 1996 and 2006. Compared to this, service sectors expanded employment by 3% per annum in total. The difference can be explained by internal re-organisation and productivity gains. Slow employment growth was due to the creation of big players from mergers and acquisitions. Economies of scale are very important in the sector and opened a wide field for productivity increase. A strong impact came from ICT technologies and automation in back office administration, increasing use of the internet, and outsourcing internal support services.

Most of the employees were full-time workers. However, their share decreased from 90.5% in 1994 to 87.2% in 2006.

Employment expanded in a series of EU countries: Ireland, UK, Greece, Spain, France, Luxembourg, Denmark, Slovenia and Sweden. Employment volumes declined in Germany, Portugal and Finland, and were stable in Italy, Austria and Belgium. We must note that not all New Member States publish employment figures.

The relative importance of financial services strongly differs between countries. The greatest importance of the sector can be observed in the UK where it represents a share of 4.8% of national employment. Just behind are the Netherlands with a share of 3.9%, Germany and France both with 3.4%. Luxembourg is a specific case with a very large financial services sector (11.9%). It must be noted that Great Britain, Germany, France, the Netherlands, Spain and Italy together employ 75% of the EU27 financial services workforce.

*Occupations and educational levels*

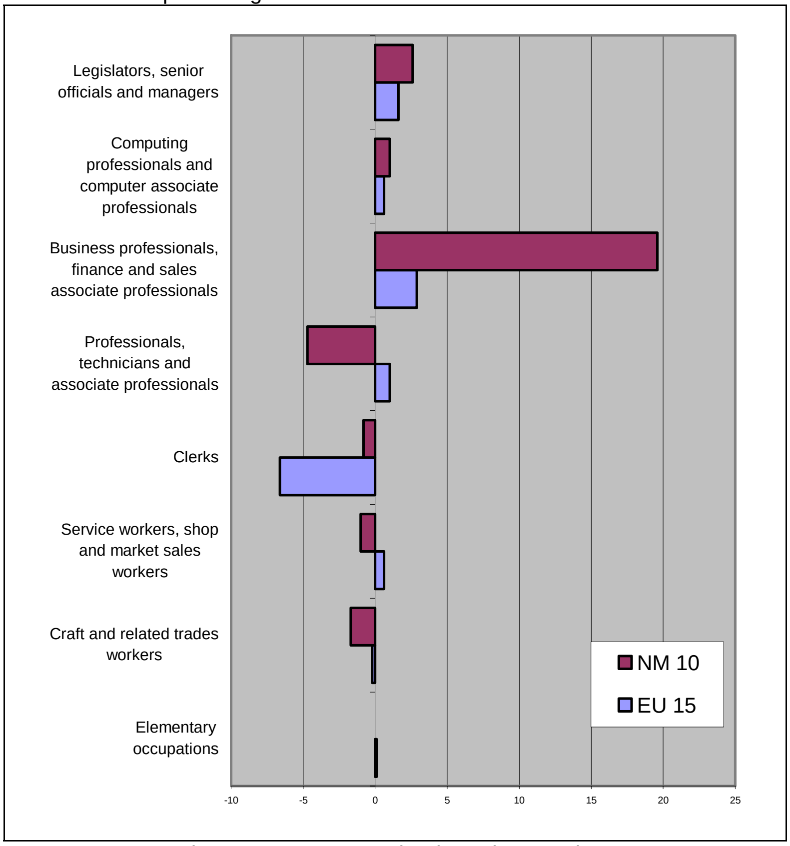
Financial services make up a sector of professionals which employs high shares of finance and business experts, technicians and IT specialists. The shares significantly exceed the proportions that can be observed in the countries' total labour force.

Staff in the New Member States show a bigger share of highly skilled workers than in Western Europe. This can be seen in all occupational groups and can be traced back to age structure: the financial services sector in these countries is younger, more highly skilled and with more women, even in management positions.

However, the borderlines between occupational groups of the ISCO classification are rather vague. Similar jobs are classified as different groups by different countries, depending on language traditions and different structures of training systems. Therefore, occupational data should be interpreted with great caution.

**Change of occupational structures**

Differences of percentage shares 2000-2006




NM10: New Member States except Bulgaria and Romania
Source: Eurostat

Between 2000 and 2006, data from the Labour Force Survey shows a shift of occupational structure from medium-skilled persons to highly-skilled persons. This is visible in IT occupations, business and finance professionals, and for the technicians and other professionals. This increasing share of highly-skilled employees can also be observed in the recently available LFS data for 2007. The need for a highly educated and trained workforce appears to be evident in all parts of the financial services sector and all European countries.

*Division of employment by age and gender*

The sector is younger in the New Member States (NM10) than in the EU15, which points out the importance of recruiting new young graduates in the sector during the catch-up period. In all the countries the IT occupational group is younger than the average workforce.

Nevertheless, the age distribution reveals the importance of retirement and the need of replacement over the next few years. The sector-specific age structure is close to total population (except for the UK and some of the New Member States). The countries with the highest share of older staff are France and Germany.

Female employment is very important in the sector. It is higher in the NM10, and has increased from 2000 to 2007. Financial services are thus becoming a female sector with the exception of IT occupations. It is worth noting that in the New Member States women are more numerous in senior management positions.

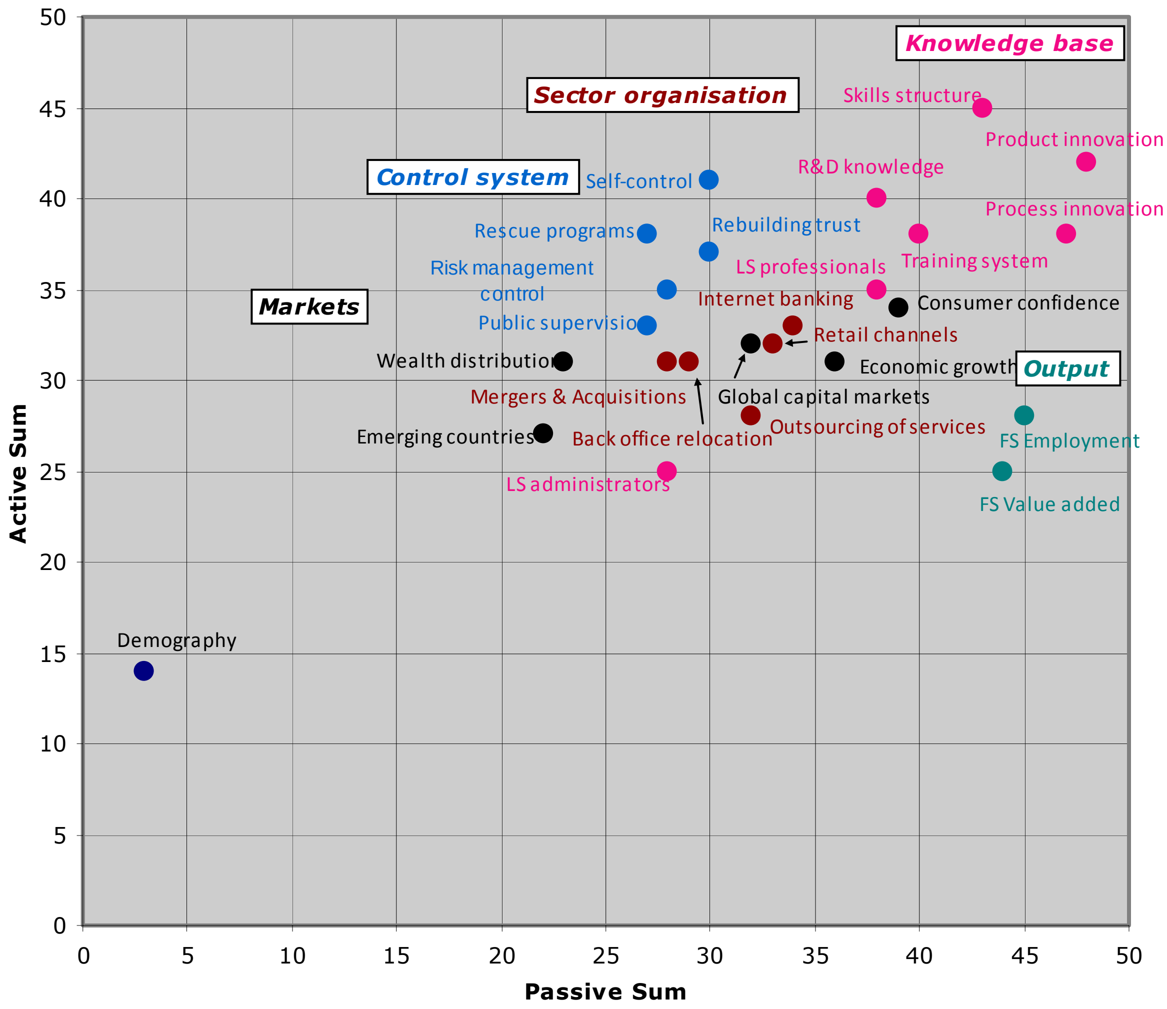
## Main drivers of change

*Market growth*

As indicated above the banking industry grew rapidly. Growth was strongly supported by the enlargement of Europe, the expansion of traditional markets such as health insurance, and – most importantly – the development of new markets in the area investment banking, private equity, and asset management. Even if the European single market is not yet a reality, common standards for banks (Basel I and II) and insurance (Solvency I and II) have brought important integration steps.

**Drivers**

Active and passive sums of descriptors




Source: DKRC/Economix

As a large part of the population in the New Member States is not yet "bancarised" and not covered by housing, motor or property insurance contracts, substantial growth potentials are still available in these countries, at least in the long-run.

*Globalisation*

Financial services are now acting on global capital markets. Financial markets of today can be defined as the global interconnection of all different assets: loans and inter-bank credits, real estate, exchange rates, shares, materials etc. Global trading in these areas has experienced tremendous growth in recent years and yielded huge profits.

It was the liberalisation of international capital markets which opened the doors for the development of a global financial system. ICT networks have given rapid access to updated information and have opened up the opportunity of “real-time“ trading. Even smaller banks and investors have been in the position to manage assets on global markets. However, it has raised financial and economic dependencies, as the present financial turmoil has revealed.

Meanwhile, global investments have become an important market segment of the sector which has contributed substantially to overall profits of financial institutions. Capacities were redirected towards investment banking, partly at the expense of domestic consumer markets. Supported by a “cheap money“ monetary policy in the USA, strong leverage effects stimulated the expansion of financial investments worldwide.

### *Restructuring and sector organisation*

Economies of scale have had an important impact on the game. Consolidation thus became an important driver of change. The big players were those who looked for expansion into new countries, created large “bank-insurance” groups, mergers and acquisitions in order to strengthen their already strong market position. As an example, 52.5 % of the European insurance market is in the hands of 20 companies. At the same time, co-operative banks, savings banks and mutual insurance companies are developing both their regional basis and their European cooperation.

### *Knowledge-based technological change*

Technologies – in particular ICT applications in back office processes and the internet as a substitute for front office activities – have had a major impact on the banking and insurance industries. Due to the presence of a high number of intermediaries, IT application processes were faster in banks than in insurance companies. A new step incorporated the internet which allowed direct distribution of financial products and opened up the possibility for clients to manage accounts, savings, investments and insurance contracts. Although internet banking was not successful at the beginning, the development of direct operating systems, new payment tools (e.g. via mobile phones), and improved internet security will certainly be an important driver for both market growth and the organisational restructuring of financial operations.

### *The global financial crisis*

The strong growth of financial services came to a sudden end with the present financial crisis. Triggered off by the US mortgages bubble, it now appears to be much more than that: the failure of worldwide capital market liberalisation. This was caused by

- the opening of capital markets to various investment funds with an unmanageable number of new products. This restricted the transparency of financial products and opened the doors for irregular activities.
- the reorientation of financial business management towards short-term profit maximisation which took the focus away from long-term risks.
- the failure of public supervision over capital markets and the misjudgements of rating agencies supported the belief of secure financial markets.
- the risk of an economic expansion which was based on rising debt levels with important leverage effects.

Even if some experts warned against the unhealthy developments on capital markets, the majority of actors felt confident about the new business models and thus could not see the deterioration of fundamental facts. Markets were not able to correct themselves without a severe crisis – and this is the point we are at now.

### *Strengths and weaknesses of European financial services*

Burdened by the current financial crisis, European financial services are unable to profit from their strengths adequately. In the long-run however, market potentials are available in the New Member States and in emerging countries. These can be used as the European financial services is a strong player on international capital markets, disposing of a pluralistic system which now appears to be a strength rather than a weakness. Distribution is flexible because of the use of multichannels, and covers the whole EU area. The business can rely on a broad skills basis with a high share of professionals possessing high and medium skills. The social dialogue works in most of the countries.

Weaknesses can be found in demographic change which may be a burden to market expansion. The economic strength of companies was weakened considerably by the financial crisis and consolidation has not yet been achieved. This has resulted in the loss of consumer trust. The heterogeneity of distribution channels can push the struggle between banks and insurance companies. Skills shortages may arise even in a period of declining employment, particularly in strategic competences which are important for restructuring the business (ICT, controlling, risk assessment, management). Training capacities are underdeveloped in the NMS.

## Emerging competences

The knowledge base of the sector has changed significantly during the past decade. New competences have been developed for new jobs. Requirements for a high-level of education have been raised for many functions. Functional requirements have been extended along the value chain. The usual distinction between back office jobs without customer contacts and front office/commercial jobs has been weakened.

### *Competences for back office jobs*

Employment in administrative back offices is declining and the proportion of medium and high-skilled persons is going to be upgraded. A double competence profile is emerging with strong financial and IT knowledge.

Large administrative platforms and shared services centres are being established, which are changing the back office function into highly specialised technical functions. Routine functions, however, are being relocated to low-cost countries.

### *Competences for the new middle office jobs*

Middle office functions are experiencing a revival in many companies of the sector. These jobs are occupied by highly skilled persons with a deep knowledge of financial processes, more legal expertise, an international background, language skills, and a good knowledge of IT applications. These functions will have to be more recognised by human resource policies and remuneration schemes.

### *Competences for commercial and front office jobs*

Counselling functions for face-to-face communication with clients are being reorganised into multi-functional activities: counselling clients, executing just-in-time administrative operations, and selling new products. This requires rich competences: financial knowledge of the products, soft competences in order to be able to discuss with the client, listen to the client's needs and find the correct answer, IT self-possession.

**Strengths and weaknesses – opportunities and threats**

| | Strengths | Weaknesses | Opportunities | Threats |
|---|---|---|---|---|
| **Markets** | • The European market share assures a good position in the world | • Strong dependency on global capital markets<br>• Substantial amounts of risky products | • EU15: new markets for health care and pensions schemes<br>• NMS: new markets for all products<br>• Expanding markets in emerging countries | • Financial crisis will lead to a severe downturn<br>• Decreasing population represents a risk of downsizing the markets<br>• Economic risks in the NMS |
| **Structure of business** | • Global players acting in different local markets<br>• A pluralistic financial system with different types of ownership<br>• For the most part, banking institutions are commercial banks with a high level of deposits | • Strong needs for re-capitalisation but companies are weakened<br>• Consolidation must be achieved in many countries | • Global players can take the opportunity to buy companies all over the world | • Many companies can face difficulties due to the financial crisis<br>• Not enough capital for saving banks, co-operative banks and mutual insurance groups |
| **Distribution** | • High flexibility based on different channels providing products, advice, and services<br>• Large distribution networks<br>• Bancassurance: banks using their networks to distribute insurance products<br>• Particular experience with internet banking | • Lack of customer confidence<br>• Conflict between direct banking, insurance distribution and value-added services in proximity to the client<br>• Financial management needs trust, transparency and information | • New offices and branches to be created in NMS<br>• Promoting new distribution channels according to a new generation of customers | • Internet banking and internet insurance lack customer trust and need to be based on a new financial culture |
| **Innovation** | • Some of the most innovative clusters in the world (UK-London, Luxembourg, Ireland)<br>• "Brains in Europe": high-skilled persons for innovation | • Loss of confidence in innovation capacities: the crisis is partly due to innovative financial products<br>• Lack of adequate risk management<br>• Lack of strategic controlling | • To practise mass-customisation on one hand and high value added personal service on the other | • NMS are dependant on the western companies and their innovation policies |
| **Skills** | • Sound knowledge base due to high-skilled staff<br>• Strong links between companies and educational institutions in the EU15 countries | • Potential skills shortages for highly skilled personnel<br>• Underdeveloped training capacities in NMS | • Demographic change allows the renewal of staff<br>• Reinforce the qualification level to deliver more advice and services | • Loss of attractiveness as an employer |
| **Social dialogue** | • High level of unionisation in the EU15 and a fair dialogue in western countries<br>• Some innovative studies at the European level | • The social dialogue in the financial services sector was built in a growth period with benefits for wage and career development | • Develop social dialogue in the crisis<br>• Anticipate the social impacts of employment change<br>• Develop negotiation on career paths and lifelong training | • Lack of social dialogue in companies in the NMS |

Source: DKRC/Economix

The choice between hard-selling standardised products or individual counselling will be strategic for companies. Sales in call centres employ more and more temporary staff for different publishing campaigns. Labour turnover is high as is the share of younger workers with instable careers.

*Competences for IT jobs*

They are at the very heart of the business, present in Customer Relation Management (CRM) as well as in daily administrative operations, finance and refinance, and wholesale activities. As they encompass different tasks such as studies for new products and processes, design and management of data bases, network architectures, marketing, IT safety, CRM etc, the requirements include IT knowledge but also knowledge of financial processes. Companies looking for budget economies are externalising mass processes.

*Competences for the R&D functions*

Most financial groups have R&D departments. The professionals are economists, mathematicians, actuaries, market and finance experts, and IT designers. It is not a very large group of specialists but they play an important role in the innovation process.

*Competences for the management function*

Managers in the financial services sector are always finance specialists. Their role is the same as in the rest of the economy, but the evolution of the sector requires enhanced competences: technical expertise and financial knowledge, human resource management and change management, management of transversal projects, language skills and inter-cultural management. Managers in branches have a commercial as well as a communicative role.

## Three scenarios up to 2020

*Starting from the financial crisis in 2008*

The trends observed over the past ten years will certainly continue to have a strong impact on the future. However, the financial crisis will change the financial business fundamentally:

- The liquidity crisis of financial institutions has meanwhile transformed into a solvency crisis with a worldwide dimension. The compensation of these strains will take many years.
- The severe depreciation of property and the worldwide economic recession is on the way to reducing the volume of financial markets substantially. Not all financial institutions will survive, and the others will see limited growth due to the long-term effects of the recession.
- Governments are planning to reinforce financial supervision at different levels: national, European, and international. By means of rescue programmes, public intervention is already being extended – in some cases by means of nationalisation.
- Consumer confidence is at its lowest level whilst banks are detecting the importance of consumer markets again. It is a question of how they will be able to rebuild confidence and which parts of the banking system will succeed with such efforts.
- A new step involving mergers and acquisitions in the whole sector may occur. Market forces and public regulation, however, may force the industry to think about alternative approaches.

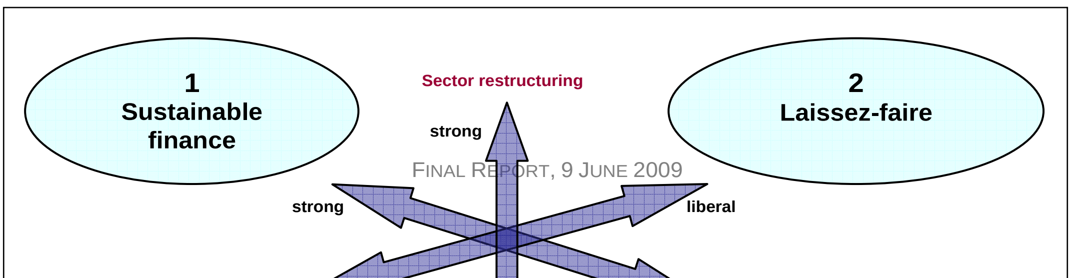
The future of the sector appears to be open and widespread options for alternative developments are being discussed. The scenarios start from both the fundamental drivers identified in the previous sections, and the present knowledge about the financial crisis. They take the organisational response of financial suppliers into the focus of considerations, by asking:

- how the European financial services sector will reorganise its activities and markets after the crisis,
- how governments will develop their supervisory instruments,
- how banking clients and financial investors will react.

Three scenarios have been developed on this basis:

- Scenario 1 – “sustainable finance”
- Scenario 2 – “laissez-faire”
- Scenario 3 – “state ownership”

**Scenarios and drivers**



Source: DKRC/Economix

The scenarios are combinations of the most important drivers identified in the previous analysis:

*Scenario 1: "Sustainable finance"*

This starts with the assumption that the financial business will identify short-term profit maximisation strategies as one of the major reasons for the crisis. Forced by strong customer reactions, a new business model will be developed which optimises the long-term profitability of investments. It will require considerable efforts to rebuild consumer confidence through self-enforced controlling and investments into the quality of financial consulting. A strong client-orientation will be the key to market success. Government regulation will strengthen self-controlling and re-enforce the liabilities of financial services providers.

This will result in a "cultural shock" for the financial business as it means a complete reversal of prevailing business models. Large parts of investment banking will be abandoned due to the high risks involved in that business. Product innovation in the sense of "security optimisation" will be more important than process innovation. Improved controlling and risk assessment systems will be established.

This will not be an advantage for the big players, as they will lose large parts of their investment banking business in the long-run. Savings banks and co-operative banks will have comparative advantages due to their proximity to consumer markets and public owners. Insurance companies less concerned by the crisis will follow the same trend towards customer oriented services.

**Basic characteristics of scenarios**

| Driver | Scenario 1 **Sustainable finance** | Scenario 2 **Laissez-faire** | Scenario 3 **State ownership** |
|---|---|---|---|
| Business model | Trust oriented and consumer oriented | Profit oriented | Control oriented |
| Self-control by the sector | Strong | Weak | Strong |
| Public control | Restrictive | Liberal | Very restrictive |
| Mergers & acquisitions | Weak | Strong | Strong |
| Market growth | Restrained | Unstable | Weak |
| Product innovation | Strong | Strong | Weak |

| | | | |
|---|---|---|---|
| Product Standardisation | Low | High | High |
| Process innovation | Medium | Strong | Strong |
| Globalisation | Controlled | Uncontrolled | Restricted |
| Outsourcing/relocation | Medium | High | Low |
| Training activities | Strong | Strong | Weak |
| Employment | Recovery after recession | Short-term fluctuations after recession | Long-term reduction with late recovery |

Source: DKRC/Economix

### *Scenario 2 "Laissez-faire"*

This will draw less radical conclusions from the present crisis. In contrast, financial actors will try to blur the consequences of the crisis and continue with the present business model. The crisis will be interpreted as the accumulation of unfavourable market developments. The financial business will therefore avoid significant restructuring of the sector and more or less continue with the business model of the past. Public control will remain liberal, particularly on global markets, as international agreements on capital market control will be difficult to achieve.

New products will continuously be developed for investment rather than for consumer markets. Financial services will become increasingly standardised. The sector will be segmented into a business and asset management market with high-value services and a standardised mass-market for the majority of consumers. Mergers & acquisitions will be undertaken on a large scale in order to profit from economies of scale. It is the scenario which successfully returns to trends that dominated before the crisis.

Profit orientation will remain strong with a focus on economies of scale to restore the industry's margins. Direct distribution of products and internet banking will be very important as will call centres for sales and customers information. Big service providers will perform the administrative back office tasks, while banks and insurance companies will concentrate on the front office tasks of marketing and strategic management.

### *Scenario 3 "State ownership"*

This emerges from the fact that neither governments nor the big players of the financial business will be able to keep control of the current crisis. Financial and economic turmoil will accumulate into a wave of destructive power. This will result in a significant reduction of economic activity for a long period of time.

Governments will be forced to take control of the financial system in order to guarantee its basic functions. The sector will return to an administrative business model with effective public control of national capital markets. Markets will only gradually recover after the crisis and innovation will remain restricted to the areas of organisation and controlling. The banking system will be saved by the governments at the price of nationalisation. Public budgets will see a considerable increase of debts. Economic growth will be burdened for the whole scenario period up to 2020. Similar to the financial crisis which happened in Japan during the1990s, the economies will suffer from the losses of property and market volumes for a long time.

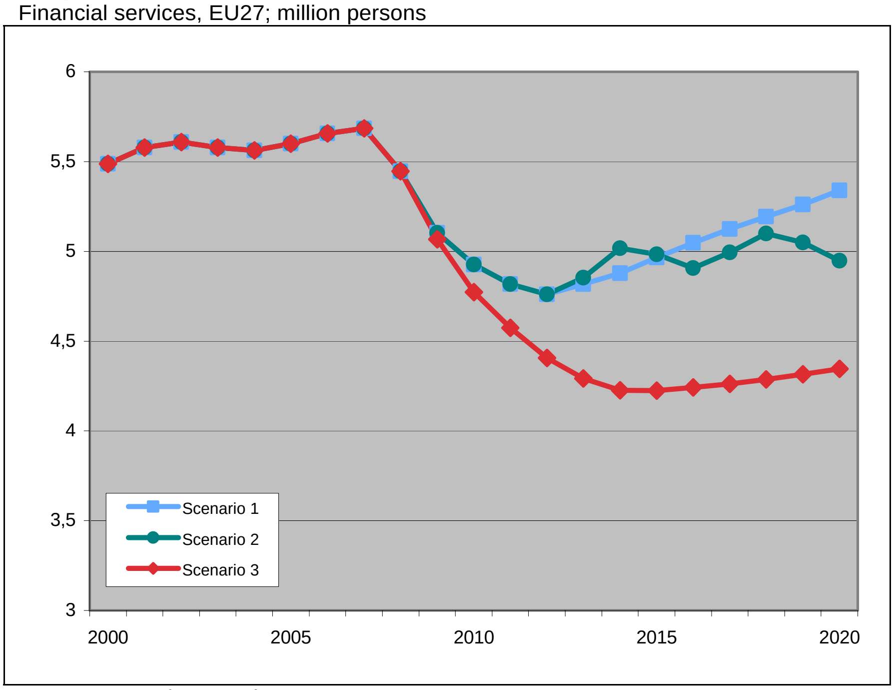
Banking institutions will make no efforts to adjust to clients' needs. In contrast, they will only provide the minimum functions of financial services and will concentrate on operational functions rather than on new products. It will be lean banking under the direction of austerity, focussing on surviving a difficult period, not on being efficient.

Large parts of investment banking will be abandoned and there will be a clear separation of wholesale banking and retail banking. In parallel, insurance and banking activities will be separated. Recession and state control will dry up new markets almost completely.

## Global impact on employment

**Employment levels**

Financial services, EU27; million persons




Source: DKRC/Economix

*Scenario 1 – Sustainable finance:* Like for all other scenarios, employment must be expected to decline considerably in the course of the financial crisis. A gradual recovery, however, can be expected after 2012-2013 due to the expansion of consumer and business markets. Recovery will be accomplished with the restructuring process based on sustainable products, services and customer relations. Insurance companies will particularly be able to profit from these changes as they applied this long-term approach in the past.

*Scenario 2 – Laissez faire:* In this scenario, the major forces that generated the financial crisis will not be removed. Public authorities will not come to an international agreement about capital markets supervisions. Employment will therefore remain unstable in the course of the after-crisis period. Financial services will join the group of economic sectors where employment levels are strongly determined by cyclical fluctuations.

*Scenario 3 – State-ownership:* Employment will remain at a depressed level for a long time. Even insurance companies will be negatively affected. Semi-public mutual and saving banks will achieve greater importance in the sector, encouraged by governments and local authorities. A gradual recovery can be expected at the end of the scenario horizon.

## Implications for competences and occupational profiles

The required skills associated with the three scenarios clearly differ as regards the changes of skills and occupational structures:

*Scenario 1 – Sustainable finance:*
Skill needs will be high and there will be the demand for a new type of banker: client-orientation and a sound understanding of long-term investment strategies will be important. Skill needs will be influenced by the customer oriented organisations requiring:

- Highly-skilled persons able to analyse client needs and deliver financial advice with risk estimation
- R&D specialists, creating new products and controlling systems
- Controllers, risks analysts and managers with a strong international orientation and a strong ethic behaviour
- IT professionals for back office reorganisation

The scenario will develop a strong need for sales and marketing specialists who will be needed to establish the new marketing strategies and to intensify customer relations. Moreover, organisation and controlling specialists in middle office jobs will be important for developing and applying the new rules for financial self-control.

*Scenario 2 – Laissez faire:*
The skills profile will reinforce the dual structure known from former industrialisation processes:

- Low and medium-skilled workers will be needed for call centres and administrative platforms. These jobs will experience poor working conditions and strong performance oriented remuneration. Flexible working hours and a high share of part-time and agency work will be visible in combination with high performance demands.
- Highly skilled workers will be needed in marketing, trading business, as financial analysts, business process specialists, and – in particular – as R&D experts who will have to develop new products and increase the short-term flexibility of business processes. Performance requirements will also be strong but remuneration will be good.

In contrast to scenario 1, scenario 2 will focus on specialists for new products, including R&D experts for financial products and process engineering. Controlling and sales will see a lower increase. Administrative work in back office will be strongly reduced due to increased efficiency and outsourcing.

*Scenario 3 – State-ownership:*
The skills structure will shift towards:

- Medium-skilled persons for middle office jobs: accounting, reporting, controlling and risk management
- Lawyers and regulation specialists for establishing the new regime of public banking
- Clerks and back office administrative staff due to the role of general administration
- Lean management specialists in order to improve cost efficiency

The scenario will imply a strong increase of labour demand for organisation and controlling specialists. Sales and marketing specialists, however, will see a relative decrease in demand, together with experts for new financial products.

## Impact on occupational profiles

Change of occupational shares in total financial services employment 2007-2020; EU27

| Occupation | Scenario 1 **Sustainable finance** | Scenario 2 **Laissez-faire** | Scenario 3 **State ownership** |
|---|---|---|---|
| Managers | = | = | – |
| Computing professionals | = | ++ | + |
| Business and finance professionals (sales and marketing) | ++ | + | – – |
| Business and finance professionals (new products) | + | ++ | – – |
| Business and finance professionals (organisation, controlling) | ++ | + | ++ |
| Clerks | – | – – | = |
| Service and sales workers | + | + | – |
| Craft and related trades workers | – | – | = |
| Elementary occupations | = | – | = |
| ** Change of % shares of area total:* | *++ strong increase; + increase*<br>*= no change*<br>*– – strong decrease; – decrease* | | |

Source: DKRC/Economix

## Critical competences

Regarding the different functions, the scenarios imply significant changes of competence profiles:

- *Managers* will have to master the financial crisis in all of the three scenarios. They will need excellent knowledge of financial markets and crisis management. Most importantly, however, they will need to be experts in change management in order to reorient staff towards new market conditions, business targets and public rules.
- *Marketing and sales experts* will have to apply completely different strategies in scenarios 1 and 2. Scenario 1 will require experts who will be able to establish long-lasting customer relations in proximity with clients. Scenario 2, however, this expertise will be restricted to high value-added markets. Standard consumer markets will be served by low or medium skilled sales agents who will need excellent communication skills rather than a deep knowledge of financial products. Marketing and sales experts will need excellent knowledge of the financial markets and products in all scenarios.
- *Middle office staff* will have a strong position in both scenario 1 and 3. In scenario 1 they will have an independent position, being responsible for risk analysis and strategic controlling. They will process large amounts of information in order to identify risks among clients. They will continuously report to the management in order to keep track of change strategies. In scenario 3 their position will also be strong as the "masters of the rules". They will be responsible for the strict controlling of business processes and will continuously assess risk portfolios.
- *Back office staff* will decline in scenarios 1 and 2 but will remain at the same level in scenario 3.
- *R&D specialists* will be particularly important in scenario 2. They will be needed to develop both sophisticated financial products and standardised consumer products for different markets. Mathematical and statistical expertise will be required as well as a good knowledge in computer science. In scenarios 1 and 3, R&D experts will mainly be used for the improvement of risk assessment and controlling instruments.
- *Process engineers and IT jobs* will be needed in all three scenarios, but again with strongly different profiles. In scenario 1 business processes will be reorganised in order to achieve the flexibility to adjust to a growing variety of customer demands. In scenario 2 the standardisation of consumer products will be the main focus, while flexibility will be required for the high-value activities in the upper market segments. In scenario 3 process re-engineering will also be concentrated on standardisation and low-cost provision of services. The upper segment, however, is not relevant any more. ICT experts will therefore be important for all scenarios.

### Critical competences

| | Scenario 1<br>**Sustainable finance** | Scenario 2<br>**Laissez-faire** | Scenario 3<br>**State ownership** |
|---|---|---|---|
| General management | Risk oriented rather than profit oriented<br>Long-term vision<br>Change management | Global orientation,<br>Strong profit orientation<br>Short-term flexibility | Security oriented<br>Low-cost oriented<br>Change management |
| Marketing and sales | Financial professionals<br>Strongly client oriented<br>Socially responsible | Market oriented sales specialists<br>Product oriented<br>Communication skills for sales agents | Limited marketing efforts |
| Administration | Strict monitoring and controlling | Rapid adaptation to product changes | Strict controlling according to administrative rules |
| Research & development | Risk assessment<br>Controlling instruments | New financial products<br>Internet-based sales<br>Standardisation of products | Standardisation of products |

| | | | |
|---|---|---|---|
| Process engineering | High flexibility of processes due to customised products | Standardisation of processes<br>Relocation of back office services | Standardisation of processes |

Source: DKRC/Economix

## Strategic impacts from the scenarios

### *Adjustment strategies at company level*

Five principal strategic orientations might determine the prevailing business models in the long-run:

- *Diversification strategy:* universal banks are the ideal business model of this strategy, distributing bank and insurance products through their network. Insurance companies provide new day-to-day services with complex contracts.
- *Trust oriented and security oriented strategy:* requiring an orientation for long-term rather than short-term profitability. It results in a fundamental change of product development, investment consulting, and investment decisions.
- *Globalisation strategy:* The crisis reinforces the need for huge capitalisation which makes mergers attractive. This creates big institutions on inter-bank markets and re-insurance, but also in private equity, asset management, and back office services.
- *Specialisation strategy:* this is the institutional specialisation on different markets – mortgages, business credits, asset management, investment banking and other market segments. The economies of this strategy are based on specialisation rather than size. A high degree of professionalism is required for market success.
- *Standardisation strategy:* products for mass consumer markets are standardised and processes are automated. The internet plays a dominant role. Big back office service providers execute the administrative tasks. Individual services are an exemption.

The scenarios will use different combinations of these strategies:

- *Scenario 1* will lead the companies towards a customer-oriented organisation, putting a strong weight on "face-to-face" work situations. This organisation is based on a high level of competences for the counsellors, loan officers, insurance agents, and intermediaries. Their motivation needs to be strengthened by serious career management, knowledge transfer measures and the experience of internal and external networking.
- *Scenario 2* is based on an industrialised organisation and on lean production models with large service centres and big call centres for product sales and client services. Turnover will be encouraged by profit-based remuneration. Young persons will be hired on low wages to work on sales platforms and in call centres, but also for highly professional jobs in investment banking. New products will continuously be developed by special R&D staff. Training courses will be used to continuously update employees' knowledge about innovative products. Particular attention will be paid to soft competences and communication.
- *Scenario 3* will lead to an administrative sector demanding reinforced controlling skills and persons with a strong knowledge of regulations and general law in order to apply national and international rules. The middle office will be the most devel-

**Adjustment strategies**

| Adjustment strategy | Scenario 1 **Sustainable finance** | Scenario 2 **Laissez-faire** | Scenario 3 **State ownership** |
|---|---|---|---|
| Diversification strategy | ● | | |
| Trust and security oriented strategy | ● | | ● |
| Globalisation strategy | | ● | |
| Specialisation strategy | | ● | |
| Standardisation strategy | | ● | ● |

Source: Economix.

oped function. Employees will have to participate in training courses to develop their regulation and law knowledge.

*Strategic choices for sector organisation, training institutions and governments*

These organisations will have a strong role, particularly in scenarios 1 and 3:

- In *scenario 1,* sector organisation will support the image of a sustainable sector with a high degree of public accountability. Communication skills will be particularly promoted by training institutions together with the principles of a trust oriented and security oriented financial business. Regional labour markets will be developed because direct communication with local clients is important.
- *Scenario 2* will present the sector as a modern and dynamic business which calls for flexible, innovative and profit oriented professionals. Vocational training should train specialists for various financial products, global financial markets, and business organisations. Lifelong learning will be particularly important to keep professionals updated with the rapid paths of innovation. Open labour markets will be important as specialists will be recruited from international rather than local labour markets.
- For *scenario 3* an image campaign is not really needed as the sector is reduced to basic financial operations. Nevertheless, it appears to be a security oriented business which aims to provide financial services at low costs. Career promotion will select strictly task oriented employees. Vocational training will be reoriented towards business administration and controlling. Training centres will focus on law and public administration. The majority of recruits will be from internal rather than external labour markets.

## Human resource strategies to meet skill needs

The financial sector in most EU countries expanded for many years, but the present financial crisis is going to radically change that. With the downturn of employment, human resource policies will face new conditions in internal and external labour markets. The reduction of employment will affect both labour supply and labour demand in a significant way. It will result in:

- high unemployment risks for the staff employed
- a smaller number of job openings for those entering the sector
- a stagnation of wages due to wide spread losses and rising unemployment
- a generally poorer attractiveness of the sector

This will not make human resource policies easier. While labour supply will be more than sufficient due to the rising number of lay-offs, it will become difficult to recruit specialists from the non-banking sector. Moreover, financial experts will look for job opportunities outside the financial sector. The human resource policy in companies will be determined by low labour turnover, a rising relevance of internal labour markets, and an ageing work force. Particular skills shortages may appear among critical skills.

Even with declining employment, however, the sector will be faced with the need to replace due to ageing staff in many countries. With the requirement of a higher level of formal education and the declining attractiveness of the sector, the following measures will have to be undertaken to meet the skills needs:

- recruiting new young graduates
- retaining older persons (even by refusing the easy solution of early retirement), particularly in the counsellor function in order to rebuild customer trust
- updating the skills of older staff
- utilization of „lifelong training" and career paths to reduce labour turnover and to attract newcomers

For a knowledge intensive industry like financial services it will be particularly important to guarantee the knowledge transfer from older to younger workers. Client trust and high quality consulting services can only be established with the broad knowledge base of the workforce.

## Implications for education and training

All scenarios show an increasing need for graduates with higher education. A broad educational training structure is available in the western countries including universities, business schools and companies. In the New Member States, however, there are shortages of qualified persons. This requires the extension of training capacities and training efforts in these countries.

While the sector increasingly emphasised the necessity for graduates with post-secondary degrees, human resources managers partly doubted that skills will be needed to that extent. For example, often less skilled persons were recruited for sales-related activities. Many training experts therefore favour apprenticeships.

Intermediaries dispose of differentiated initial education and training profiles. The staff of these SMEs can possess all forms of education. Nevertheless, the need for more qualifications is also visible in this activity.

The development of the sector will lead to increased training needs as regards to quality and training content. The overall capacities, however, will be more than sufficient in face of the expected downturn of employment and recruitment.

In the New Member States, training facilities are not developed sufficiently and therefore require a different approach: in the upcoming years, companies, social partners and training institutions will have to be much more involved in developing training structures which will provide the new skills needs.

Beyond the need for updating skills with regard to new technologies, laws and regulations, and customer relations, the crisis will lead to severe structural changes in the sector. Training for new occupations and sometimes for new jobs will be required in agreement with the employees' representatives.

## Recommendations

While European governments are actually combating for the survival of the financial system, this report develops a longer perspective. Our recommendations for human resource related policies for the European financial sector therefore suggest a long-term strategy for skills and competences which is able to reduce the risks of a further replication of such a crisis.

We are convinced that human resource policies play a pivotal role in the reform of the financial systems. The financial sector was obviously unable to establish a sustainable business model and assess risks correctly. This is the responsibility of management and public business regulation. However, it also depends on the deep understanding of the way financial markets function. Employment related policies should therefore address the need for adequate training and increased R&D investments in this sector. Two priorities emerge in this context:

- Training policies should be reoriented towards the economics of capital markets, the principles of decent client consultation, controlling and risk assessment. Governments should take initiatives to implement such new types of training in the financial business sector.
- As the tools of risk assessment failed to indicate long-term risks, R&D programmes should be launched to improve these instruments. Controlling principles should be reappraised in order to develop strategic controlling.

Human capital appears to be the key to restructuring in this sector, and public institutions can raise the pressure on the financial sector to develop a sustainable business model. Education and training is one approach to proceed along this route.

A comprehensive list of recommendations with six headings, has been developed for human resource policies in the European financial services. They address policy actors at European, national and regional level, as well as companies and social partners.

## List of recommendations

### Topic 1: Reform of the financial system

| | |
|---|---|
| **EU** | • make European regulatory systems more efficient<br>• maintain and develop a pluralistic financial sector<br>• develop a supervision culture in Europe<br>• protect customers and investors by introducing more rigorous liability rules |
| **National authorities** | • participate in the international regulation of financial markets<br>• reinforce national regulations<br>• improve market transparency and obligatory client information<br>• reform bonus systems and top management remuneration |
| **Companies** | • rebuild trust with clients<br>• develop self-controlling and reinforce the middle office function<br>• promote transparency and provide liable information to customers<br>• reform bonus payments and top management remuneration |

### Topic 2: Employment and human resource policies

| | |
|---|---|
| **EU** | • prevent high replacement demand<br>• contribute to human resource investment<br>• support active ageing policies<br>• support good practices in restructuring |
| **National authorities** | • contribute to human resource investment<br>• support active ageing policies<br>• support good practices in restructuring |
| **Companies** | • preserve the knowledge base<br>• refuse early retirement schemes<br>• set up good HR practices and career path developments to struggle against labour turnover and attract newcomers in the sector<br>• build mobility solutions within the sector instead of lay-offs |
| **Social partners** | • support HR policies without early retirements and an effective ageing policy, new career paths<br>• promote agreements about employment, restructuring, ageing policies |

### Topic 3: Skills adjustment

| | |
|---|---|
| **EU** | • re-enforce new competence standards to promote sustainable business models<br>• promote R&D in financial services in the areas of risk assessment and strategic controlling |
| **National authorities** | • promote the introduction of sustainable business models by improved training standards<br>• reinforce training institutions in the sector<br>• promote R&D in financial services in the areas of risk assessment and strategic controlling<br>• raise training standards for intermediaries<br>• support cooperation between companies and training institutions |
| **Companies** | • develop lifelong learning<br>• develop middle office apprenticeship training and trainee periods for newcomers<br>• develop finance-related ICT knowledge<br>• adapt labour force to the principles of sustainable finance<br>• invest in R&D in the areas of risk assessment and strategic controlling |
| **Social partners** | • reinforce involvement in training issues |

### Topic 4: Equal opportunities

| | |
|---|---|
| **EU** | • encourage female students towards scientific studies and IT courses |
| **National authorities** | • encourage female students towards scientific studies and IT courses |
| **Companies** | • promote women in management positions<br>• improve the proportion of women in IT jobs |
| **Social partners** | • support and negotiate agreements about equal treatment of men and women |

### Topic 5: Regional policies

| | |
|---|---|
| **Regional authorities** | • support decentralised banking and insurance services |

| | |
|---|---|
| | • attract innovative capacities<br>• develop regional centres for supportive services<br>• address restructuring in financial services and avoid risks of high specialisation in a single sector |
| **Social partners** | • address the employment issues at the local level |

**Topic 6: Knowledge about skills**

| | |
|---|---|
| **EU** | • develop a monitoring activity for employment and skills in the sector<br>• improve the European classification and statistics so they are more relevant for the services sector (ISCO, ISCED) |
| **National authorities** | • support prospective sector studies |
| **Regional authorities** | • support prospective sector studies |
| **Companies** | • support skills monitoring<br>• present regular and transparent information |
| **Social partners** | • develop social dialogue about employment, skills and training needs<br>• promote a common understanding of the sector and develop a strategic view |

Source: DKRC/Economix