ODGERS BERNDTSON GLOBAL BANKING PRACTICE

Technology, talent and trust

The state of global wholesale banking

ODGERS BERNDTSON

How are political uncertainty, the rise of digitisation and automation, and the career aspirations of millennials changing wholesale banking? What exactly is changing and, just as importantly, what is not?

For this White Paper, we asked 50 industry leaders based around the world to share their insights and gauged their optimism for the future of their businesses.

Uncertainty, risk and reward

With Brexit, trade wars, sagging commodity prices, and quantitative easing coming to an end, the current global political and economic environment is complicated, uncertain and volatile. But is this a good or bad thing for the wholesale banking industry?

The senior leaders we spoke to fell into two camps on this question, depending partly on where in the world they are based and partly on their bank's core business.

One banker explained, "Economic uncertainty and growing pressure on emerging markets can lead to increased flows for FX trading. But these conditions also create a tough interest rate environment and credit rating downgrades, which make it tougher for corporates to do business."

> "The next phase of the trade war could be sanctions, which would have a dramatic negative effect on global GDP."

BREXIT?

In the UK, Brexit is making it difficult for banks to plan ahead, but globally the senior bankers we spoke to agreed that Brexit is not the most pressing issue for their clients. Protectionist trade wars are having a bigger effect on markets, as they impact exchange rates and disrupt global supply chains.

The US-China trade war is slowing outbound China investment and depressing stocks listed in Hong Kong and China. One worried banker noted, "My business is very much related to markets and the current environment has had an adverse effect on revenue."

The current environment is also depressing activity in emerging markets. One senior individual noted, "The view on emerging market investments is pretty negative right now." Another banker pointed out, "The credit quality of [emerging market] counter-parties is a big concern. Plus, in the next 18 months, we will enter the 'perfect storm'– an environment of highly-leveraged borrowers, depreciating currencies, and increasing interest rates."

OPPORTUNITY IN VOLATILITY

While some bankers have seen their volumes take a hit, others see opportunity in market volatility. A number of the bankers we spoke to felt that a little bit of uncertainty in the economic and political environment was good for business. One observed, "The current volatile environment represents an opportunity for banks".

One wholesale banker pointed out that economic instability has been the status quo since the global financial crisis: "The current environment is highly unstable, but businesses get used to it. For example, after the Brexit announcement, the market only took a week to recover." Another agreed: "It's nothing we haven't seen and weathered before." Of course, there is such a thing as too much volatility. As one banker explained, "If the markets are very calm, there's not much we can advise on, but if they are too lumpy, then trading shuts down."

"Political and economic uncertainty present an opportunity to offer new types of products."

Tech-driven expectations

In addition to weathering political and economic uncertainty, the industry is also being buffeted by rapid technological change, which is in turn affecting client expectations and demands. With FinTech companies raising the bar, banks are also investing heavily to adopt new technology, update legacy platforms and improve the customer experience. At the same time, banks are focusing their teams on providing high-touch advisory and consultancy services that can't be easily digitised and automated.

> "Increasingly clients expect transactional services to be tech-enabled, fee-less and delivered through a seamless, integrated customer experience."

INFLUENCING THE CORPORATE GAME

Clients have always been impatient when it comes to the speed of transactional services, but increasingly they also expect such services to be tech-enabled, fee-less (or at least priced as a commodity) and delivered through a seamless, integrated customer experience. One banker noted, "There has been an increase in demand for low-touch, commoditised products through e-platforms, like FX and interest rate trading."

Another banker explained, "Expectations are changing mainly because of people's personal experience of technology platforms like Uber and Amazon, which provide a fast and seamless user experience. Providing this kind of experience for corporates is not easy given stringent regulatory requirements."

But even as they lean on banks to do more stringent KYC and AML checks, governments, especially in South East Asia, are driving digital transformation in order to streamline tax collection and combat corruption. In addition, one Asia-based senior leader noted, "clients and regulators expect more disclosure and transparency and this will continue to increase especially in Asia's emerging and frontier markets."

RAPID RESPONSE

In response to changing client expectations, banks are investing heavily in new digital and automated technologies, and data and cyber security. One banker summed it up succinctly:

> “Digitally delivering services increases efficiency, but also puts pressure on already tight margins.”

At this point, cash management and hedging are almost entirely automated and Goldman Sachs is leading the charge in streamlining IPOs. In addition, banks are developing digital portals for transaction services and automated systems related to KYC, AML, document flow, and customer relationship management.

But it’s not just automation and efficiency that wholesale banking teams are chasing. “There’s now a big emphasis on human-centric design and consistency of experience and we are re-examining what is a core competency that we need to own and what we can source externally, with the aim of creating a seamless client experience,” one banker noted. Another added, “We are investing in digital, customer-centric solutions, enhanced data governance and infrastructure and advanced analytics capabilities.”

The goal, another banker explained, is to “improve processes, reinvent the customer journey, offer more functionality and reduce costs while lowering risks.”

All of this investment comes at a cost.

Some banks are spending between US$1 billion and US$3 billion annually on tech, while those with the biggest budgets are spending upwards of US$10 billion. This led one banker to advise, “The global banks have very deep pockets to invest in technology. Smaller banks need to be nimble and should purchase capability instead of trying to develop the tech themselves.”

“We are spending vast amounts on R&D; banking is becoming a tech business.”

UP-SKILL, RESTRUCTURE

As banks develop and acquire more sophisticated technology products and platforms, they are also looking at up-skilling and restructuring their workforces to match. One leader noted, "We're bringing in different types of people and changing the mind-set of people already in the business." Another banker shared that they are "changing the organisational structure so that the Head of IT will see and understand how his work influences customers and our front office sales teams will understand how technology can assist in business development." Yet another noted, "Gone are the days of web developers sitting in the middle office, they are now mission critical."

DISRUPTORS AT THE GATES

As fast as global banks can invest in new technology, FinTech companies are developing new ways to automate high-volume, low-margin businesses and are constantly looking for new markets to disrupt. Many of the bankers we spoke to took solace from the fact that "technology-driven changes are mostly still happening on the consumer banking side and there aren't as many FinTechs disrupting wholesale banking."

Nevertheless, one banker forecast that loan markets would be the next FinTech target, while another noted, disruptors are "becoming increasingly relevant in the treasury business." Another pointed out that "banks have to contend with clunky legacy platforms, which FinTechs don't have."

In light of this, big banks are generally taking a 'if you can't beat them, join them' approach and are increasingly investing in and partnering with FinTech and software companies. Two bankers mentioned taking equity stakes in FinTech companies to gain access to new technology.

FinTech disruption and the development of the gig economy are causing one senior banker we interviewed to think about his own industry in a new light. He mused, "There's a general gig economy trend of platforms connecting consumers to assets that the platform doesn't directly own. So could there be an Airbnb equivalent for wholesale banking? This is like Rolls Royce selling airtime not engines. We need to reimagine assets as a service."

> "You can treat the newcomers (e.g. Tencent, AliPay) as the enemy or you can treat them as partners of your customers. The best way forward is to embrace the 'Unicorns'."

FOCUS ON ADVISORY SERVICES

While they acknowledged that automation would soon control most high-volume transactional wholesale banking services, the bankers we spoke to were adamant that high-touch advisory and consultancy services would not be replaced by computers any time soon. As one banker noted, "specifically on the investment banking side, there is still a need to maintain direct relationships with clients, as not everything can be automated and digitised." Another commented, "In investment banking, the ability of AI to help with anything apart from basic due diligence is a long way off."

"When the vanilla products in the global markets businesses have mostly moved to e-platforms, it will only be the more complex products and bespoke solutions that clients will need to speak to an advisor about," one banker explained. Another commented, "In Global Markets, we're exploring what more can be done digitally, but I'm doubtful you can create the same level of liquidity through digital channels as you get over the telephone." The consensus among the senior bankers we interviewed was that the highest value parts of the wholesale banking business will continue to be done the old-fashioned way.

ADDING VALUE

Not surprisingly, clients are more willing to pay for non-transactional, higher-value services. One way banks can add value is to "commoditise data to sell to clients to provide them with insights on issues like cybercrime and digital innovation." Another added, "AI can be used to model investor and borrower behaviour, analyse trends and make predictions about activity in the market using both publicly-available market information and our own proprietary data."

Another innovative banker noted, "We are evolving to offer more value-added services that are integrated with the client's business beyond the normal transactional requirements and we increasingly cater for a client's entire ecosystem. For example, we provide financial and technological support to a client's smaller suppliers. We find that if we provide this expanded and relatively seamless service offering, then clients aren't as price sensitive."

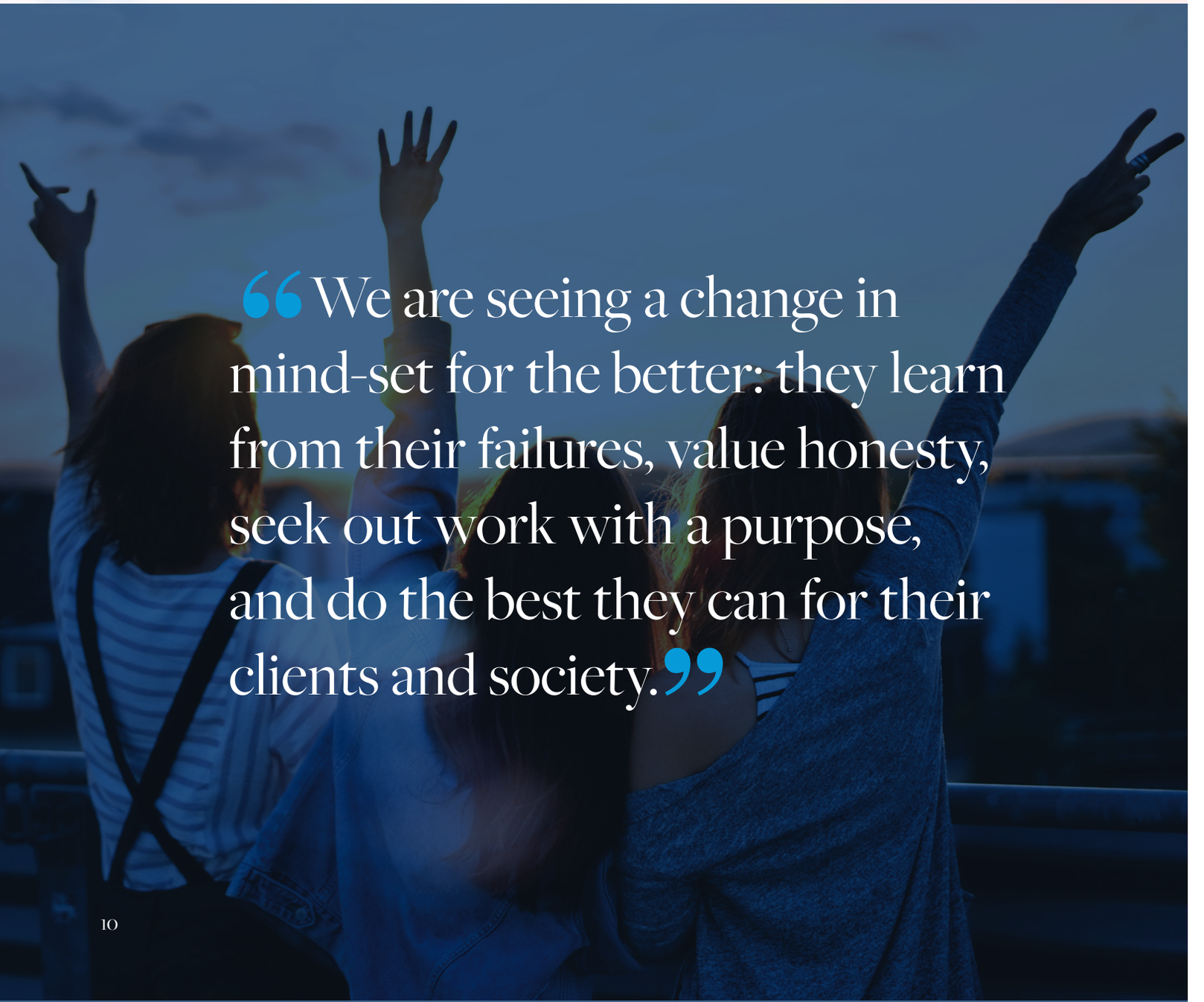
Still, providing seamless, around the clock wholesale banking services, even with the help of technology, is highly demanding. One banker noted, "Clients want us to have one joined-up view of them across all products and offerings and this is easier said than done for large corporates with multiple subsidiaries in numerous jurisdictions." To do so requires coordination across multiple offices and parts of the wholesale business plus a responsive and dedicated team.

> "You can't automate professional advice."

Meeting the millennial mind-set

In addition to the uncertain geo-political outlook and emerging technologies, the biggest force changing the wholesale banking industry, according to the senior bankers we interviewed, is the arrival of the millennial generation.

They can be impatient, restless and entitled, but overall it seems they are having a positive impact on the working culture of their banks. At the same time, the competition for young talent among banks, private equity firms and tech companies is stiff. So while their bosses may not always understand them, wholesale banks are working hard to retain millennial talent.



> “We are seeing a change in mind-set for the better: they learn from their failures, value honesty, seek out work with a purpose, and do the best they can for their clients and society.”

GENERATIONAL SHIFT

Many of the senior bankers we spoke to observed that millennials are more altruistic and concerned with social impact than their predecessors. “A strong ethical culture has been instilled in the younger generation,” one commented. “Junior staff are looking for a sense of purpose and they want their career to have meaning,” another added.

Some bankers also described them as efficient and passionate about their work, noting, “their delivery on projects is quick and precise”. Others saw the younger generation as having “big egos” and prone to a measure of over-ambition. “Junior staff want to be heads of business within a short period of time without really understanding the clients and their needs.”

Still, many senior bankers view millennials as a force for positive change. Several mentioned that this generation’s focus on work-life balance and flexible work schedules has rubbed off on more senior members of staff, causing them to “re-examine their life priorities.” They have also been champions, in many organisations, of greater diversity and inclusion and for a more honest and straightforward communication style.

FREE AGENTS

Many of the bankers we spoke to mentioned that millennials don’t view career stability and job security in the same way as prior generations. One explained, “People used to look for a job for life, now they want to be like consultants, moving every three years.”

As a result, millennials strike the older generation as restless, even demanding. One banker noted, “Young talent is more willing to take a career gamble, even at the expense of long-term financial security.”

Another described them as seeking “instant career gratification” but more charitably it could be viewed as being “focused on gaining a diversity of experiences.” One banker worried that this willingness to jump around in their careers “is not a natural fit with Investment Banking, where promotions require patience, long hours and hard graft.”

> “The concept of grinding away for 10 to 15 years to become Managing Director has gone away.”

As a result, big banks are noticing high turnover at the junior level as some millennials drift on to entrepreneurial FinTech start-ups or to boutique private equity firms. As one banker put it, “the war for talent is real at a junior level.” Others added, “they are a scarce resource in a very competitive, global talent market” and “they interview the bank, and not the other way around.”

EMPOWER AND ROTATE

So how can wholesale banks keep high-potential millennials engaged and loyal? Many banks are taking a multi-pronged approach: creating forums where junior employees can speak directly to senior management, investing in graduate training and mentoring programmes, and offering both practice group, and geographical rotations, in the hopes of improving retention.

> “Some banks even make an effort to “take the ambitions and personal preferences of junior staff into account when staffing deals, or marketing projects”.”

Forums where junior staff can ask questions and offer their views take many forms. One bank invites “younger members of staff to shadow our executive and other committee meetings and to give advice and suggestions to our leadership.” Others convene special “Junior Board” or “Junior Council” meetings, which are attended by one or more senior managers, or organise less formal meet-ups. The head of APAC capital markets for one large bank described the regular conference calls he and the bank’s CEO dial into “where junior members of staff can ask anything they want.”

Training and mentoring programmes are another increasingly popular initiative. One banker shared, “Mentoring programmes for junior—and specifically junior female—staff have become a key focus for us. Plus, to empower and engage junior staff, we’ve been running the ‘CEO’s Club’ in APAC for the past eight years: 10 to 15 high-performing young staff members are chosen to work on key projects, directly with the CEO. We also started an ‘Advanced Development Programme’ last year where people are identified to work on special projects outside of their areas of day-to-day responsibility.”

Another common approach to keeping millennials engaged is to keep them moving. “Junior colleagues like to gain experience in as many different parts of the business and geographies as possible. Given that we are expanding internationally and across sectors, this is something we can actively support,” one banker noted.

“We try to move people around more and not keep them in silos, so they are always learning,” another added. A third commented, “Implementing a job rotation program has created a more fluid workplace, which they prefer, and helps to keep the younger generation engaged and challenged.”

The most innovative approach we heard was from a senior banker in South Africa:

> “We are looking at ways to use technology to cut down on menial tasks and provide younger staff with more puzzles, more agility and less bureaucracy. In that way, we’re creating more of a gaming culture, as far as that’s possible in a highly-regulated environment.”

Assembling the workforce of the future

Wholesale banking is a traditional business, but thanks to the emergence of new technology, challenges from disruptors, plus a cultural change being driven by younger staff, a transformation is taking place. One banker noted, "We recently purchased a crowd-funding platform for renewable energy projects – this wouldn't have happened five or ten years ago." This transformation is especially important as banks try to pivot from a focus on high-volume transactional work to higher-touch advisory services.

> "Senior staff members are learning from juniors in think-tank type situations and on a daily basis they can observe juniors using tech differently."

THE TEACHER BECOMES THE STUDENT

Still, challenges relating to leadership training and strategic workforce transformation remain. One banker described being promoted into management as like "Cristiano Ronaldo becoming a manager, after being trained as a footballer." Another agreed, "Leaders are not trained; they are thrown in at the deep end to sink or swim." A third noted, "Working in banking is not necessarily great leadership training, so we have set up our own internal leadership university for managers and we run 360 degree feedback for all MDs."

Another shared, "We organise reverse coaching where senior staff seek out junior staff who have a particular skill set and can learn from them."

NO THINKING TIME

While most of the bankers we interviewed agreed that devoting time to workforce strategy is important, many told us they are stretched too thin to think about their future workforce and the skills they'll need to cultivate.

One observed, "I do not have enough time to think strategically as I'm fully occupied with developing the business." Another concurred, "Finding time to think about things strategically is a real challenge with all of the regulation that has been thrown onto senior relationship managers."

One banker likened this challenge to "trying to change the tyre on a moving car." Another explained, "To transform properly, we need to be willing to fail, while at the same time not letting clients down, but we need more time and space to think this through and work on it."

The industry ahead

Despite a lack of time to devote to the issue, many of the bankers we spoke to have given some thought to how they would assemble the wholesale banking workforce of the future and they are optimistic about where their industry is going.

The bankers we interviewed agreed that the wholesale banking workforce of the future will be much more diverse in terms of skills, location and employment relationship. Automation and globalisation are prompting some banks to outsource and automate non-core functions while competition from within and outside the sector is encouraging them to articulate their value proposition more clearly.

DIVERSIFY IN ALL DIRECTIONS

In response to these forces, banks are expanding their view of the ideal employee.

The typical wholesale banker comes from business school, but banks are starting to see the benefits of recruiting more broadly. One banker explained, "Our energy business needs fewer bankers and more people that really understand the sector, and have spent time in the industry. Overall, we need more data analysts in the organisation."

Another added, "I feel we need more engineers. They are better at solving problems and more able to make assumptions without getting bogged down trying to over-analyse things." Yet another agreed, "The old preoccupation with finance qualifications is falling away a bit, and we are recruiting across a much wider range of professional backgrounds."

Outsourcing some back office functions to other markets is also becoming the norm. One banker told us, "We partner and outsource internationally and locally to reduce costs and make up for skills we are lacking."

Wholesale banking organisational structures will also evolve in other ways. One senior leader explained, "In addition to permanent employees and contractors, the workforce of the future will likely include freelancers who work with multiple banks and non-banks to generate innovative solutions."

> "We try to hire for a diverse mix of skills beyond the traditional accountants and commerce graduates. Employing engineers, medical doctors, actuaries and data scientists creates a better working environment."

BANKING ON TRUST

The bankers we spoke to agreed that wholesale banking services, in the main, will continue to be needed. "The world is fuelled by capital and capital always needs refinancing," one noted. "Taking on risk and being able to transfer this risk is where wholesale banking will continue to add value," another agreed.

Of course, maintaining client trust to perform these services will require some level of staff continuity. To that end, banks are trying to "keep hold of seasoned coverage bankers who can focus entirely on spending time with clients, positioning them as Vice Chairmen or Senior Advisors if need be, so we can make space for the next generation while retaining valued client relationships." Thus, even as markets, client expectations and technology continue to evolve at a rapid pace, the bankers we interviewed pointed to good old-fashioned trust as their most valuable asset.

"The FinTechs are coming for us, but for now at least, they don't have the same level of client trust, which we have earned," one banker remarked. "Trust is still going to remain crucial," another noted.

Many agreed with this conclusion: "The future is bright for the wholesale banking sector as the fundamentals remain strong and are hard to replace in the short to medium term."

> "Even if a tech business sets itself up as a bank, corporates aren't going to rush to give them their money to look after."

In conclusion

To keep disruptors at bay and clients happy in the longer term, wholesale banks will need to continue to invest in new technology, find ways to keep millennial talent engaged, and equip senior leaders with the skills and time to strategically assemble the workforce of the future.

ANY QUESTIONS? NEED TO KNOW MORE?

We'd like to hear your feedback on this White Paper, so please don't hesitate to get in touch and we'll be happy to help with your questions, challenges or comments.

ABOUT ODGERS BERNDTSON

For over 50 years, Odgers Berndtson has helped some of the world's biggest and best organisations find the senior talent to drive their agendas.

We deliver executive search, assessment and development to businesses and organisations varying in size, structure and maturity. We do that across over 50 sectors, whether commercial, public or not-for-profit, and we draw on the experience of more than 250 Partners and their teams in 29 countries.

Our strength lies in the partnerships we develop to address our clients' needs. We form strong relationships with the most talented people, with those seeking them, and between our own teams globally, to bring both sides together. It is because of our deep, non-transactional and lasting partnerships, that our clients can acquire, develop and retain their strongest leaders.

About the authors

Nick Miller
London, UK
nick.miller@odgersberndtson.com

Marco Nijenmanting
Amsterdam, Netherlands
marco.nijenmanting@odgersberndtson.com

Robert 'Bob' Kobayashi
New York, USA
bob.kobayashi@odgersberndtson.com

Nick Burnham
Singapore
nick.burnham@odgersberndtson.com

Jamie Williams
Johannesburg, South Africa
jamie.williams@odgersberndtson.co.za

Damian Ringwood
Dublin, Ireland
damian.ringwood@odgersberndtson.com

About the Practice

Odgers Berndtson's Global Banking Practice works with Corporate and Investment Banks around the world. Our deep industry and sector knowledge means we understand our clients' strategic imperatives and how these impact on the senior leadership talent they need to attract and retain.

We forge deep relationships with our clients to ensure we understand their specific business goals and cultural dynamics, maximising our ability to identify and engage the best industry or cross-industry talent. Strong relationships with other Odgers Berndtson Partners in United Kingdom, Europe, Asia Pacific, North America, Middle East and South Africa delivers a seamless regional and global execution of searches, assessments and appointments.

ODGERS BERNDTSON