acuiti management intelligence

Strategic Workforce Development: Talent and Technology

How sell-side derivatives businesses are responding to the challenges of hiring and retaining employees

In partnership with ION

Table of Contents

Introduction

Over the past 15 years, the ability of the sell-side to attract and retain talent has come under pressure from multiple fronts.

Within finance, the rise of high-frequency trading firms has added to the competition for talent already presented by hedge funds. At the same time, the appeal and ability to pay higher wages in other sectors, most notably technology, has increased.

Meanwhile, post-crisis reforms have reduced profitability and significantly raised the regulatory burden reducing the budget for headcount growth and resulting in various rounds of job cuts. While these trends are not unique to derivatives clearing businesses, the industry has been among the hardest hit by the trends.

The sell-side has responded to these competitive pressures by off-shoring or near-shoring many operational and technology roles. While that has gone some way to addressing cost base pressures, it has not solved the challenges of hiring and retaining staff in home jurisdictions.

Higher interest rates and increased volumes over the past 18 months have changed the economic conditions for sell-side derivatives businesses. As a result, firms are looking to be more aggressive in their hiring.

This growing demand, however, is being frustrated by increased challenges in attracting talent. Smaller workforces that have emerged from more than a decade of lower interest rates and volatility are coming under strain as volumes, demand and revenues rise.

This is exposing firms to operational risk. Not only does the challenge of hiring and attracting talent put additional pressure on existing staff, but levels of expertise are also falling across the industry as people leave the financial sector or retire.

Over the past five years, various volatility events have put derivatives clearing operations under strain. They have also highlighted the importance of the requirement for expertise and experienced executives within clearing businesses.

In order to understand how these trends are impacting firms in sell-side derivatives, ION commissioned Acuiti to conduct a study into how the challenge of employing and retaining talent is evolving and the solutions that sell-side firms are deploying to mitigate the pressures.

For this whitepaper, Acuiti surveyed senior executives in the derivatives business at 78 firms across the sell-side.

This study finds that in sell-side clearing, operations functions have come under the most pressure from the competition for talent. This presents numerous issues today but is also creating future risk as the industry seeks to develop the next generation of talent.

However, the hiring challenges are also creating positive impacts - in particular, with regards to investment in automation and process improvement.

Investment in technology and automation provides a means through which firms can reduce key person risk, while at the same time improve the work/life balance of their staff. It also allows staff to focus on higher value, more creative functions, which boosts job satisfaction and increases retention rates.

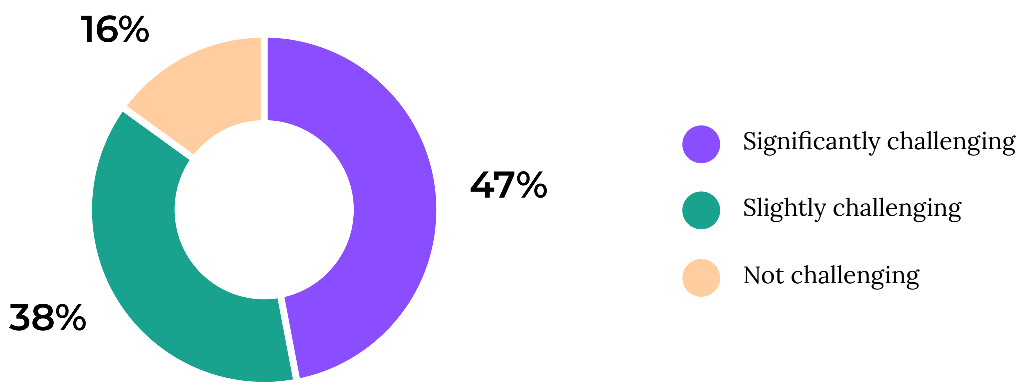
The growing risk within clearing

The growing risk in terms of talent within clearing businesses today comes from two core trends: challenges in hiring and retaining younger talent and increased attrition from experienced executives retiring or moving out of the industry.

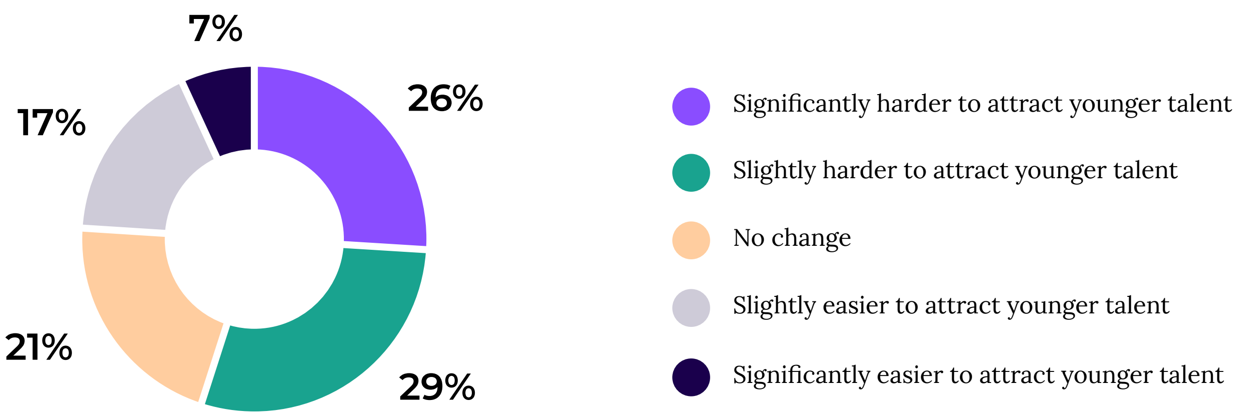
Almost half of respondents to this study said that attracting younger talent to their derivatives business was significantly challenging. Over half said that it had become harder to attract talent over the past five years.

The challenges are felt globally but there are differences across regions. Respondents in Asia were most likely to report challenges in attracting talent with 76% saying it was a significant challenge. In terms of company types, regional banks were the most likely to report difficulties in attracting younger talent.

How much of a challenge is attracting younger talent to your derivatives business?

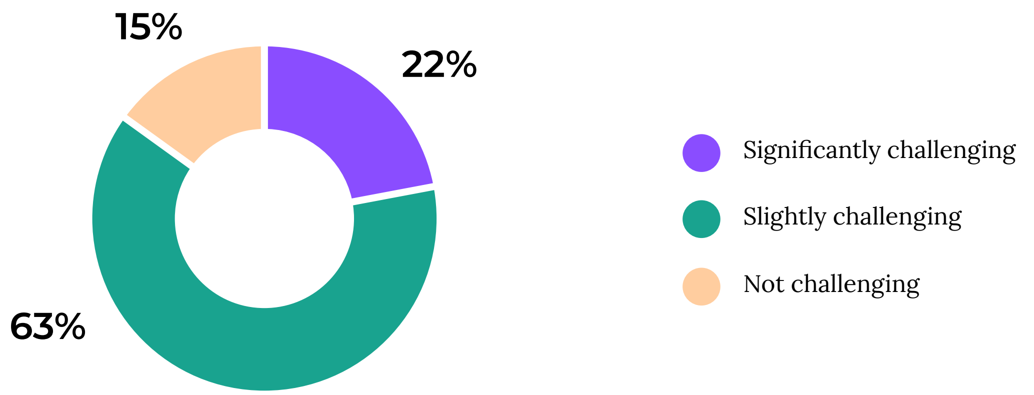


Over the past five years, how has that changed?



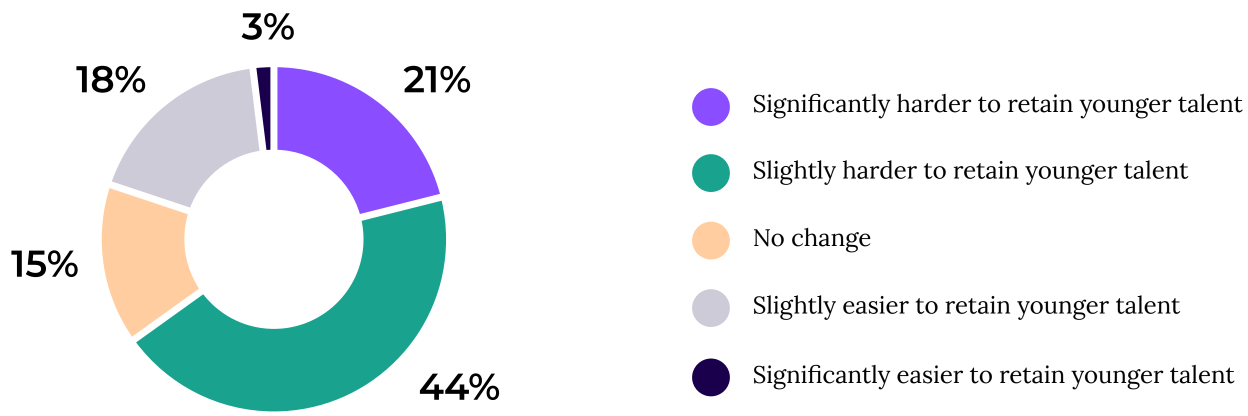
Respondents to the survey said that retaining junior employees once they had been recruited was less of a challenge than hiring them but still presented major difficulties for firms, with 63% saying talent retention was slightly challenging and 22% a significant challenge. Brokers reported the biggest challenge in retaining talent.

How much of a challenge is retaining younger talent to your derivatives clearing or execution business?



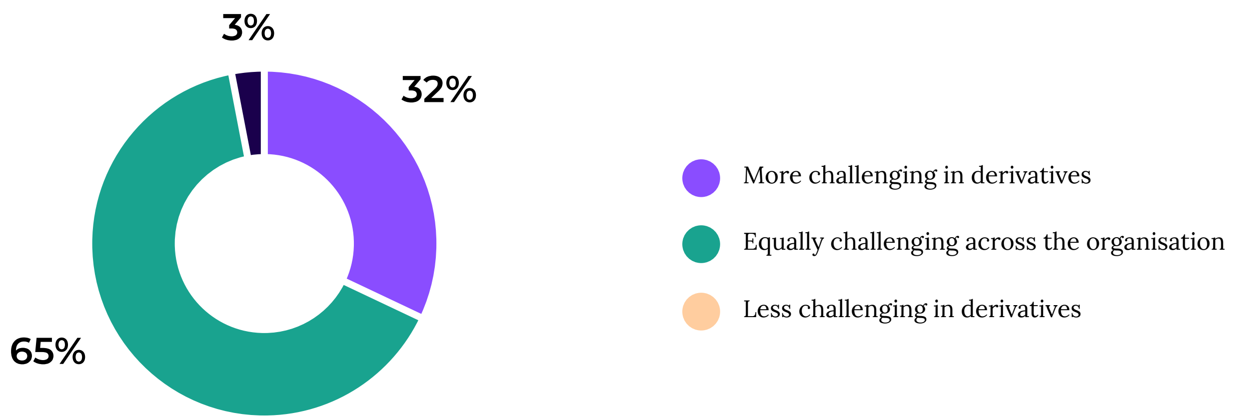
Interestingly, retaining talent had become harder at a faster rate than hiring over the past five years, with 65% saying that it had become either slightly harder (44%) or significantly harder (21%) to retain talent.

Over the past five years, how has that changed?



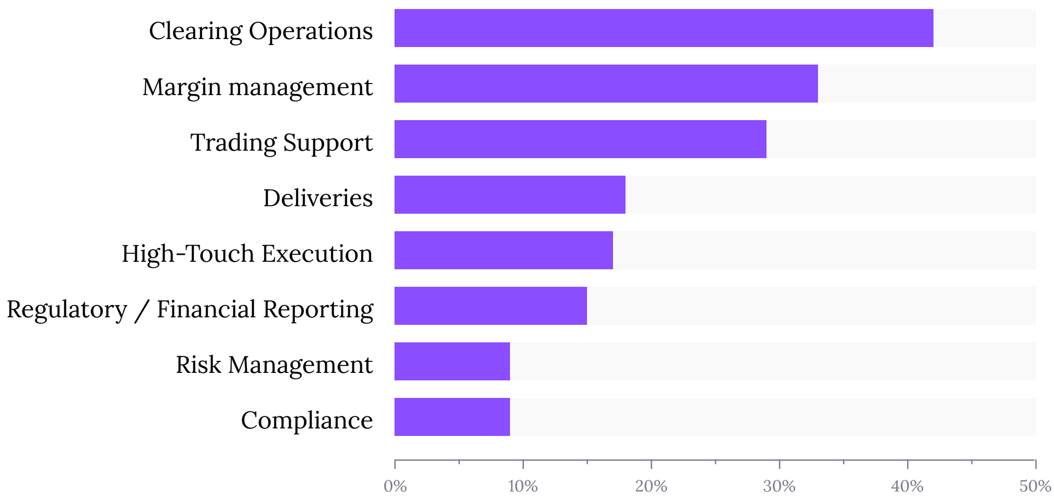
Significantly, while the majority of respondents said that the challenges in hiring and retaining talent were equally challenging across their organization, a third said that it was more challenging in derivatives.

Are the challenges you face specific to derivatives or shared across the organisation?



In addition, almost half of respondents said that they had a shortage of talent in clearing operations and margin management - significantly more than in other areas of the business.

Does your derivatives business have a shortage of talent in any of the following areas?



These pressures are resulting in a build-up of operational risk in derivatives businesses across the sell-side. 48% of respondents to this survey said that they were expecting more than 10% of their workforce to retire or leave the industry over the next five years. To counter that, firms need to act now to bring in and retain the next generation of talent and invest in clearing technology to reduce manual and legacy processes.

What's behind the challenge?

The reasons behind the increased challenge in hiring and retaining younger talent are multiple and complex. Finance has long been associated with a high-pressure environment and longer working hours.

Historically, however, finance, and in particular banking, has been able to mitigate these requirements with higher wages than other sectors. At the same time, the mathematical and quantitative skill sets that were in demand from finance were not as highly prized in other sectors resulting in a near monopoly on the best younger talent with these skills.

Over the past 15 years, the appeal of the technology sector and, to a lesser but still meaningful extent, other sectors such as pharmaceuticals and energy, has combined with both higher purchasing power in terms of salaries and a rising demand for mathematical and quantitative skills.

According to salary comparison website Glassdoor, the salaries for entry level operational roles at hedge funds and high frequency trading firms range from $75,000 to $125,000.

At large technology companies, they range from $65,000 to $95,000 while at investment banks they are said to be $55,000 to $75,000, on a par with the pharmaceutical and energy sectors.

What do you think are the top 3 factors in the difficulty in attracting and retaining younger talent?

Respondents to the survey for this report also pointed to a better work/life balance on offer in other sectors. This is manifested in the longer working hours associated in finance but also respondents to the survey said that the requirement to be in the office more than in other sectors was a challenge.

This issue has come to the fore over the past few months as several banks have mandated a return to the office most, or all, of the time. For those looking for a more balanced policy, other sectors have been less aggressive in their requirement to bring staff back to the office.

The leading US technology giants including Meta, Apple, Amazon and Alphabet, for example, all have policies that require staff to be in three-days a week while many of the major banks, have implemented five-day a week policies for most staff. Executives that Acuiti spoke with for this report suggested that even those banks with more relaxed working from home policies in reality saw most staff coming in four or five days a week.

The top three challenges in hiring and retaining junior talent varied by region. In North America, which has the most advanced technology sector, higher wages in other sectors was a bigger challenge than in Europe where it was the appeal of other sectors and the requirements of the role in finance that posed the biggest challenge.

Interestingly, in the US, the quality of talent coming through was also said to be a challenge for firms when it came to hiring and retaining younger staff.

Top reasons for the hiring and retention challenge by region:

North America

1. High pressure/stressful work environment
2. Higher wages in other sectors
3. Quality of the talent coming through

Europe

1. Greater appeal of other sectors
2. Requirement to be in the office more than other sectors
3. Longer working hours associated with finance

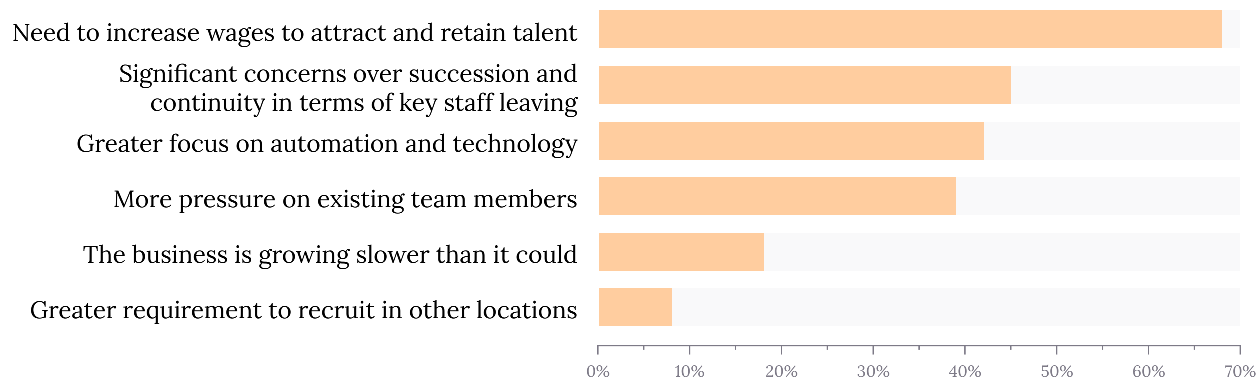
Asia

1. High pressure stressful work environment
2. Greater appeal of other sectors
3. Higher wages in other sectors

How are firms responding?

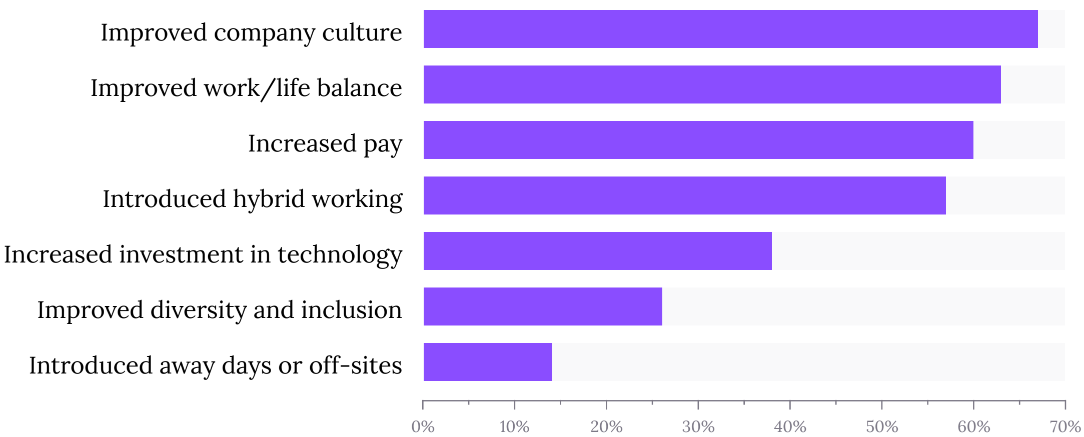
The challenge of hiring and retaining talent is already having an impact on operations for sell-side clearing businesses. Over two thirds of respondents said that they had increased wages specifically to attract and retain talent, while almost 50% said that they had significant concerns over succession and continuity in terms of key staff leaving. A similar percentage said that their business was turning to a greater focus on automation and technology to reduce the risk of staff shortages or key departures.

What impact is the challenges of bringing in and retaining talent having on your derivatives business?



Firms across the market have been adapting their approaches to address the challenges. Over two thirds have sought to improve company culture, while just under that number have sought to improve the work/life balance. 60% have increased pay while 57% have introduced formal hybrid working arrangements for some staff.

What steps have you taken to increase the appeal of your business to younger talent?

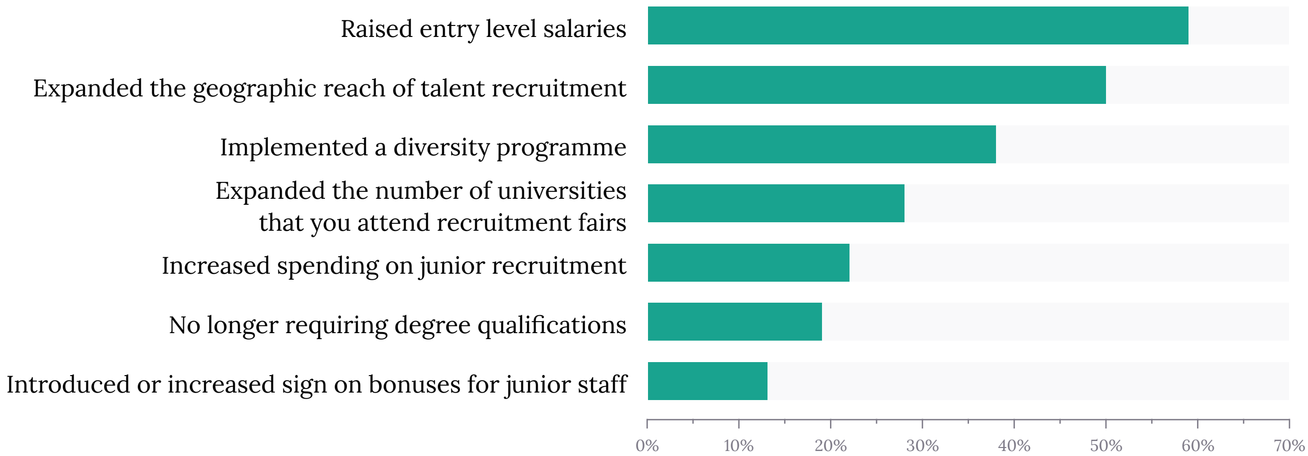


Interestingly, of those steps taken the highest success rate reported by respondents to the survey was hybrid working, followed by increased pay and improved work/life balance. Improvements in company culture and investment in technology were also successful approaches to improving retention.

Firms are also changing how they recruit and attract younger talent. Raising salaries has inevitably been a key component of that change but firms are also taking on other initiatives, such as expanding the geographic reach of talent recruitment and increasing the diversity of hires.

However, at this stage, most firms are not expanding the universities they attend recruitment fairs at or reducing the qualifications required.

Have you taken any of the following steps to increase the pool of younger talent available to you?



Building the next generation of talent

Over the next decade, sell-side clearing businesses will face continued erosion of their subject matter expertise with current individuals retiring or leaving the industry for new opportunities. To respond to this challenge requires a range of longer-term workforce planning and investment.

Hiring and retaining the next generation of talent will continue to be essential to the future resilience of the clearing business. Many of the challenges faced by the industry are not going away. Some, such as the increased competition from other sectors for the skills traditionally associated with finance, are likely only to grow.

One area of focus today is the retention of the existing workforce. Many companies have developed a workforce retention strategy, offering greater flexibility for older workers or solo parents or investing in additional training or education. Firms that have not undertaken these measures will need to refine their policies or risk being left behind.

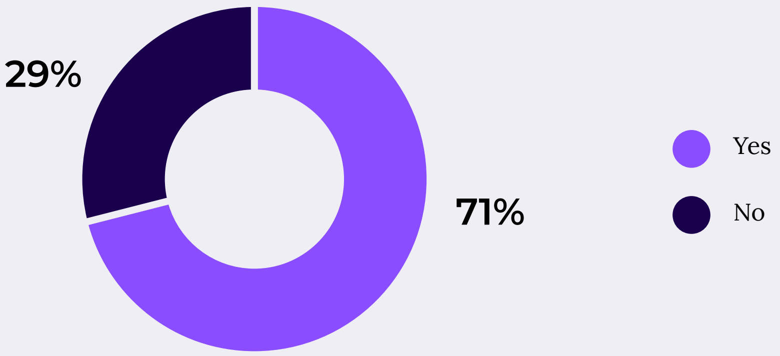
Firms should also seek to expand the recruitment pools from which they hire. Many are already doing this, having specific programmes to attract entrants leaving the military, for example. However, firms should also consider increasing their focus on school leavers, returning parents to work, or developing wider apprenticeship schemes for non-graduates.

Some of the best and brightest in the industry today did not attend university and it is notable that this survey found relatively few respondents were removing the requirement for a degree as part of their recruitment process despite this.

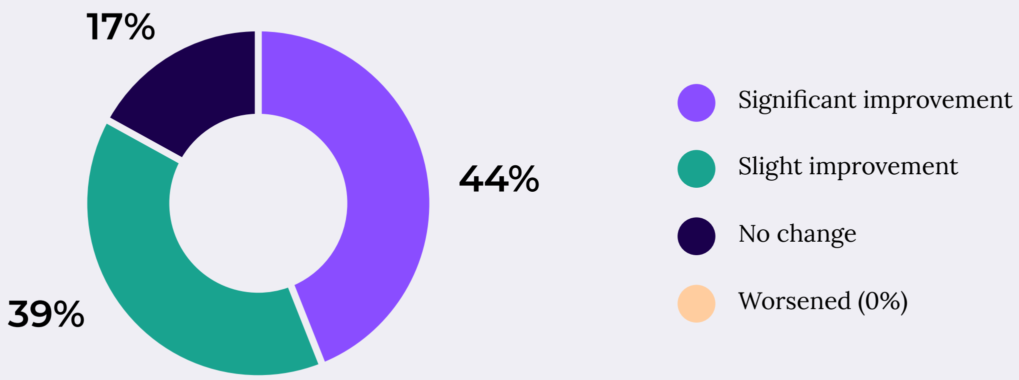
Ultimately, however, the solution to the challenges posed by the ongoing war for talent lies not just in the investment in people. This study found that a notable percentage, of respondents see investment in technology as a key strategy to alleviate the challenges in poor processes and long hours that impact the attraction of the derivatives industry in hiring and reduce the ability to retain talent.

The evidence from those that have undergone technology transformation and investment suggests that this is an underappreciated area of the solution to the talent challenges.

Have you made a significant investment in your trading or post-trade trade technology over the past three years?

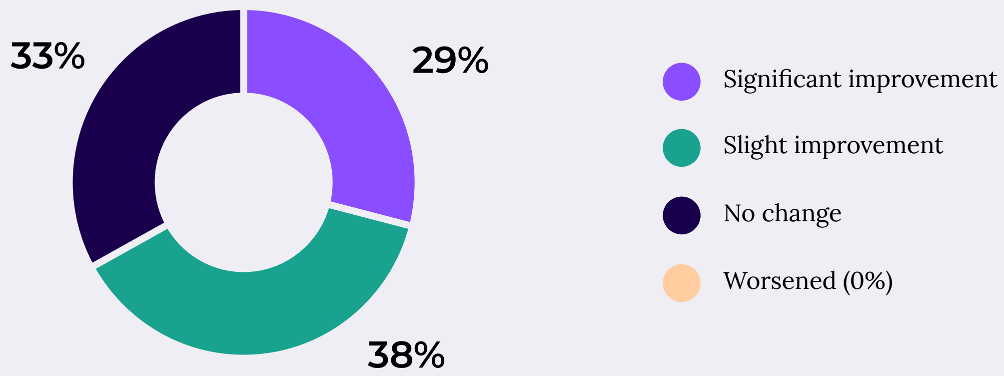


How did that investment improve the satisfaction of employees working in the associated areas?



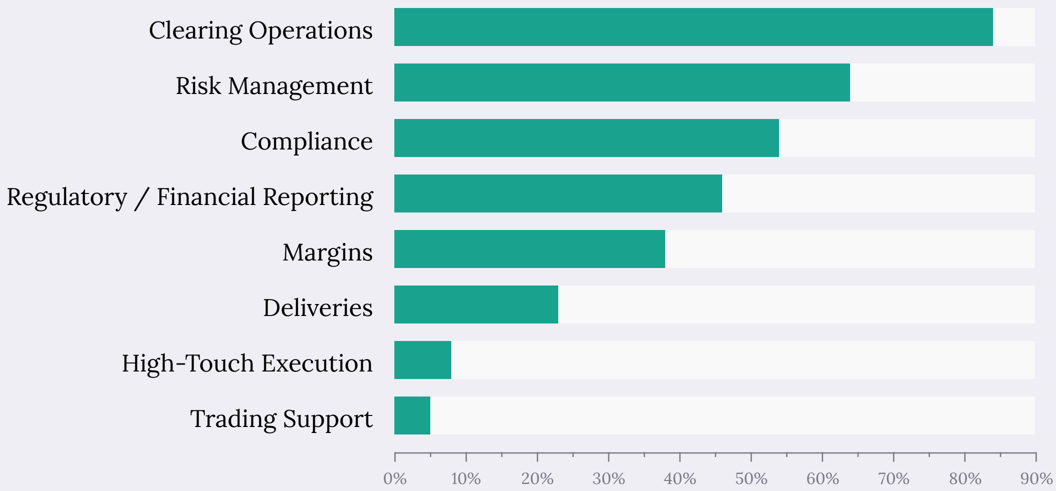
Of the firms that had made an investment in technology over the past three years, 83% said it had made an improvement in the satisfaction of the employees in the associated area, with 44% saying the improvement was significant. For example, investment in better post-trade processing technology can significantly reduce the amount of time and resource dedicated to fixing trade breaks, allowing headcount to be focused on risk management and client services leading to higher value job satisfaction. It can also reduce the number of days that staff are required to stay late or the overall number of hours required to fulfill functions. This is evidenced by the fact 67% said that it improved the work/life balance of employees.

How did that investment impact the work/life balance of employees working in the associated areas?



As this study finds that improvements to work/life balance was the most effective way to retain talent, investment in technology will increasingly be seen as a key lever to reduce the risk of talent shortage and improve the working conditions of those that are hired. It is notable that the main area of investment in automation found in this survey was in clearing operations, the area in which respondents were also most likely to report talent shortages.

Where would you be most likely to invest to improve automation in clearing over the next five years?



A further benefit of investment in technology is that it can reduce key personnel risk. All too often for firms, the evolution of technology infrastructure and the piecemeal approach to investment has left firms exposed to a small number of executives who truly understand the operation and legal risks to operating an FCM.

A key response to the challenge in hiring and retaining talent has been to increase salaries. For clearing businesses, this will be possible during times of high volumes and high interest rates. However, ever-increasing wages clearly are not a permanent or sustainable solution.

Investment in technology to create scalability and inbuilt automated controls, however, solves many of the challenges to increasing the satisfaction of employees by allowing them to focus on higher value tasks as well as reducing the need for people to perform manual functions.

It also increases operational resilience and builds not only the next generation of talent but also an infrastructure fit for the next generation of markets.

The battle for talent within derivatives is not going to go away any time soon. The weakening economy that is expected in the coming months may provide some short-term relief in the battle for talent, but the firms developing their workforce and technology strategies will be the real winners in the long run.

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