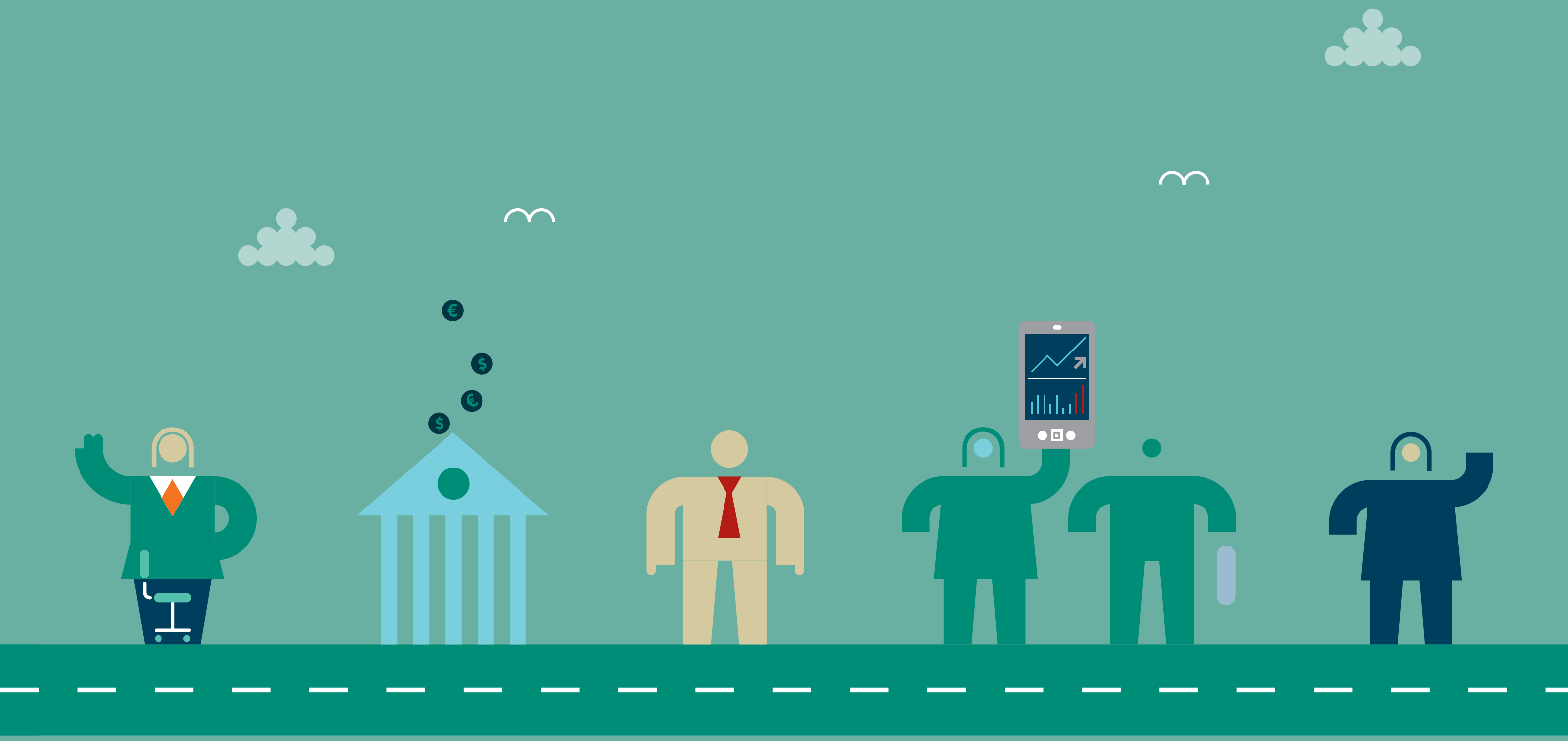
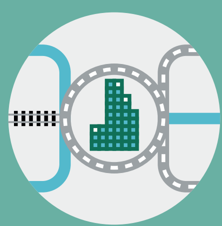
**The Future of Work**

Banking and financial services in focus





This future of work report focuses on emerging working trends in the financial services sector. It is based on interviews with HR directors and senior business leaders at four financial services businesses – Hargreaves Lansdown, Nationwide Building Society, VocaLink and an international investment bank that wished to remain anonymous – as well as The Curve Group (an HR consultancy and RPO company) and Osborne Clarke's experts.

This report explores the following key themes:

- how financial services businesses are embracing contingent workers;
- the extent to which they are investing in automation technology and how this impacts workforces;
- how tightening immigration controls is impacting companies' ability to recruit; and
- how working practices are changing to accommodate the next generation of workers.

## Contingent workers are a must for leading transformational initiatives

A theme that came through in our interviews was that banks and financial services companies are ramping up their use of contingent workers. That said, the types of roles for which contingent workers are used in financial services companies and the reasons why they are being used are somewhat different from other industries.

For instance, many financial services businesses are investing heavily in initiatives relating to digital transformation and artificial intelligence, as well as programmes to ensure compliance with GDPR and specific banking regulations. These initiatives require project-management specialists with domain expertise.

One example is Nationwide. "Many projects are temporary and don't require us to build permanent core capability," explained Maria Rancel Lopez, Head of Procurement at Nationwide Building Society. "So we often require contingent workers for these projects and to manage major projects such as governance processes."

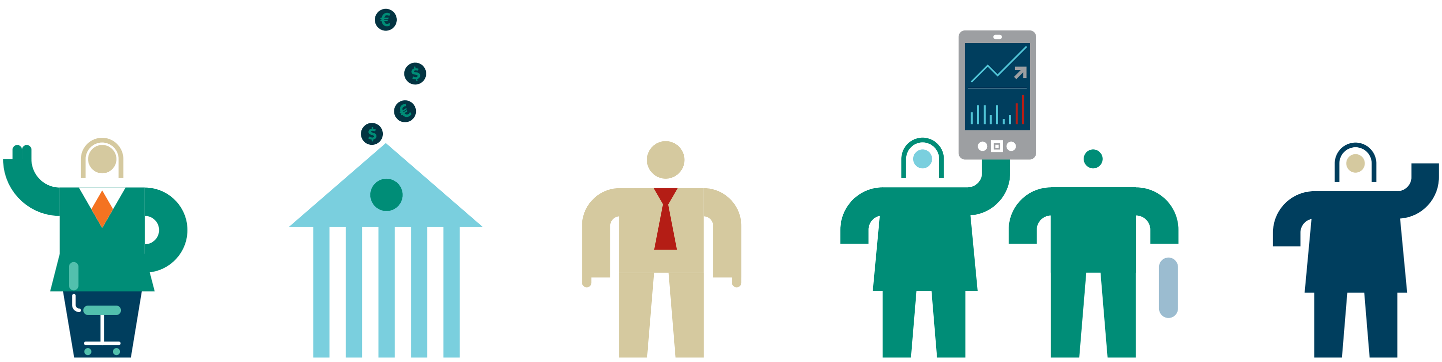
Many financial services companies might want to employ these individuals on a permanent basis, but this is often impossible to do. Most specialists are in such demand that they can make more money moving from project to project at different companies.

"We use contingent workers as IT consultants and developers because you just cannot get them on a permanent basis at all," confirmed the head of HR at a leading international investment bank. "They operate via limited companies and even if they do more than one project at an institution, they won't stay for more than two years as they don't want to fall foul of tax regulation."

Osborne Clarke tax Partner Tracey Wright explains: "Despite the recent crackdown on false self-employment, a high proportion of better-paid contingent workers continue to operate via their own limited companies (usually known as 'personal service companies' or 'PSCs') in the UK because it can still be a financially attractive model. Commentators believe that 2017 changes to the IR35 rules affecting use by the UK public sector of PSCs may be extended to the private sector in the next two years. Such rules place a requirement on the end user to provide a view on the status of the PSC worker and also place a PAYE burden on the person who pays the PSC where the worker status is as a deemed employee. The introduction of such rules in the private sector would increase the risk and cost of using contingent workers via PSC models (even for short assignments), bringing the UK more in line with countries like the USA and Germany where end users already have tax and social security risk where they misclassify contingent workers as self-employed."

"Companies in highly regulated sectors such as financial services are facing pressure from regulators that they don't want customer interaction, advice and sales being governed by someone who isn't an employee."

**Lyndsey Simpson**
CEO, The Curve Group



## The influence of regulation

While the use of contingent workers is rising in the banking and finance sector, it is unlikely that growth of their use will be as significant as in other industries, as some European regulators seek to impose restrictions.

"Companies in highly regulated sectors such as financial services are facing pressure from regulators that they don't want customer interaction, advice and sales being governed by someone who isn't an employee," explains Lyndsey Simpson, CEO at The Curve Group. "For example, in the UK the Financial Conduct Authority (FCA) doesn't want financial services companies to use contingent workers to decide whether someone can be lent money. They need to be trained, supervised and governed."

But this isn't true of all countries. For instance, BaFin in Germany does not impose the same level of restriction. "BaFin are happy for financial institutions to use temporary/agency workers providing the individual is qualified to do the role and all steps are taken to avoid disturbances when they leave," explains Timo Karsten, employment Partner at Osborne Clarke. "Clearly, financial institutions still need to ensure contingent workers act responsibly and need to take steps to ensure that the customer experience is not affected by the use of such workers to avoid reputational damage."

Regulatory pressures aside, other factors are affecting the way financial services companies are looking at the balance between traditional and contingent workers. This might be because they want to minimise the potential for security breaches or key IP leaving the business, or just because they want to ensure they have a loyal, committed workforce.

"The security of our client data and assets are of paramount importance to us and more generally success comes from a loyal permanent workforce."

**Teresa Harding**
Head of HR Operations, Hargreaves Lansdown

"In the last year our contingent workers have increased to 7%," explains Teresa Harding, Head of HR Operations at Hargreaves Lansdown. "They predominantly come to work in technology roles. We see a continuation of contingent workers in the workplace in the future supporting our core permanent colleague base. The security of our client data and assets are of paramount importance to us and more generally success comes from a loyal permanent workforce."

## Automating back-office processes is the priority

Much has been written in recent years about the impact of disruptive technologies on front-office human jobs, such as algorithmic trading's disruption of traditional human stock traders. While banks and other players are definitely investing in this, our interviews reveal that some financial services businesses are more focused on investing in automating back-office processes. Opinion is divided as to whether this will eventually result in fewer humans being employed. For some companies interviewed, the primary objective of automation is not to reduce the need for human roles but rather to free up human workers to undertake higher-value tasks.

"The impact won't be that people lose their jobs, but they will need to retrain to serve more customers using the technology."

**Debbie Lombard**
Chief HR Officer, VocaLink

Debbie Lombard, Chief HR Officer at VocaLink, provides an example. "We are currently running a program called SEED, which is short for speed, efficiency, effectiveness and discipline," she says. "Its objective is to modernise the working environment so that we can deliver quality at greater scale and speed than ever before. From a technology perspective, for example, servers and computer environments that were traditionally built manually will be automated. The impact won't be that people lose their jobs, but they will need to retrain to serve more customers using the technology."

Nationwide is also exploring investing in automating a number of processes, but like VocaLink the primary objective of this is not to replace human roles but to complement them. "All forward looking organisations need to be aware of and open to the opportunities presented by artificial intelligence, in order not to be left behind," says Rancel Lopez at Nationwide Building Society. "It will have implications on how workforces, across multiple sectors, will look in the future. It's not just about adopting shiny, new technology though, it's vital to understand how it can complement current resourcing models. For Nationwide, we have always prided ourselves on being digital innovators and combining these new technologies with a human touch."

So how do businesses flex their resourcing models to support technology when it is constantly evolving? "It's important that businesses focus suitable time, effort and resources now on what their resourcing plans will look like in the future. Doing this will ensure they are not only fit for purpose but are agile enough to respond to the changes and opportunities which artificial intelligence may provide," explains Maria.

The changing role of human staff and the movement of people up the value chain, which has been a feature of interviews with companies in other sectors as well, will be reassuring to policymakers concerned about the impact of automation on jobs. It may be impossible to protect certain jobs in financial services against automation. The key may be for businesses to retrain (thereby fixing talent shortages in other areas).

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**Maria Rancel Lopez**
Head of Procurement, Nationwide Building Society

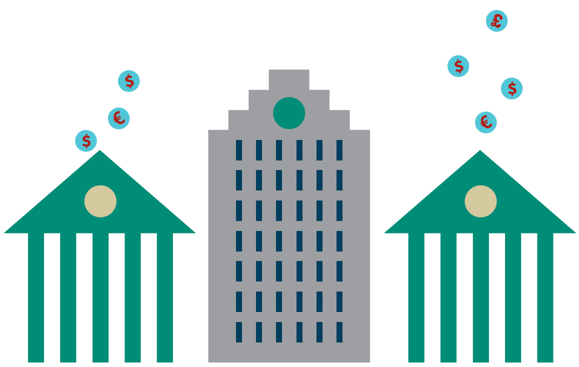
## Technology that is disrupting entire business models

However, not all investments in automation are designed to enable humans to work more effectively on higher-value tasks. Some innovations in automation are so disruptive that they might not only replace humans but entire business models. In this sector, the most obvious example is that of analysts and traders.

"Our developers are working on high frequency trading, especially algorithms that enable us to compete with the big boys, but it will mean some people lose their jobs and it may kill us off completely."

**The head of HR at an international investment bank**

"The greatest innovations I've seen in this industry are direct market access, where people purchase stock directly rather than going through us," explains the head of HR at an international investment bank. "People can literally log onto an app and do everything for a fraction of the price. This is causing our industry lots of problems because these customers won't buy any research or anything else like that, so income across the industry is dropping massively. Then there is high frequency trading. Our developers are working on this, especially algorithms that enable us to compete with the big boys, but it will mean some people lose their jobs and it may kill us off completely."



"Companies operating in the financial services industry are increasingly exploring ways to apply blockchain to their businesses," says Johannes de Jong, Head of Financial Services in Osborne Clarke's Amsterdam office. "This technology may provide an automatic, secure and transparent alternative for some back-office departments (e.g. administration) due to a high level of security."

**Johannes de Jong**
Head of Financial Services in The Netherlands, Osborne Clarke

And that isn't the only technology that will shake things up. "Companies operating in the financial services industry are increasingly exploring ways to apply blockchain to their businesses," says Johannes de Jong, Head of Financial Services in Osborne Clarke's Amsterdam office. "This technology may provide an automatic, secure and transparent alternative for some back-office departments (e.g. administration) due to a high level of security. Blockchain may, however, give rise to legal challenges that have to be addressed prior to application. These legal challenges include data protection, the role of smart contracts, intellectual property and liability."

## Brexit challenges – and opportunities – for the movement of people

The financial services sector depends on a skilled and mobile international workforce. UK-based businesses and those with operations in the UK are considering what impact Brexit might have on their staffing needs. Gavin Jones, Head of Immigration at Osborne Clarke, explains: "Immigration rules are unlikely to prevent financial services businesses in the UK from recruiting or retaining skilled workers from the EU. However, the immigration process, when EU free movement rules no longer apply, may seem to be off-putting for individuals and businesses."

The consensus among those interviewed for this report was that the pool of available talent may become smaller, and employing the right people may, therefore, become more difficult and costly. Overcoming the recruitment challenges will require careful planning and creative thinking.

"Our UK financial services clients are asking for advice from our European offices about relocating workers for Brexit, but where local workers have the right skills, improved automation can provide the opportunity to move those workers from their current roles up the value chain."

**Greg Chambers**
Associate Director, Osborne Clarke

Of course, the challenges in recruiting the right people are not just limited to the UK and Brexit. They are also driven by the extent to which the local population is educated and trained to the level needed by employers. Greg Chambers, an associate director in Osborne Clarke's employment team, explains: "Our UK financial services clients are asking for advice from our European offices about relocating workers for Brexit, but where local workers have the right skills, improved automation can provide the opportunity to move those workers from their current roles up the value chain."

Where there is a skills shortage, though, businesses may need to find more creative solutions. For example, some of the businesses that we interviewed for this report told us that they are finding it increasingly difficult to recruit the IT personnel they need and are, therefore, establishing IT development hubs in other locations.

"We started to experience IT developer skill shortages in the UK," explained Harding. "This is a driver for us to open a technology development hub, HL Tech, in Poland in 2017. Warsaw is a great location for us, particularly with the availability of local IT talent and graduates from local universities."

## Helping the next generation of workers succeed

The banks and financial services businesses that participated in this research also reported that they are grappling with how best to meet the different work requirements and aspirations of millennials. The general consensus is that the younger generation of workers desire greater flexibility in where, when and how they work and also have aspirations to progress rapidly within organisations. Most businesses were, however, mindful that millennials are not a homogeneous group.

"It's dangerous to say that all millennials are the same, but we do see that they generally want a better work life balance and demand it."

**Teresa Harding**
Head of HR Operations, Hargreaves Lansdown

"It's dangerous to say that all millennials are the same, but we do see that they generally want a better work life balance and demand it," explains Harding at Hargreaves Lansdown.

While it's important to adapt working practices to the desires of the next generation of workers, participants in this research also frequently mentioned that they need to meet the requirements of many different groups of workers.

Millennials are not the only group of workers that require flexibility. Individuals who for a number of reasons have taken time out of work might need some flexibility as they re-enter the workforce.

"At Hargreaves Lansdown, we are keen to encourage opportunities for more flexibility in how people work and are actively encouraging more part time colleagues into the company," continues Harding. "There are a lot of women who have had professional careers prior to having children but who have found it difficult to get back into positions when there has been a big gap in their CV. We are also expanding evening part-time working into our operations which attracts a range of talent from the local community."

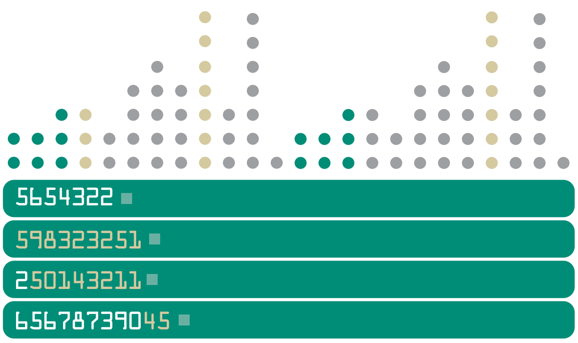
For Ray Berg, UK Managing Partner of Osborne Clarke, maximising the use of untapped talent is an important factor to future-proof businesses: "Diversity and well-being are good for people, good for organisations and good for business. The key to this is ingraining diversity and well-being into the fabric of an organisation to attract and retain top talent."

## Moving to an agile working environment

Our series of interviews reveals that businesses in the financial services sector are exploring a number of different initiatives to promote flexible and agile working. Many now allow or encourage staff to work from home at certain times. Others have changed the layout of their offices to facilitate collaborative working.

"There has definitely been a shift in working practices in the last three years and we have created an environment that enables people to work in a more collaborative and engaging way."

**Debbie Lombard**
Chief HR Officer, VocaLink

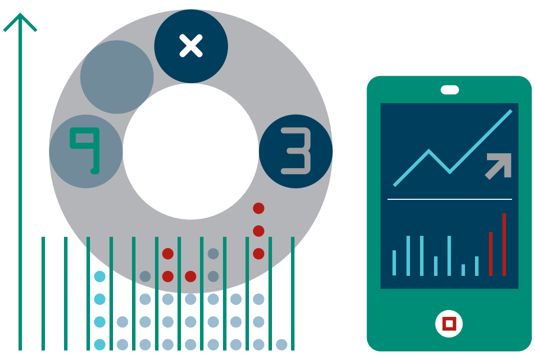


"There has definitely been a shift in working practices in the last three years and we have created an environment that enables people to work in a more collaborative and engaging way," explains Debbie Lombard at VocaLink. "At the same time advancements in technology have enabled people to work remotely anywhere at any time. We are very supportive of remote working. We all work in open plan environments and we encourage people to work from home at least one day a week. It's important to have thinking time. That enables you to catch up and get stuff done, because in an open plan office environment that can sometimes be quite hard."

Of course, there are risks associated with remote working that need to be carefully managed. For a start, employees may be more vulnerable to cyber-attack if they are working on computers at home that might not necessarily have the most up-to-date security software. In parallel, it is more likely that important physical documents may be lost if they are frequently transferred from the office to a home environment and back again. But these challenges can be overcome if companies invest in providing their employees with the secure equipment they need to work at home. Training is also important in reminding staff how to transfer documents in the most secure way.

The other important risk is that remote working might prevent employees from working collaboratively. That said, companies in this sector are exploring ways of encouraging collaboration even when employees are geographically dispersed.

"Technology enables you to engage and connect with your colleagues even when working remotely," continues Lombard. "It's also important that team leaders and line managers support this and put mechanisms in place to ensure that everyone is engaged through, for example, regular meetings so people find a way to stay connected. Social media demonstrates you can be connected without physically being there. So I don't have any concerns about the risks of people working remotely."



## Overcoming regulatory hurdles to drive real change in the sector

Banks and financial services businesses are dedicating significant time and resources to future-proofing their workforces and workplaces. The diverse range of business models in this sector means there is no one-size-fits-all approach to doing this. That said, there are some common approaches:

- Many financial services businesses are increasingly using specialist contingent workers to run digital transformation and complex compliance initiatives. Most businesses in this sector are cautious about ramping up their use of contingent workers too quickly, though, due to regulatory restrictions and other concerns about risk.

- Many financial services businesses are also increasing investment in automating internal business processes. In the main, businesses do not expect automation to replace humans. Instead, they expect humans to be freed up to undertake higher-value tasks. That said, some Fintech innovations, such as blockchain, high-frequency trading and robotic traders, may have the potential to completely disrupt the industry and make many jobs obsolete.

- While post-Brexit immigration rules are unlikely to prevent businesses in the UK from recruiting skilled workers from the EU (and vice versa), the process may be more off-putting for individuals and businesses, which will create challenges in recruiting the best talent.

- Businesses are generally supportive of agile working but recognise the need to manage risks (such as cyber-attacks or data leaks) by investing in secure equipment and ongoing training of staff.

- Reflecting on these emerging themes, Hugh Jones, International Head of Financial Services at Osborne Clarke, comments, "It will be interesting to see whether the regulatory obligations of banks and other financial services businesses will have an impact in the future on how far and fast, compared with companies in other sectors, they go towards new ways of working. Clearly regulatory issues are already making some of them look at things a little differently to many other companies."

> "It will be interesting to see whether the regulatory obligations of banks and other financial services businesses will have an impact in the future..."

**Hugh Jones**
International Head of Financial Services, Osborne Clarke

## Acknowledgements

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- Teresa Harding, Head of HR Operations at Hargreaves Lansdown
- Debbie Lombard, Chief HR Officer at VocaLink
- Maria Rancel Lopez, Head of Procurement, Nationwide Building Society
- Lyndsey Simpson, CEO at The Curve Group

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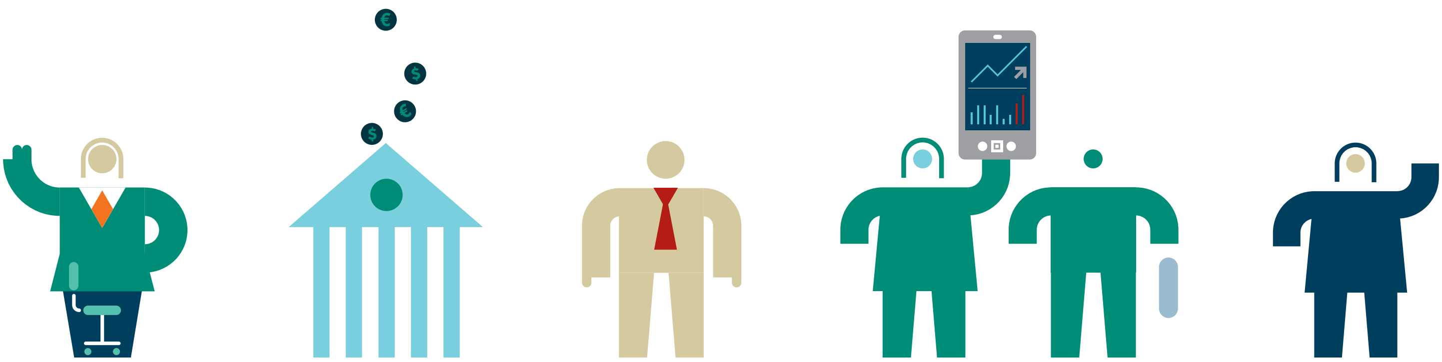

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