June 2018

Tech Convergence in the Financial Services Industry: Your Questions Answered

The convergence of financial services and technology has caused firms to put the transformation of their workforce at the center of their strategy. Companies are focused on exploring new ways of working, redesigning their organizational structures, evaluating their entire employee value proposition to improve engagement, and making strategic investments in new skills and technology to support this transformation. In order to compete with tech firms and with the growing popularity of the Silicon Valley approach to attracting and retaining key employees, financial firms must acknowledge that the broader ecosystem of rewarding digital talent is changing and transform their value proposition with it.

To address trending topics and challenges related to tech convergence, McLagan and Radford are joining forces to bring financial services clients the information they need to compete for top tech talent. We recently hosted a joint webinar, *McLagan and Radford: How Financial Services Firms are Responding to a Changing Industry Landscape,* to discuss the relevant trends in HR for technology companies. During this session, we discussed how the tech industry rewards their talent and hot jobs in the market.

Unsurprisingly, our conversation sparked many inquiries, ranging from finding the right talent for a changing industry landscape to best practices for continuous listening, pay strategies for specific roles, and how to quantify the value of employee wellness programs. We've provided insights and answers to some of the questions that are on the top of our clients' minds below.

How are financial services firms remodeling and transforming to the tech industry landscape?

While native tech firms build from scratch with the latest and greatest, most financial services firms are newcomers to the tech industry and generally have to remodel and transform their existing technology and talent structures to respond to the emerging digital landscape. In order to successfully construct a technological foundation that enables their products, newcomers must carefully balance cost with efficiency and savings. It's important to first nail down what your firm's priorities in technology are. Once this is established, firms should focus on remodeling and transforming their own talent. Newcomers are realizing that experience in their architecture matters and that giving their own employees the chance to develop and grow their capabilities and careers improves both engagement and retention. A recommended approach is to hire one or two tech-enabled people to lead the charge, then scale up your talent internally.

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As employee health and wellbeing continues to gain prominence in the industry, how are companies quantifying the value of wellness initiatives?

According to Aon’s 2017 Health Survey, only 15% of companies measure the return on investment of their health and wellbeing programs. However, encouragingly, 58% intend to do so in the future. And according to Aon’s 2018 Benefits and Trends Survey, two thirds of organizations in the financial sector do not currently have a budget for wellbeing. Data is powerful to help provide focus to wellbeing programs and develop a business case for further investment. What is best to measure depends on the objectives of the wellbeing program, but changes in sickness absence rates tends to be a primary focus for many organizations. Firms also measure changes to health-related claims such as private medical insurance and benefit utilization such as employee assistance programs. Our research indicates that employee engagement and retention are top objectives for organizations; therefore, the concept of *value of investment* as opposed to *return on investment* is gaining prominence. Looking at the value of investment recognizes that the impact of wellbeing programs is greater than the cost of health insurance. It is also a powerful tool to improve employee engagement, delivering increased employee satisfaction, commitment, and productivity, which ultimately delivers on the bottom line.

What are some of the challenges UK financial services firms are facing in finding the talent and skills they need?

With the huge emphasis on technology in the UK, banks are setting themselves up alongside small startup companies to take on innovative ideas, acquire firms, and increase integration into digital environments and initiatives. In doing so, traditional financial services firms will more seamlessly attract the tech-enabled talent that they need to adapt to rapidly shifting industry demands, both internally and externally. However, post Brexit, it remains to be seen how much of a challenge it will be to retain this talent.

Will financial services firms invest more in line manager training to ensure that they are having the right conversations with their employees?

Based on what we have seen from most companies, there is a need to invest additional resources, both money and time, in training line managers to improve the quality of their feedback and coaching. Companies are starting to include this as part of their initial management training and screening for manager candidates to ensure that managers are able and capable of providing meaningful feedback and coaching from the start. In some cases, financial services firms are even tying manager performance and development goals to the topic.

What are companies using to facilitate continuous listening to support employee engagement?

Continuous listening does not just measure engagement—it collects feedback about specific experiences and incidents, providing leaders with an idea of how to manage employees throughout the entire lifecycle. Various kinds of feedback are gathered at much more frequent intervals than with the old annual employee survey. Listed below are the tactics that comprise the concept of continuous listening and how it relies on greater frequency and a richer set of questions over time.

Pre-Employment: As an organization screens candidates for open positions, asking questions periodically about past experience to determine whether its screening, assessment, application, and interview techniques are effective is essential. Candidates who end up declining a job offer can be quickly surveyed to find out what may have been the deciding factor.

Employment: Providing an entrance survey a week into employment can measure onboarding effectiveness and understanding of the employee value proposition, which impacts engagement. Surveying at this time can highlight what the organization is doing well or where it needs improvement. A month into employment, the new employee might be asked to assess how effectively they are being trained. Three to six months later, it may be time to include new employees in regular employee engagement surveys, as well as reassessing onboarding and value proposition effectiveness. After six months, the focus then shifts more toward employee engagement and the employee experience.

Exit: Even when highly engaged, there will still be employees who leave your organization and surveying them about the reason for leaving is important. A post-employment survey may be useful in some cases, such as a loss that was regrettable, but unavoidable, because of a spouse moving.

By applying targeted questions tied to various points in the employee lifecycle, you can get a much more accurate reading of how effective your processes are, how employees really feel about working at your organization, and what your next steps should be.

How are financial services firms finding the best candidates for adapting to artificial intelligence and automation?

Firms are trying to be creative. Some quant-focused companies have launched online challenges in order to find the best talent. Winners of the challenge are awarded an internship and potentially a full time offer. Other firms have established relationships with PhD programs at universities to recruit the skills that they need to properly adapt to emerging digitization and automation.

What pay premiums are you seeing for agile roles, such as scrum master?

It depends on the geography and the talent source. By now, most technology companies have fully integrated agile methodology into their workforce and have employees that are fluent. Hence, readiness to be a scrum master may indicate that an employee is prepared to move to a larger role, but it will be paid comparably. By contrast, agile experience is less common in financial services and corporate IT industries, and thus, incumbents with experience, capability, and training to be a scrum master may carry a higher price tag than an untrained peer of a similar level.

That being said, when shopping for hot skills, companies should keep in mind the degree to which this skill will be integrated into their structure. If you are moving to an agile methodology across the board, then it makes sense to invest in employees that have both the capability to perform and teach others the methodology, even if they are more expensive up front. The mistake we often see companies making is spending top dollar for hands-on talent, when it would actually make more sense from a human capital investment standpoint to focus on a few senior roles that can lead and put more resources into training the current workforce.

What differentiates firm strategies for rewards that are distributed more than once per year?

Many companies conduct performance reviews twice per year, including an annual review and a mid-year review. Very few give a salary increase at both of those reviews. The majority of companies do their merit reviews on a focal point schedule, with one annual increase to salaries.

73% of tech companies pay out bonuses once a year after annual results are finalized and company and individual performance have been determined. Only 53% of companies like Google, Facebook, and Amazon follow this annual cadence. In fact, the remaining 47% pay quarterly bonuses, semi-annual payouts, or other payouts for milestone achievements. At high growth companies many will say that their bonus plans are designed to be employee-friendly, putting more cash into employees' hands sooner. Companies with milestone bonus plans are usually more focused on R&D or new product introduction, which doesn't always fit a one-year timeline. Sometimes, they will have an annual plan for corporate positions and milestone plans for R&D roles.

How do financial services firms address feedback from tech candidates who are accustomed to higher base salary?

Some firms will honor the higher base salary in the first year of employment and then fold hires into their normal payment structure in the following year. This affords new hires the time to adjust and get their finances in order. Other financial services firms will simply "throw more money at the problem," while privately held firms tend to broaden their phantom equity programs to include high potential and senior technology professionals in that category.

How do you advise planning compensation for "hot jobs," especially when market data is not robust?

We suggest companies first consider the situation from a workforce planning standpoint:

- What is the goal for the hot job?
- Is it something that will remain unique and different within the company's architecture or is it going to be fully integrated, with all talent expected to have some fluency in it?
- What is the employee level that we need? Do we need just hands that can do it or do we need leaders that can teach others?
- If we hire people into this hot job, what is their career path? What is their opportunity for upward growth?
- Do we need to hire people or is this something we could outsource or leverage a third party to perform for us?

If the answer ultimately is to hire, we typically see tech companies using a mosaic approach. This method involves evaluating the totality of the person's experience and skills, determining how they will translate into business value, and then calibrating that relative to the value of existing talent. This helps to ensure that a hot skill is kept in perspective. Is the value of someone who happens to know a certain language, but has no idea how your structure works *really* equivalent in value to someone who may not be completely familiar with the language, but knows your firm's architecture? Asking these types of questions early in the development of your talent transformation strategy will help ensure that you are making decisions based on careful consideration and a holistic view – which will help improve your likelihood of success in your transition to the digital world.

To learn more about tech convergence and how McLagan and Radford have partnered to bring you and your HR and reward peers even more in-depth and actionable insights in the face of digitization, please contact our team.

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About McLagan

McLagan provides tailored talent, rewards, and performance expertise to financial services firms across the globe. Since 1966, we have partnered with the largest and smallest financial services firms to help them make data-driven decisions to hire, retain, and engage the top talent for keeping the global economy running. Our compensation surveys are the most comprehensive, in-depth source of rewards data covering over 150 countries from more than 2,500 clients. Our consultants work with hundreds of firms annually to design total rewards programs and benchmark financial performance for boards of directors, executives, employees, and sales professionals. McLagan is a part of Aon plc (NYSE: AON). For more information, please visit mclagan.aon.com.

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