

# Human Capital Strategies in Financial Services: Time to Look Beyond Compensation?

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*Explore key findings and critical new age insights from our recently conducted Talent Pulse Study—a broad overview of talent management practices at financial services firms across India.*

Never really blessed with calm waters, the financial services industry continues to find itself at the forefront of crisis, challenges, and scrutiny (yet again). Widely in the news for wrong reasons, it also continues to see great disruption in terms of regulation and technology, as well as talent. With increased consolidation amongst a spate of mergers and acquisitions, non-financial services firms applying for licenses (and continuing to reel in the aftermath of the liquidity crisis), RBI pay regulations, constantly evolving roles, etc., the attention on how talent is being shaped has never been more prominent. While compensation and rewards has always been, and will continue to be, in prime focus, recent trends have led many firms to revisit ideas around talent and productivity. That said, we believe that it is an opportune time to take stock of such changes happening across the industry, which are likely to impact the human capital strategies that are necessary for steadying the ship.

Earlier this year, Aon concluded a Talent Pulse Study, which broadly focused on talent management practices at financial services firms in India. The survey included questions on firms' human capital strategies, selection, performance management, engagement, development, and HR function effectiveness. More than 40 financial services organizations in India took part in the survey, with representation from banking, insurance, NBFC, and asset management.

Our findings reveal a few critical and new age insights, which we explore below.

## Customer experience to employee experience

Today, the key priority for CHROs across the industry (38%) is to marry digital transformation and employee experience, while also embedding technology in HR to support talent management processes. The intent is to design and optimize technology so that employees have the best possible tools available. Improving the entire employee experience with technology has become imperative for organizations to keep up with digitization across all spheres and remain relevant for a generation of digital natives who are used to having everything at their fingertips. Therefore, the fundamental question being asked by firms is how to make HR access and usage as effective and savvy as customer experience.

## Acing the analytics enigma

While HR departments have bought and integrated new systems to improve their ability to run analytics and collect metrics, few have the actual people capacity or capability to get this work done. In fact, 70% of organizations still use static employment, turnover data, and metrics and only 30% use any form of analytics. Out of this, 18% use descriptive analytics, which focuses on what is happening currently (typically a dashboard and / or email reports). This means that only 13% of the organizations use predictive or prescriptive analytics. With firms investing more and more in analytics, HR will need to upskill itself to remain relevant.

## Laws of attraction, retention, and a proposition

Attracting quality talent remains one of the major recruitment challenges and priorities. Hence, organizations are moving towards a well-articulated employee value proposition (EVP) to acquire talent and ensure uniform messaging across the business to potential employees, as well as a uniform experience to existing employees. More and more, organizations are moving towards a formal employee value proposition (63% have some form of an EVP) to aid in attracting talent, but a significant portion (37%) still do not have an EVP in any form. However, with the increased use of employee referrals, candidate discussions around a company's EVP should also increase. Hence, more needs to be done to make employees aware of the EVP in the first place and more importantly, what communication and material talent acquisition teams offer to help them answer these questions and espouse the EVP correctly. In knowing this, firms will need to alter the messaging and communication of their employee value propositions appropriately.

At the other end of the talent acquisition spectrum, in terms of measuring effectiveness of hiring techniques, infant attrition (89%) and time to fill (78%) are still the most prevalent metrics. However, more organizations are increasingly focused on the quality of hire metrics, like manager feedback and competency assessments. Only 33% of organizations take candidate feedback on the recruitment process. While firms want to expand in this area, they are unable to design robust, sustainable processes around this, presenting a critical opportunity.

## Performance enablement

Are firms removing ratings? With media headlines intermittently blaring that performance management is dead (or dying slowly), this is one question that we hear in every client meeting. But, the reality is a little different. Very few financial services firms have eliminated ratings or are planning to do so. 83% of organizations surveyed still assign employees a performance rating, label, or descriptor, and only 10% are planning to explore the removal of ratings in the future. Does this mean nothing has changed? No. In fact, a lot has changed. Firms are revamping their process from an annual, one-way exercise to focus more on enabling employee performance and a holistic, all-year-round activity. The trend towards informal, continuous check-ins is gaining speed, with 60% of companies encouraging managers to conduct quick meetings and / or periodic discussions multiple times per year. However, this comes with its own set of challenges.

70% of organizations mentioned manager feedback and coaching as the most challenging aspect of their company's performance management process. With a diversified workforce and the average age of managerial

responsibility reducing, millennials are taking on more people management responsibilities. Unfortunately, there is often a lack of tools and resources for these managers to develop their teams. While firms are encouraging managers to conduct periodic discussions, only 40% offer sufficient training and resources to managers on providing feedback and coaching. No matter how well designed the performance process may be, the experience primarily relies upon an employee's immediate manager and not enough is being done to prepare managers for these conversations.

## How prepared is your workforce for the future?

Only about half the firms surveyed conducted a formal succession planning process, typically annually, focusing mostly on senior management (60%), executive leadership (87%), and identified critical roles (53%). Advanced succession plans include a pool of successors with different capabilities based on possible future scenarios. 52% of organizations have a defined leadership competency model against which all development activities are mapped and executed. 83% of firms define thinking strategically and driving change as the most important leadership skills to develop through platforms like signature development programs and special projects. However, it's useful to note that the leadership journey is not restricted to such programs and typically involves a combination of education, exposure, experience, manager involvement, and evaluation.

## A new order on the horizon?

Financial services firms have always been far ahead of the curve when it comes to practices around engaging and managing human capital. As the sector grapples with challenges and rough weather, it becomes even more imperative to reinvent the way talent is managed and shaped. While it is widely believed that areas like performance management, succession planning, talent acquisition and retention, and HR analytics are on top of everyone's mind, this study proves that a lot still needs to be done to achieve optimal outcomes. Acknowledging the gaps that may exist is the first step—but having an intent and strategy in place to cement the gap is equally critical. The skies are not always going to be blue for the sector as things stand. However, the players that take notice and action to change the way they manage their people will be the long-lasting winners in the years to come.

Interested in learning more? Please [contact our team](#) to get more information on the detailed report, or reach out with any additional questions.

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## About McLagan

McLagan provides tailored human capital 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](http://mclagan.aon.com).

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