Breaking the Digital Banking Talent Code

By Robert Northway and Kristen Magyar
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Innovative digital developments have had a profound impact on the day-to-day lives of individuals, including retail banking customers. In response, the banking industry has begun to embrace the digital era, where mobile apps and smart ATMs are no longer a luxury but have become a necessity. The wave of digitalization has led many banks to reevaluate their business and talent strategies to attract, engage, and reward a new generation of staff that can successfully transform their existing platforms and provide the digital experience their customers have come to expect.

Although business leaders have identified the unique skill sets needed to develop and support an effective digital platform, the costs associated with sourcing such talent are on the rise due to competition from major tech and online retail firms. A bank's corporate culture and reliance on secure but outdated technology are deterrents for many potential employees. Attracting and retaining ideal talent profiles depends on the industry's ability to evolve its highly regulated banking setting into a more contemporary, forward-thinking environment that mimics technology firms. While some progress has been made towards this transition, such as changes in management and reporting relationships, the industry still faces several challenges. In order to emerge as leading players in the digital market, banks must prioritize the following initiatives: identify firm-specific digital value propositions; recruit and retain ideal talent; and, realign compensation methodologies to incentivize innovation.

Business Implications – The Value Proposition

As retail banking customers' reliance on digital technology increases, banks must identify the full potential of implementing innovative online offerings. Developing core digital capabilities will allow banks to improve the overall user experience as well as to expand their customer base while reducing aggregate branch costs. Delivering a customer experience that is aligned to the changing expectations of how consumers want and expect to interact through digital channels is an essential component in establishing a loyal customer base.

Although the global financial crisis forced banks to focus on risk management and compliance priorities, thereby delaying the creation of digital strategies, banks are now rapidly developing and rolling out omni-channel initiatives of their own. In an effort to catch up to the tech and online competitors, retail banks are developing mobile applications and many are working towards a seamless integration of all online and mobile channels. Despite these efforts, McLagan's 2014 Digital Banking study reports that the majority of participating U.S. banks place themselves at the beginning stage of this process[1].

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Table 1: Current Digital Capability Level

A bank's digital value proposition not only affects customer loyalty but also impacts operating costs. In a 2014 shareholder presentation, JP Morgan Chase announced that the cost of an online deposit is three cents while that of a traditional teller deposit is sixty-five cents[2]. Through their online platforms, banks are looking to simplify core products and transactions while increasing value-added service. As a result, banks will be able to broaden their customer scope, improve operational efficiency, and boost firm revenue[1].

The economic benefits of online banking require business leaders to reassess the fundamental responsibilities of physical bank branches. Some of the traditional in-branch roles that previously handled manual transactions are being transitioned into positions that now support self-service online transactions. Redefining the scope of conventional branch responsibilities will require existing staff to gain technical skills and/or require banks to hire additional staff to fill such vacancies. However, banks have not been explicitly closing their retail branches due to innovations in consumer technology products. Instead, more emphasis has been placed on updating branches with the latest digital capabilities.

With the hope of reaping both client and economic benefits through an effective digital platform, many banks have initiated high level organizational changes such as the realignment of reporting relationships, the reorganization of business processes, and the identification of cost-cutting strategies. However, banks need to develop their innovative capabilities in order to avoid business ramifications and maximize business efficiency. Currently, there is a mixed approach when it comes to developing digital technologies in house or partnering with a third party innovator. In addition, the industry's constrictive reliance on legacy technology negatively impacts their ability to implement a seamless end-to-end user experience while developments within the technology industry, such as Apple Pay, efficiently deliver easy-to-use online money management tools that are now expected from customers.

To ensure a successful technology transformation, business leaders must clearly define their firm's digital vision and value proposition across all lines of the business. Without a pre-defined, holistic view of digital platforms within the financial services sector, banks have to create their own definitions and implement digitalization processes that are not only achievable within the bank, but also competitive with non-

traditional peers. Unlike banks, tech firms are inherently organized to support various digital initiatives, thus there is no need to distinguish the digital strategy from the overall business strategy. Conversely, as banks continue to modernize traditional banking practices, they must establish a separate, specialized tech platform within their traditional banking model.

Talent

The digital shift has led banks to reexamine the talent needed to successfully compete with their non-traditional tech and online retail peers. Digital platform developers, product and channel managers, and customer experience positions are pivotal roles in developing and supporting an online platform. However, finding experienced financial services staff within such roles is challenging, forcing banks to source qualified talent outside the industry.

While tech firms primarily acquire their talent through acquisitions, known as "Acq-hires", banks rely on a variety of methodologies to attract ideal candidates. Social media (i.e., Facebook and LinkedIn), firm websites, and organized networking events are heavily relied on for recruiting across all levels of potential employees. Although banks' recruiting efforts are heavily focused on e-commerce and tech firms, the majority of digital new hires still consist of internal transfers and former financial services employees.

"Acq-hiring", however, is becoming more prominent in the financial sector. The Spanish bank BBVA, recently acquired a U.S.-based online bank to reinforce their global digital transformation[3]. Santander, another bank based in Spain, announced last year that they will launch a London-based FinTech investment fund which will provide digital companies with capital. Not only is this an attractive investment opportunity but it grants the acquiring firm access to the latest thinking and innovation of the start-up companies in which they invest[4].

Retaining both newly recruited and existing, digitally-aligned employees has been a major concern for banks due to particularly high turnover within the Digital IT/Development and Digital Change positions. Persuading potential employees to transition from the innovative high-tech industry to the highly regulated banking industry presents challenges of its own. The capital requirements imposed on banks to ensure customer privacy/protection and overall firm compliance limit the industry's ability to fully engage in and leverage social media capabilities. Limited upward mobility and weak innovation culture have been cited as key deterrents to working within a bank's digital platform. Creating an inventive culture and clearly defining career progressions will allow financial services to increase retention rates within the digital space.

Rewards

Being in such a highly regulated industry, it is difficult for banks to effectively align compensation methodologies to foster creativity while limiting material risk. The financial services' reward strategy is seen as constrictive and culturally misaligned

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compared to that of the technology industry. This perception drives several factors that influence the pay schemes across the two sectors, particularly mix of pay.

To attract and retain its talent, the tech industry relies on the value proposition of employees having a direct impact on “the next big thing”. This perceived incentive allows tech and online retail firms to leverage a larger portion of equity pay compared to financial services (illustrated below). The total pay outcome at a tech firm is much more uncertain due to higher exposure to stock-price performance. For example, the equity values of LinkedIn (up ~185%) and Groupon (down ~75%) have taken drastically different paths since their IPOs. With the majority of tech firms giving their employees large equity stakes, total compensation is largely driven by firm performance. However, these equity schemes typically vest at grant and are therefore not exposed to additional performance conditions common within banks.

Table 2: Pay Mix Intermediate Level

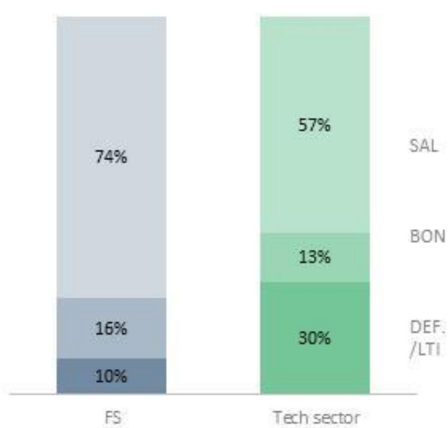
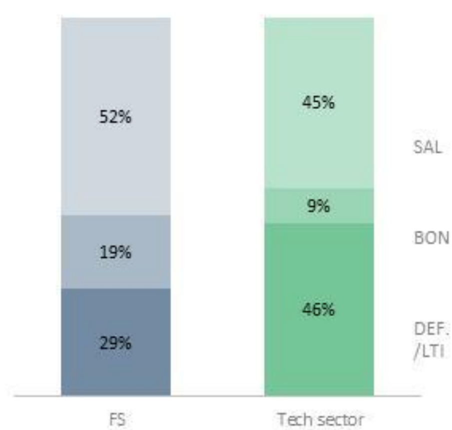


Table 3: Pay Mix Senior Level[5]



Conversely, financial services rely on a pay mix that leverages large bonuses to attract employees. Despite the degree of financial security, Table 4 illustrates that 67% of our study participants cited a lack of competitive compensation as a key reason for turnover within the digital space[1]. This suggests that banks may have to restructure their mix of pay philosophies to be more in line with tech industry offerings, specifically for staff within digital strategy and development roles. However, the high levels of regulatory oversight imposed on banks may hinder their ability to uniquely structure targeted compensation packages.

European banks, operating both inside and outside the Eurozone, must comply with strict pay regulations for roles that have material impact on the firms’ risk. With recent issues around cyber-security and fraud, such regulations need to be taken into account when structuring compensation packages as well as “Acq-hiring” across the U.S. and European regions.

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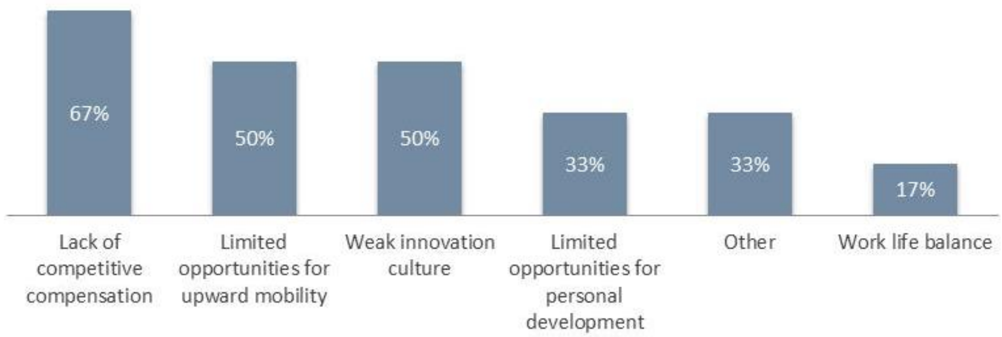
Table 4: Cited Reasons for Turnover Within the Digital Space



Despite various hurdles, including digital innovation approaches, sourcing qualified talent, and mix of pay methodologies, initiatives to advance traditional banking structures are underway. Some organizations have started building separate “tech” hubs in defined locations, typically locations that have a strong technology presence. Areas such as the Research Park Triangle in North Carolina, Silicon Alley in New York, as well as the cities of Denver and Dallas in the U.S. have become extremely competitive areas for tech talent. In addition, in an effort to align firm style and culture with that of technology firms, some banks are creating more flexible work environments by incorporating break rooms, lounges and whiteboards for roles where innovation, collaboration and creativity are encouraged.

Conclusion

The fundamental differences between the banking and technology industries will continually give rise to new challenges. Nevertheless, it has become imperative that the banking sector develop and implement a thoughtful and effective digital strategy. It is crucial to remaining a competitive market player. Key business leaders and HR professionals must consider a variety of initiatives in order to deploy an efficient digital platform.

- Identify and clearly communicate their firm’s digital strategy and value proposition across all lines of the business
- Implement a flexible firm culture and relinquish legacy technology platforms to allow for a more seamless transition from the tech industry to the regulated banking industry for future employees
- Structure mix of pay packages to cater to the various digital roles to ensure compensation is properly valued by employees

Financial services were late to join the digital movement, making 2015 a critical year for recovery and development, and an opportunity to pave the way for the future of digital banking.

[1]McLagan, *Digital Banking US Study* (2014)

[2]JP Morgan Chase, *Consumer and Community Banking* (2014-02-25)

[3]Financial Times, *BBVA buys US digital bank Simple to increase online offering* (2014-02-20)

[4]Financial Times, *Santander UK sets up $100m financial technology fund* (2014-07-02)

[5]McLagan, *McLagan and Radford proprietary UK* (2014)

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