

DON'T BANK ON IT

AN IN-DEPTH LOOK AT BANKING'S TALENT CRISIS



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EXECUTIVE SUMMARY

Investment banks have long held a reputation as the Holy Grail of financial services careers. For many decades, Wall Street's largest firms would regularly out-woo – and significantly out-bid – their corporate rivals for their pick of the world's elite business school graduates. Huge bonuses, lavish perks and unlimited scope for career advancement had the best and brightest lining up at every global investment bank's front door.

Following the global financial crisis (GFC), the industry's reputation was turned on its head, with unethical practices and sky-high employee compensation coming under intense scrutiny from regulators, shareholders and the public at large. In response, banks moved quickly to better align employee incentives with their long-term performance. Annual bonuses were slashed and cash payouts were increasingly replaced with share-based incentive payments, much of which are subject to prolonged deferral schemes and clawback provisions. Many corporate benefits – including expatriate packages – were cut or severely curtailed. The multi-million dollar carrot that once attracted so many to the industry all but disappeared.

With reputations badly damaged and compensation on the decline, banks are finding themselves in the midst of a major talent crisis. Global bulge bracket firms are no longer regarded as the destination of choice for Ivy League and Oxbridge graduates, who are instead turning to companies like Facebook and Google, as well as a host of new technology start-ups. Young investment bankers, fed up with gruelling working hours and lack of a social life, are following suit. For more seasoned executives, morale is at an all-time low, while dwindling job satisfaction, combined with an absence of exit options, has created a disheartening working environment. Many are opting to leave the industry altogether, sparking a rise in voluntary turnover rates.

Recognising these challenges, banks have undertaken a variety of measures designed to stem the talent bleed. They have also sought to overhaul their image as 'churn and burn' factories in an effort to market themselves as attractive employment destinations for millennials. Some of these measures have been relatively concrete, such as accelerated promotion timelines for analysts, while others have focused on 'softer' employment benefits, such as greater commitment to work-life balance for junior employees.

While these measures are a step in the right direction, most have been designed to appeal to industry newcomers. They do very little to address the concerns faced by current employees, who see a considerable misalignment between where banks are focusing their efforts and what truly matters to them. This is translating into heightened job dissatisfaction. In fact, our survey of over a thousand banking employees from across the world found that one-third of respondents are intending to leave their current position within the next 12-24 months, and another third are considering it.

The talent crisis poses a very tangible and substantial cost to the industry. We estimate every 1% rise in voluntary employee turnover rates is costing each global bank between USD 250-500 million per year in replacement costs. With group-wide voluntary staff turnover now 1-2% above historical levels for a number of leading firms, we believe some banks are incurring up to USD 1 billion in incremental hidden costs annually.

There is both a message and an opportunity for banks right now: if the status quo continues unchanged, the talent crisis will only continue to worsen. However, for those banks who can openly re-evaluate their value proposition as an employer, there is a clear opportunity to tailor talent policies that better address the needs and wants of their existing and future employees.

At the same time, there must be recognition that no matter how many new policies are put in place, they will have little or no impact unless banks address the most significant issue facing the industry when it comes to attracting and retaining the right talent: culture. Only when there is a fundamental re-engineering of a bank's DNA to deliver a more holistic career proposition will they see a meaningful, lasting change in perceptions towards the industry as an employment choice. Until then, for those hoping for a truly rewarding career in high-finance, don't bank on it.

SECTION 1

LOSING ITS SHINE

Post-2008, the global banking landscape underwent monumental change, with the industry now facing serious challenges on all fronts. Investment banks' roles in selling risky mortgage-backed securities and collateralised debt obligations during the GFC severely damaged the industry's reputation. A widespread perception of unethical practices resulting in huge taxpayer bailouts created considerable public mistrust in banks, especially in light of the enormous bonuses paid to employees and senior management. In the years that followed, things only got worse: the industry was rocked by countless scandals and was subject to an endless wave of fines and litigation on the back of a global regulatory onslaught.

In the face of mounting cost headwinds, the international banks have instituted widespread job cuts. From 2011-15, the number of employees at 15 of the world's largest banks fell by 12% from 2.17 million to 1.91 million (see Figure 1). Among the biggest casualties were RBS (down 36%), Bank of America Merrill Lynch (down 24%) and Citi (down 13%).

The job cuts have continued well into 2016. Deutsche Bank announced it would be shedding 9,000 full-time employees and 6,000 contractor positions at the end of 2015 as part of its 'Strategy 2020' plans,¹ and announced a potential 10,000 further cuts in October 2016.² Credit Suisse has fired 6,000 employees since July 2015,³ while Barclays let go of 13,600 employees (10% of its workforce) in the first nine months of 2016.⁴ Goldman Sachs, in Q2 2016, announced it slashed 1,700 positions (5%) in the preceding quarter, the firm's largest quarterly reduction in headcount since GFC.⁵ Macquarie Group and Nomura Holdings have both trimmed their U.S. investment bank workforces, cutting headcount by 15% and 30% respectively in 2016.

The 'axe swinging' is unlikely to end anytime soon, with more banks announcing further reductions at the end of 2016. In November 2016, Standard Chartered announced that it planned to cut its global corporate and institutional banking workforce by 10%, citing weak profitability. Even Asia, long considered a safe bet powered by Chinese growth in recent years, is no longer so. As local and regional brokerage houses cut into global investment banks' revenues, many global banks are already letting go of their investment bankers, especially at the senior level. Most recently, Morgan Stanley's investment banking division was rumoured to have let go of 5% of its global MD population, notably higher than cuts in previous years.⁶

1 Deutsche Bank, 'Executing Strategy 2020,' 29 October 2015, available at: https://www.db.com/ir/en/download/Deutsche_Bank_Strategy_2020_29_October_2015.pdf

2 Fortune. 'Deutsche Bank Considers Thousands More Job Cuts', 14 October 2016, available at: <http://www.reuters.com/article/us-germany-deutsche-bank-jobs-idUSKBN12E16T>

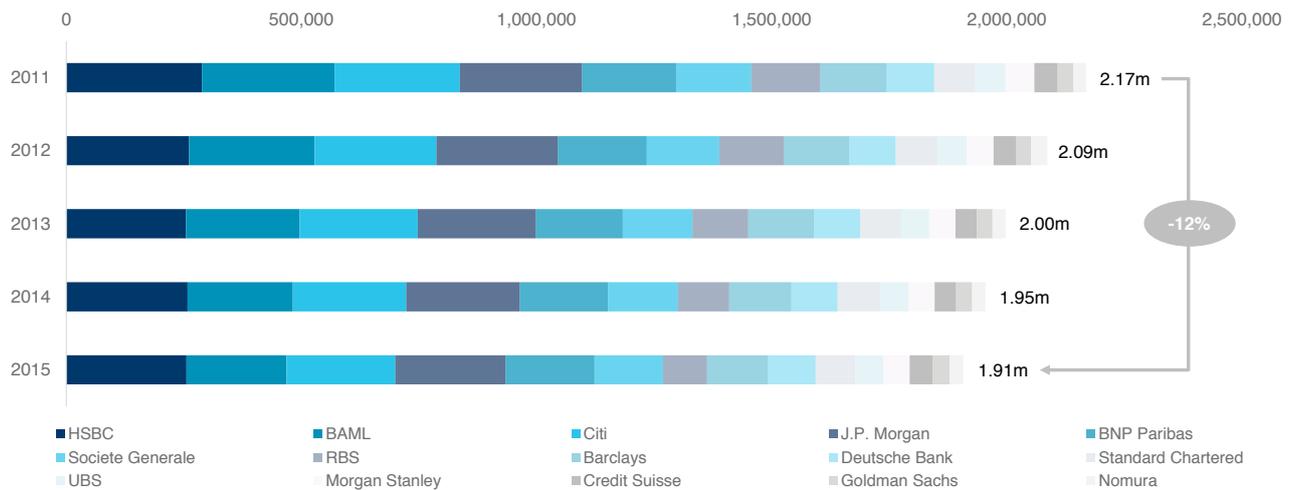
3 Reuters, 'Credit Suisse to axe 2,000 more investment banking jobs,' 24 March 2016, available at: <http://www.reuters.com/article/us-credit-suisse-gp-costs-idUSKCN0WP00Q>

4 Reuters, 'Barclays axes 13,600 jobs in 9 months,' 13 September 2016, available at: <http://www.reuters.com/article/barclays-jobs-staley-idUSL8N1BP1WJ>

5 Fortune, 'Goldman Sachs Announces Its Biggest Layoffs Since Financial Crisis,' 19 July 2016, available at: <http://fortune.com/2016/07/19/goldman-sachs-layoffs-3/>

6 Reuters, 'Exclusive: Morgan Stanley cuts bankers, bonuses as deals, IPOs stall,' 12 January 2017, available at: <http://www.reuters.com/article/us-morgan-stanley-bonuses-idUSKBN14W2XB>

FIGURE 1: GLOBAL BANK HEADCOUNTS (2011-15)



Source: Company annual reports, Quinlan & Associates analysis

With reputations in tatters and job cuts in full swing, the prestige that was once synonymous with the largest names on Wall Street suffered a severe blow. According to a study by global brand consultancy Interbrand, of the eight banks that featured among the top 100 most valuable global brand names in

2007, only five were left by the end of 2016. More importantly, seven lost considerable ground in their global brand rankings over the period, with Merrill Lynch and UBS among the biggest casualties (see Figure 2).

...OF THE EIGHT BANKS THAT FEATURED AMONG THE TOP 100 MOST VALUABLE GLOBAL BRAND NAMES IN 2007, ONLY FIVE WERE LEFT BY THE END OF 2016... SEVEN LOST CONSIDERABLE GROUND IN THEIR GLOBAL BRAND RANKINGS OVER THE PERIOD...

FIGURE 2: BANK BRAND VALUES (2007 VS. 2016)

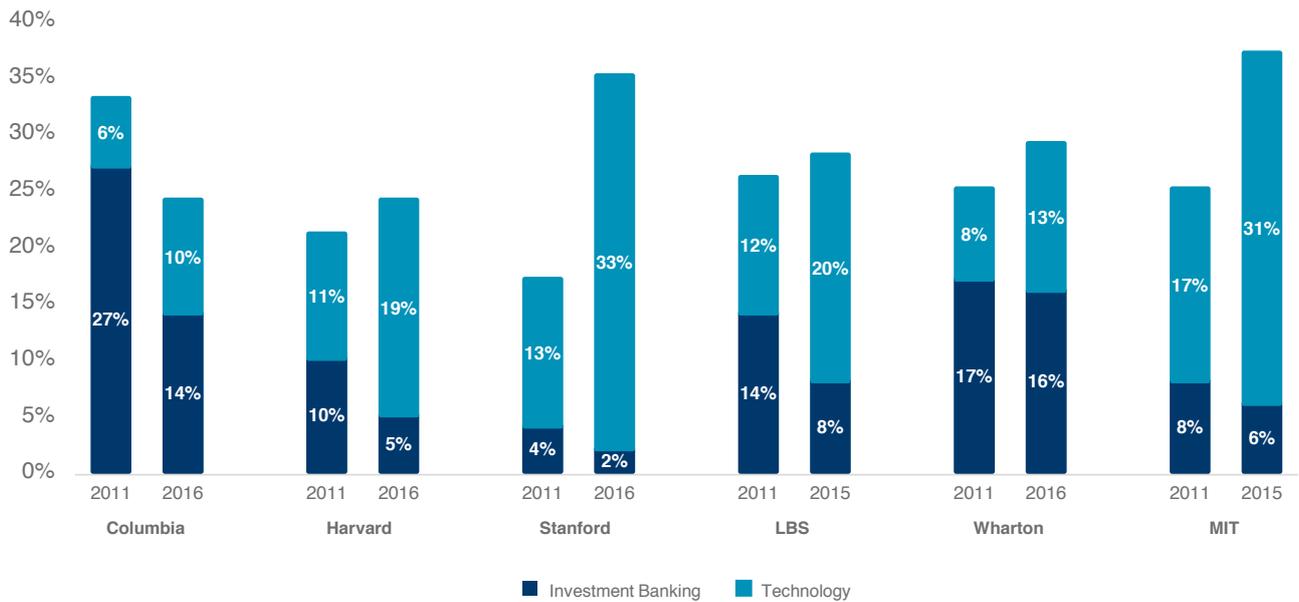
BANK	BRAND RANK (2007)	BRAND RANK (2016)	△ RANK
 Citi	11	49	▼ 38
 Merrill Lynch	22	100+	▼ 78+
HSBC 	23	47	▼ 24
J.P.Morgan	32	31	▲ 1
 Goldman Sachs	35	54	▼ 19
Morgan Stanley	37	65	▼ 28
 UBS	39	100+	▼ 61+
ING 	81	100+	▼ 19+

Source: Interbrand Brand Value Rankings, Quinlan & Associates analysis

Banks have also lost much of their appeal as employers. Data from some of the world's leading business schools shows that MBA graduates are shying away from investment banking careers. At Columbia Business School, the number of MBA graduates choosing a career in investment banking fell from 27% of the graduating class in 2011 to 14% of the graduating class in 2016. Similar trends are

being observed at other leading business schools in the U.S., Europe and Asia, with graduates increasingly turning to careers in technology companies such as Facebook, Amazon and Google. At Stanford, for example, the number of MBA students entering the technology industry rose from 13% in 2011 to 33% in 2016 (see Figure 3).

FIGURE 3: MBA GRADUATE EMPLOYMENT DESTINATIONS (2011 VS. 2015/16)

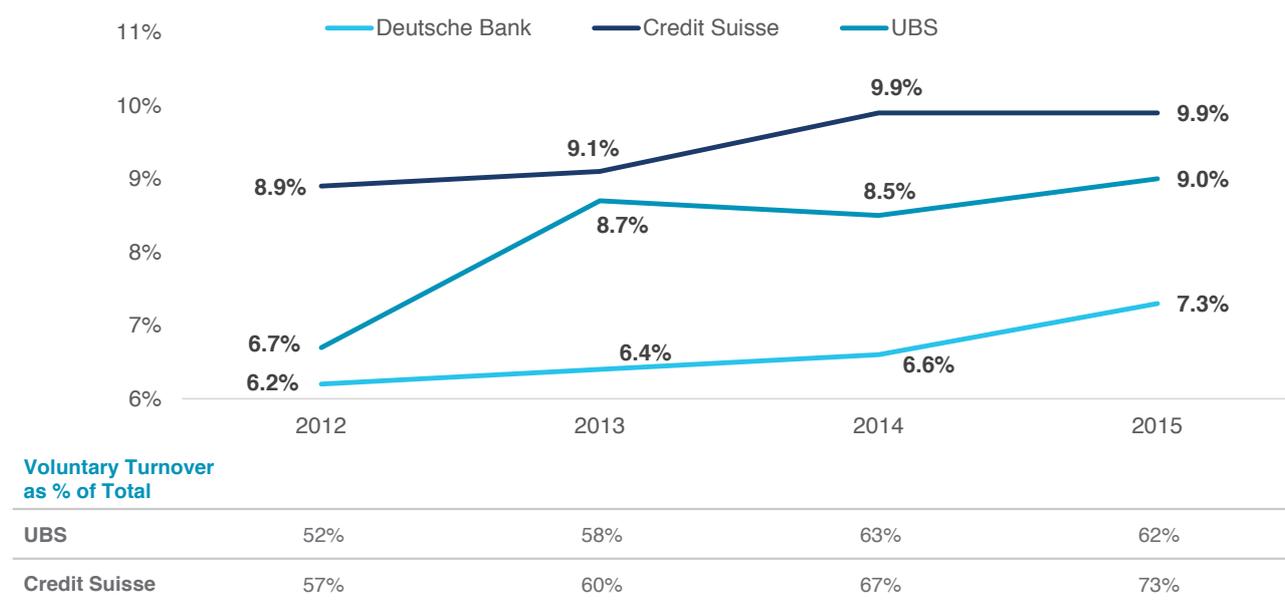


Note: 2016 data for LBS and MIT was not available at time of report publication
 Source: Business school MBA employment reports, Quinlan & Associates analysis

Not only are banks facing a growing challenge in attracting new talent, but they are also struggling to retain their existing employees. Between 2011 and 2015, group-wide voluntary employee turnover rates at all three of the major European investment banks (i.e. Deutsche Bank, UBS and Credit Suisse) saw a notable increase. UBS, in particular, saw its voluntary employee turnover spike from just 6.7% in

2011 to 9.0% in 2015. At Credit Suisse, voluntary employee turnover as a proportion of total employee turnover surged from 57% in 2012 to 73% just three years later (see Figure 4).

FIGURE 4: VOLUNTARY STAFF TURNOVER RATES, EUROPEAN BANKS (2012-15)



Source: Company Corporate Responsibility Reports, Quinlan & Associates analysis

One factor behind increased voluntary turnover rates has been a shortening of employee tenures, especially with respect to the millennial generation. According to a recent study by LinkedIn of twelve global investment banks, analysts and associates who left their positions in 2015 had stayed in their roles for an average of 17 months. This compares to a 26-month average in 2005 and a 30-month average for those departing the same positions two decades earlier.⁷ Young bankers, it seems, are no longer in it for the long haul.

New or existing employees, one thing is clear: banks' ability to attract and retain talent is not what it used to be. Not only are banks at war with global tech titans to attract the best and brightest young minds from across the world, but they are also fighting an uphill battle to keep their existing employees, many of whom have simply had enough of the industry. As banks approach their 2016 bonus payment season, we believe senior management needs to be wary of the broader talent crisis and what implications it has for the underlying health of the organisation.

⁷ Wall Street Journal, 'Millennial Employees Confound Big Banks,' 8 April 2016, available at <http://www.wsj.com/articles/millennial-employees-confound-big-banks-1460126369>

SECTION 2

INDUSTRY TALENT REVIEW

OVERVIEW

Banks' value proposition as employers has altered significantly following the GFC, with the industry trying to strike a delicate balance between reducing costs, retaining valued employees and capturing opportunistic growth.

In this section of the report we take an in-depth look at 17 key talent levers that we feel have the greatest influence on employee career decisions. These have been categorised into four broad areas: monetary rewards, career development, career engagement, and work-life balance (see Figure 5).

FIGURE 5: TRENDS IN BANKING EMPLOYEE BENEFITS

	Employer Offering	Examples	Trend	Description
Monetary Rewards	Compensation	<ul style="list-style-type: none"> Base salary Variable bonus 	↓	Base salary freezes and sharp cuts to annual bonuses, which are increasingly being paid in deferred stock
	Allowances & Benefits	<ul style="list-style-type: none"> Housing allowances Club memberships 	↓	Major cuts to expatriate packages, housing allowances, and general corporate perks
	Promotions	<ul style="list-style-type: none"> Corporate ranks Job titles 	↘	Strict promotion quotas for senior employees (e.g. Executive Directors and Managing Directors)
Career Development	Training & Education	<ul style="list-style-type: none"> Skills training Education sponsorship 	↘	Budget cuts for external courses/training programs, with increased emphasis on compliance training
	Mobility	<ul style="list-style-type: none"> Desk rotation Country relocation 	↘	Budget cuts impacting relocation allowances, with desk rotations limited to junior employees
	Elite Programs	<ul style="list-style-type: none"> Leadership training Hi-Po programs 	↘	Budget cuts impacting a number of leadership programs, especially those with travel requirements
	Networking	<ul style="list-style-type: none"> Firm-sponsored events Networking drinks 	→	Banks remain committed to providing networking opportunities, though budgets remain tight
Career Engagement	Diversity & Inclusion	<ul style="list-style-type: none"> LGBT networks Women's networks 	→	Key focus area for banks in recent years, though budget cuts continue to remain an issue
	Mentoring	<ul style="list-style-type: none"> Formal 1-to-1 Informal networking 	→	Strong focus at the junior level, though processes are often informal and non-standardised
	Team Dynamics	<ul style="list-style-type: none"> Staff engagement Social functions 	↘	Considerable cutback in funding for employee social events, with staff morale at all-time lows
	Community Engagement	<ul style="list-style-type: none"> Charity events NGO work placements 	→	Continued commitment to community betterment, though budget cuts are impacting some initiatives
	Firm Communication	<ul style="list-style-type: none"> Town halls Email communiques 	→	Strong focus on bank-wide communication, though business-unit engagement can be severely lacking
Work-life Balance	Overall Working Hours	<ul style="list-style-type: none"> Total working hours Business travel 	→	Greater focus on improving working hours, though resourcing issues weigh on employee workloads
	Protected Time	<ul style="list-style-type: none"> Protected days Protected weekends 	↑	Greater attention has been given to the hours demanded of junior-level investment banking staff
	Flexible Schedules	<ul style="list-style-type: none"> Part-time work Working from home 	↗	Some banks are providing employees with allotted 'personal time' every week
	Sabbaticals	<ul style="list-style-type: none"> Career breaks Unpaid leave 	↗	A handful of banks are offering sabbatical programs earlier into employee careers
	Leave Entitlements	<ul style="list-style-type: none"> Annual leave Maternity leave 	↗	Increases to specific leave entitlements for a select handful of banks, with mandatory 'block leave'



Source: Press releases, industry interviews, company annual reports, Quinlan & Associates analysis

Monetary rewards, which include fixed and variable compensation, as well as allowances and benefits, are a driving force behind nearly all career decisions. Once viewed as one of the most lucrative employment destinations in the market, banks have taken an axe to many of their employees' financial rewards. These have included base salary freezes, as well as sharp cuts to annual bonuses, expatriate packages and the removal of various corporate perks.

Beyond financial rewards, **career development** is a critical goal for employees. From clear promotion pathways to functional and geographic mobility opportunities, employees want to feel they are progressing in their careers. They also place considerable value on a firm's commitment to them, evidenced by investment in training and education and networking events. Unfortunately, widespread budget cuts have seen many banks allocate fewer resources to such endeavours.

Career engagement initiatives, designed to make staff feel more involved in the workplace, are also an extremely important means by which to attract and retain talent. Levers such as team dynamics and firm-wide communication can ensure employees feel valued and part of 'something bigger,' while diversity & inclusion programs and community engagement initiatives serve to strengthen the bond between employer and employee. While budget cuts have had an impact on some of these efforts, we recognise most banks remain committed to the cause, though we also believe much more can be done.

As the more tangible benefits associated with banking careers have diminished, **work-life balance** has become increasingly important to employees. Banks have responded with a variety of measures, including instituting protected time initiatives and providing the option for employees to take a sabbatical much earlier in their career. While banks are without a doubt much more cognisant of the importance of work-life balance to their employees than before the GFC, we believe their efforts have thus far failed to deliver truly meaningful change.

We will now review each of these talent levers in detail.

1. MONETARY REWARDS

1.1 COMPENSATION

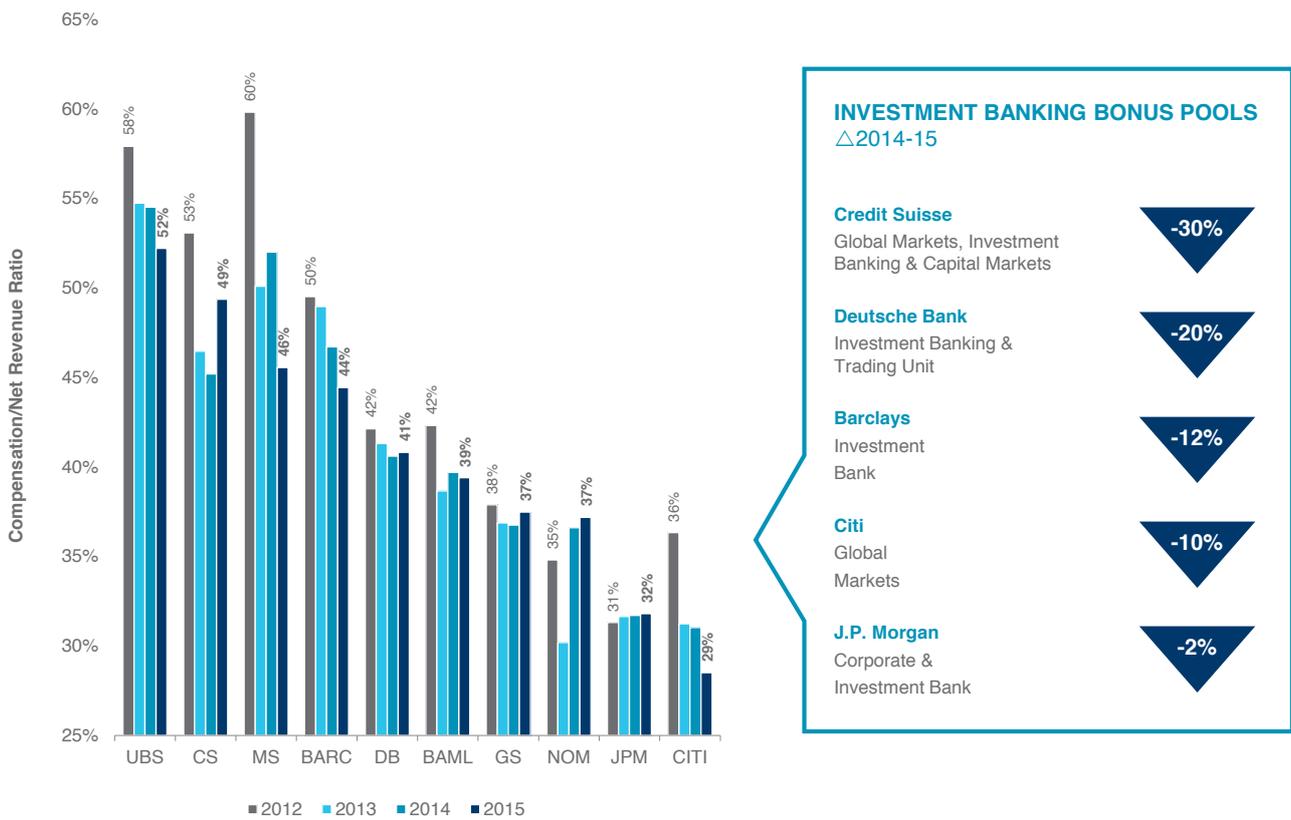
There is widespread belief among governments and regulatory bodies that banks' pre-2008 remuneration practices – particularly bonus payouts that could be multiples of annual salaries – encouraged a culture of excessive risk-taking. This culture, in turn, was believed to have been responsible for driving many of the ethically questionable practices that culminated in the wave of bankruptcies and taxpayer bailouts at the height of the GFC.

With rising levels of discontent among shareholders and the public at large, banking compensation practices have come under considerable regulatory scrutiny. The European Union (EU) led the way with its Capital Requirements Directive IV (CRD IV), which became effective on 1 January 2014. Among its key provisions, CRD IV caps individual employee bonuses of EU-based credit institutions and investment firms at 100% of their base salary, though this may be raised to a maximum of 200% with shareholder approval. Additional transparency and disclosure requirements have also been put in place for employees earning over €1 million per year.

In April 2016, U.S. regulators announced they would consider implementing rules requiring banks with more than USD 50 billion in assets to defer the payment of at least half of executives' bonuses for at least four years. Furthermore, these firms would be able to 'claw back' bonuses for a minimum period of seven years in the event an employee's actions hurt the institution or if that firm had to restate its financial results.

The global regulatory backlash has without doubt had an impact on banking compensation practices. Most international banks have already frozen their employees' base salaries for several years, with the exception of those being promoted to a new corporate rank. Moreover, the largest firms are setting aside an increasingly smaller share of their revenues to pay their employees. In fact, between 2011 and 2015, almost all tier-1 global investment banks saw substantial reductions in group-wide compensation-to-net-revenue ratios, reflecting a growing disconnect between performance and pay. Morgan Stanley, for example, saw its bank-wide compensation-to-net-revenue ratio fall from 60% in 2011 to 46% in 2015, while at UBS it fell from 58% to 52% over the same period (see Figure 6).

FIGURE 6: BANKING COMPENSATION TRENDS



Source: Company annual reports, press releases, Quinlan & Associates analysis

The situation within investment banking divisions, especially with respect to bonus payments, has been even worse. Between 2010 and 2015, Barclays slashed the bonus pool at its investment bank by a whopping 63% from £2.66 billion (76% of the bank’s total bonus pool in 2010) to £976 million (58% of the bank’s total bonus pool in 2015). The bonus pool at Credit Suisse’s Global Markets, Investment Banking and Capital Markets business fell by more than 30% in 2015. Similarly, Deutsche’s investment banking and trading business cut its 2015 bonus pool by nearly 20%, with the bank’s CEO, John Cryan, saying

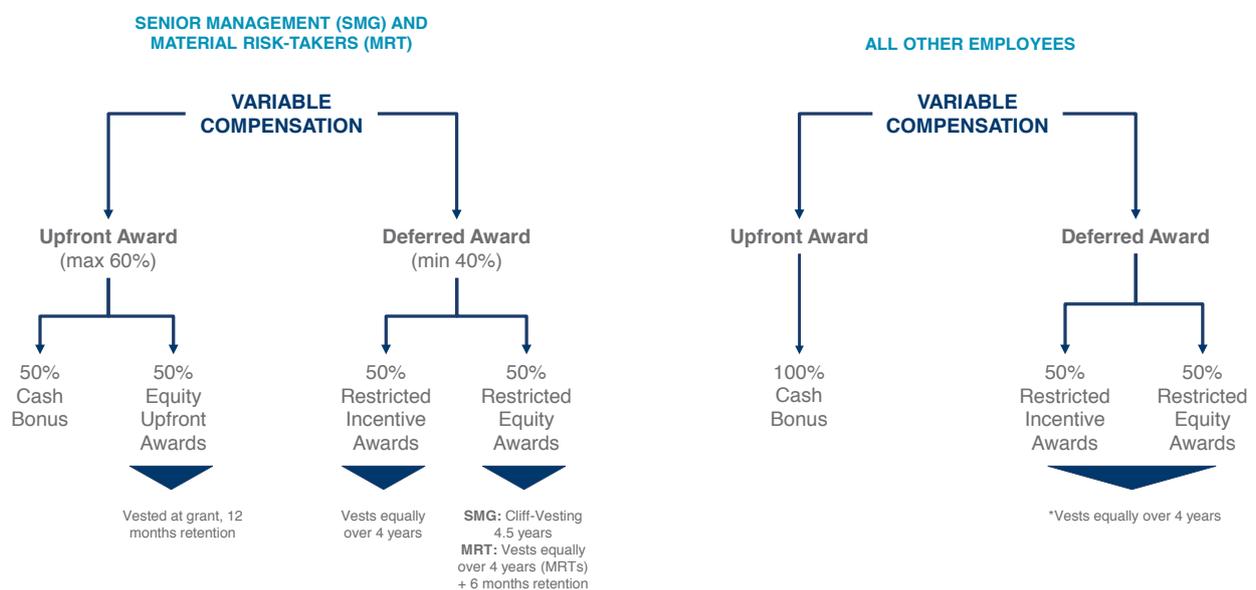
Deutsche’s disappointing financial performance and high litigation costs should be reflected in overall employee compensation.

This downward pressure on compensation continued in 2016. Compensation and benefits accruals for 9M 2016 at eight of the major banks listed in Figure 6 has fallen by an average of 7.07% y/y, with Goldman Sachs seeing the largest decline (13% y/y). This has translated into an average reduction in compensation per employee of ~5% y/y over the same period.

Not only has compensation declined in absolute terms, but the means by which it is paid has changed considerably. Variable compensation, in particular, is now typically split by most banks into both upfront and deferred components, with the latter including a mix of cash and share-based payments vesting over a number of years. Generally, the more senior and highly paid an employee, the greater the deferred proportion of their variable compensation.

At Deutsche Bank, senior management and material risk takers are limited to a maximum upfront award of 60% of variable compensation, comprised of 50% cash and 50% equity. The remaining deferred component (a minimum of 40% of variable compensation) is paid 50% in restricted cash (vesting equally over four years) and 50% in restricted equity (with vesting periods depending on the specific role of the employee). For all other employees, upfront awards are paid 100% in cash, with deferred awards being split equally between restricted cash and restricted equity, vesting in equal instalments over four years (see Figure 7).

FIGURE 7: DEUTSCHE BANK VARIABLE COMPENSATION STRUCTURE (2015)

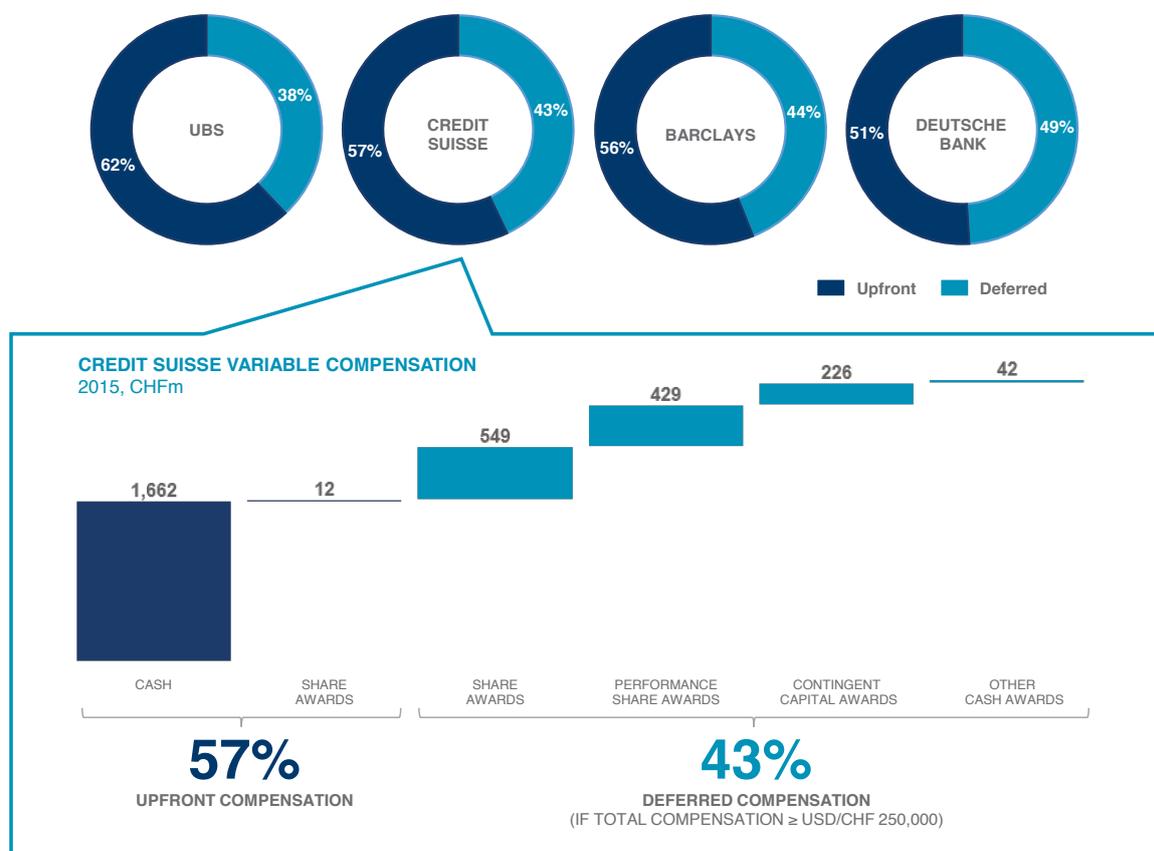


Source: Deutsche Bank 2015 Compensation Report, Quinlan & Associates analysis

The quantum of deferred variable compensation payments for the industry is far from trivial. Among the European investment banks, Deutsche Bank paid out 49% of its 2015 variable compensation pool in deferred award payments, the highest among its peer group. At UBS, the corresponding figure was 38%. Of particular note is that of the CHF 1.35 billion in deferred compensation awards paid out to Credit Suisse's employees in 2015, only 3.4% of this was paid in cash, with the remainder paid in share awards, share performance awards and contingent capital awards (see Figure 8).

With Deutsche Bank's CEO, John Cryan, and Credit Suisse's CEO, Tidjane Thiam, being openly critical of investment bankers' pay, we expect bank compensation woes to continue in years to come, especially in light of continued public and regulatory pressure. We forecast an average decline of 5-10% in total compensation pools across the major global banks for FY 2016.

FIGURE 8: EUROPEAN BANK VARIABLE COMPENSATION BREAKDOWN (2015)



Source: Bank Compensation Reports, Quinlan & Associates analysis

OUR PERSPECTIVES

With bonus pools on the sharp decline, most global banks moved to hike employee base salaries. In addition to appeasing employees over shrinking variable compensation pools, these salary adjustments were used to sidestep the EU bonus cap: for many senior bankers, base salary hikes were supplemented by sizeable role-based allowances. Such practices caught the attention of regulators like the Bank of England (BoE), who cautioned that a shift towards higher salaries made banks less nimble in the face of economic downturns, given salaries are harder to cut than bonuses.⁸ We agree with the BoE's sentiment and feel banks now have far less ability to manage their cost base than before the GFC.

We believe the shift in compensation structures towards higher fixed salaries and lower bonuses is failing to provide adequate incentives for employees to perform at their best. A senior banker at one international investment bank we spoke to said that the base-to-variable compensation ratio guideline for Analysts, Associates and Assistant Vice Presidents was 96:4. With junior bank employees standing to receive an average annual bonus of 4%, we feel there is very little incentive for staff to 'go the extra mile,' which also has the potential to negatively impact the performance of the wider organisation.

Although base salaries have increased as a proportion of total compensation since the industry's broader rebasing exercise a few years back, year-on-year increases since then have slowed to a trickle at best or been frozen at worst. Following a dismal start to 2016, some banks like UBS have indefinitely postponed increases in salaries, while others like HSBC have tried to but backed down in the face of employee backlash.⁹

Employees look to base salary increases as a recognition of good performance. Freezing them sends a tacit signal that performing well does not matter. While it is understandable that total compensation pool hinges on a bank's overall performance, blanket freezes leave employees feeling undervalued and under-rewarded.

This highlights one of the key challenges facing the industry: how to effectively link compensation to performance. Previously, front-office employees would be compensated according to various performance metrics, including bank-wide performance, how much a division contributed to the bottom line, how a particular team within that division performed, and, finally, what an individual's contribution to that team was. While banks continue to espouse such compensation philosophies, our discussions with a number of industry professionals reveals a growing disconnect between individual revenue contributions and bonus payments. The situation is even more challenging for middle and back-office employees with no direct revenue line, who are often left in the dark about their bonus KPIs. This lack of clarity only serves to dampen staff morale.

A number of employees we spoke to said senior management sponsorship was just as important – if not more important – than performance in driving compensation outcomes, which has promoted a culture of unhealthy competition for a slice of a shrinking bonus pie. As a result, many employees are focusing considerably more time on office politics rather than simply focusing 100% of their efforts on the job.

8 The Telegraph, 'Bankers' bonus cap drives up salaries, says Bank of England', 15 December 2015, available at: <http://www.telegraph.co.uk/finance/bank-of-england/12052055/Bankers-bonus-cap-drives-up-salaries-says-Bank-of-England.html>

9 efinancialcareers, 'The current state of salaries, bank by bank', 22 March 2016, available at: <http://news.efinancialcareers.com/uk-en/164/the-current-state-of-salaries-bank-by-bank>

RECOMMENDATIONS

- 1. Readjust the tilt:** While it is understandable that multi-year bonuses should be pared down to reduce risky behaviour, we feel many banks are missing the mark with respect to the fixed-to-variable tilt. Rewards should be allocated via meritocracy. Providing a 4% spread for bonuses between star performers and underperformers does not recognise this. Instead, it signals that competence will not be appropriately rewarded and, by the same token, that incompetence will not be penalised. We believe banks must think carefully about designing incentive structures that are compatible with rewarding performance commensurately rather than moving toward a system of institutionalised, uniform rewards.
- 2. Reward smartly:** Blanket salary freezes send a demoralising message to employees and fail to reflect an individual's ongoing value add. We believe a nuanced approach tailored to different performance levels will allow banks to retain their best employees without the discouraging consequences of a blanket freeze.
- 3. Bring performance front and centre:** Banks need to better identify KPIs for compensation for all of their employees, especially those working in middle and back-office functions. We believe variable compensation decisions should also be tied to individual performance even more; at its core, compensation decisions should be solely based on performance and not subject to the biases or favouritism of line managers, which we found is often the case.
- 4. Transparency is key:** The black-box nature of the compensation award process needs to change. Firms need to consider instituting a transparent review process for variable compensation allocation decisions. Greater internal scrutiny should be applied to check that compensation is not only reflective of senior management's preferences, but is objectively evaluated to ensure a more impartial allocation process. The identification of relevant KPIs will be critical in this respect.

1.2 ALLOWANCES & BENEFITS

In addition to employee salaries and bonuses, banks have brought the axe down on many of their staff allowances and benefits – including entertainment, travel budgets and expatriate packages – in an effort to rein in costs.

Hong Kong, renowned as Asia's hub for finance expatriates, has taken a considerable hit. Our discussions with industry professionals reveals it was not uncommon for senior expatriate investment bankers (i.e. managing directors) at bulge bracket firms to receive housing allowances of up to USD 32,000 per month. In addition, child education costs and at least two return business class flights for the entire family to the employee's home country would be provided each year. Many of these executives were also given generous family health insurance coverage, as well as memberships to some of Hong Kong's most exclusive recreational clubs. Even for local employees working in the investment banking department of a bulge bracket bank, housing allowances in Hong Kong were industry standard, irrespective of corporate rank.

The situation is markedly different now. With the exception of the most senior bankers (such as regional division heads), housing allowances and child education sponsorship have been eliminated, though salaries have been adjusted upwards in an effort to partially offset the removal of these payments. In the period immediately following the GFC, several global banks in Hong Kong also rationalised their debenture holdings, selling off a large portion of their corporate memberships to golf and country clubs across the city. The lavish perks that were once such an integral part of expatriate compensation had all but disappeared.

In an article by the South China Morning Post in May 2016, Jones Lang LaSalle (JLL) revealed that only 7% of its expatriate rental clients in Hong Kong were given monthly rental budgets of more than USD 13,000, down from 31% in 2012. Moreover, 54% of JLL's expatriate clients rent properties for less than USD 3,900 per month, up significantly from only 11% just four years earlier. The number of finance clients with corporate packages moving to Hong Kong through JLL also halved over this period. Increasingly, banks are replacing full expatriate packages with quasi-local ones (often referred to as 'expatriate light' packages, which are akin to permanent relocation allowances). These packages typically include a subsidy for housing costs, with single employees at the middle manager level receiving roughly USD 3,900 per month, up to as high as USD 9,000 per month for a family, a fraction of what they used to be.¹⁰

In addition to expatriate packages, perks such as flights, employee travel allowances and client entertainment budgets have all been slashed. A senior executive at one international bank we interviewed said their firm had recently amended its Asia Pacific travel policy, requiring all employees fly economy class for flights less than five hours in duration, up from three hours previously. The bank had also instituted strict budget limitations for client meals, with exceptional, advanced approval required for events where employees believed budgets would be exceeded.

¹⁰ South China Morning Post, 'Hong Kong expatriate bankers downsize drastically as housing allowances shrivel,' 20 May 2016, available at: <http://www.scmp.com/lifestyle/fashion-luxury/article/1948612/hong-kong-expatriate-bankers-downsize-dramatically-housing>

OUR PERSPECTIVES

We spoke with a large number of banking professionals who had been offered international transfer opportunities at various stages over the past five years. With the exception of only two senior managing directors, none were offered a housing allowance. Instead, the majority were provided with a one-off, nominal relocation package of between USD 5,000-15,000 and were provided with one month of temporary accommodation. Moreover, many of those offered positions in higher tax jurisdictions were not provided with any tax equalisation adjustment to their salaries. In fact, gross salary equalisation was not even considered for a handful of employees we spoke to (i.e. the bank offered them less than their existing base salary when adjusting for foreign exchange rates).

While reducing expatriate packages is completely understandable in the current cost-conscious environment, banks appear to have gone from one end of the spectrum to the other. We strongly believe that many banks are now providing their employees with inadequate incentives to relocate offshore, especially when these relocation requests are driven by the bank itself. This is creating international mobility challenges for more seasoned executives, particularly mid-ranked employees with young families. As a result, banks have been forced to fill many of their critical positions with external talent at a considerable premium to an internal, international transferee more qualified for the role.

We also discovered that policies surrounding client entertainment budgets were regularly circumvented by senior staff members. A chief operating officer (COO) we spoke to working in the markets sales desk at a global bank said they were regularly asked to provide special approval for senior salespeople to exceed their entertainment budgets. Given their direct manager was the head of sales and a driving force behind such requests, the COO felt compelled to approve the majority of these submissions. These 'exceptional requests' had in fact become a daily occurrence such that company policy only applied insofar as the individual employee wasn't senior enough to override it. A COO working in the investment banking department of a global firm also commented that it was difficult to police the authenticity of entertainment expenses of client-facing bankers.

RECOMMENDATIONS

1. One size doesn't fit all: Banks should not adopt a cookie-cutter approach to relocation packages. They must think more strategically about customising relocation benefits if they are serious about mobilising their top talent internationally, especially when that relocation comes at the bank's request. Relocation packages should be tailored according to each individual's circumstances and not just reflect their corporate rank – for example, a junior vice president with a family being asked to relocate will have different needs from a managing director with no family.

2. Make special approvals the exception, not the norm: We feel special approvals must become the exception rather than the norm. Banks need to implement more effective checks and balances to ensure that those in charge of approving exceptional requests also have the freedom to deny them without any negative impact on their careers. This may require adaptations to reporting lines, such that COOs/business managers sit more independently from the business they cover.

RELOCATION PACKAGES SHOULD BE
TAILORED ACCORDING TO EACH INDIVIDUAL'S
CIRCUMSTANCES AND NOT JUST REFLECT
THEIR CORPORATE RANK

2. CAREER DEVELOPMENT

2.1 PROMOTIONS

Promotions have long been used by banks as a tool for retaining their best talent. However, recent years have seen employers focus much of their attention on accelerated career paths for juniors at the expense of mid-to-senior-level employees. This is leading to promotion bottlenecks and heightened dissatisfaction among mid-ranking employees.

All global banks have clearly defined ranks and a structured career path for their employees, typically from analyst through to managing director. Each rank promotion has historically been accompanied by a sizeable uptick in base salary, together with a large increase in annual bonus. Given the generous financial rewards on offer, competition for promotions was and remains fierce.

It is well known in the industry that investment banks in particular, consistently struggle to retain their best and brightest junior bankers. After working 90-100+ hours a week over the course of a two- to three-year analyst program, top-performing juniors are typically poached by other top banks, join a private equity firm or hedge fund, or pursue an MBA at an elite business school. In more recent years, the race to recruit the brightest young bankers has only intensified, with leading private equity houses wooing top-performing analysts just six months into the typical two-year analyst contract (i.e. 18 months before any new role would start).

The investment banks have defended these approaches in two ways: firstly, by increasing analyst base salaries and, secondly, by introducing accelerated promotions for junior bankers. Analysts are now being promoted to associates as early as two years into their careers, 6-12 months ahead of traditional timelines (see Figure 9).

IT IS WELL KNOWN IN THE INDUSTRY
THAT INVESTMENT BANKS IN PARTICULAR,
CONSISTENTLY STRUGGLE TO RETAIN
THEIR BEST AND BRIGHTEST JUNIOR BANKERS.

FIGURE 9: ACCELERATED ANALYST PROMOTIONS

	Analyst Program Duration (Previous)	Analyst Program Duration (Current)	Change
Barclays	3.0 years	2.5 years	▼ 6 months
Deutsche Bank	2.5 years	2.0 years	▼ 6 months
UBS	3.0 years	2.5 years	▼ 6 months
Credit Suisse	3.0 years	2.0 years*	▼ 12 months
Goldman Sachs	3.0 years	2.0 years	▼ 12 months
Citi	3.0 years	2.0 years	▼ 12 months
RBS	3.0 years	2.0 years	▼ 12 months
J.P. Morgan	3.0 years	2.0 years*	▼ 12 months

* Only offered to top performing analysts

Source: Press releases, industry interviews, Quinlan & Associates analysis

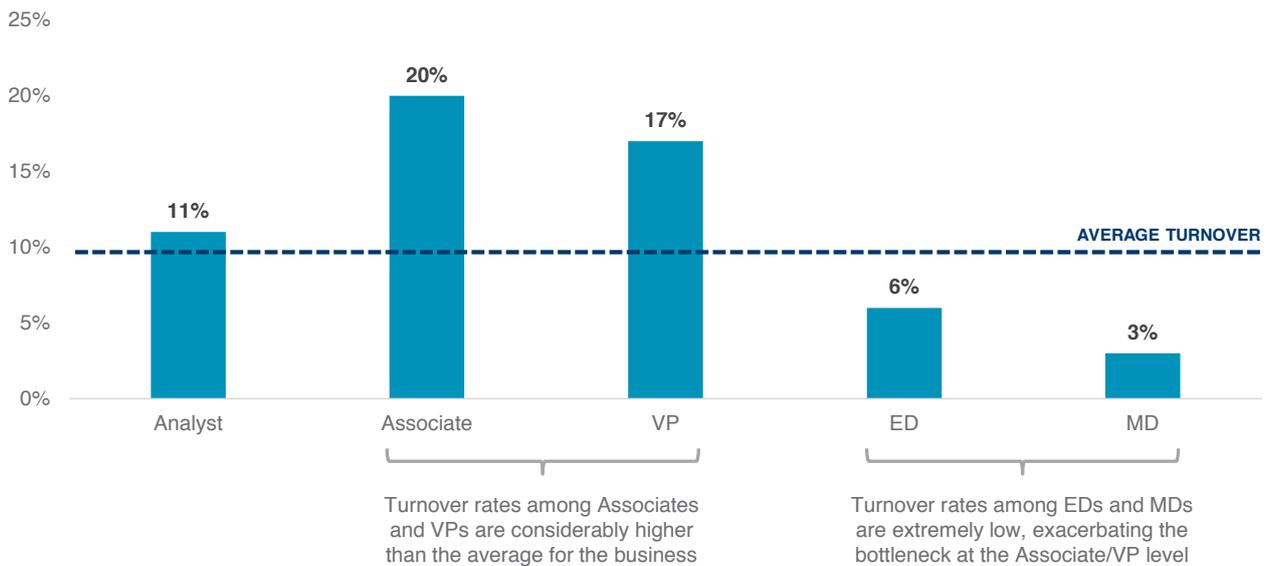
OUR PERSPECTIVES

Although accelerated analyst promotions have sought to stem the tide of junior departures, banks have done little to address the growing bottleneck of mid-level bankers – namely, associates, vice presidents and directors – with limited upward mobility prospects. This is a result of strict quotas on senior promotion openings in an effort to rein in costs. In 2013, for example, Goldman Sachs changed its managing director selection process from once every year to once every two years. Even before this change was put in place, the bank only promoted about 2% of its global vice presidents each year to managing director.

Similar situations exist at other global firms. An employee at one bulge bracket investment bank we interviewed said that of the ~500-strong front-office employees in the bank's regional equities business, only two were promoted to managing director (from a pool of ~200 executive directors) and six to executive director (from a pool of ~140 vice presidents) for each of the past three years. This growing bottleneck of mid-ranking employees is creating considerable discontent among a large proportion of the group's workforce: voluntary turnover rates for associates and vice presidents at the bank stood at 20% and 17% respectively in 2015, up from 11% and 9% just two years earlier. This compares to only 3% for managing directors, down from 6% over the same period (see Figure 10).

...OF THE ~500-STRONG FRONT-OFFICE EMPLOYEES IN THE BANK'S REGIONAL EQUITIES BUSINESS, ONLY TWO WERE PROMOTED TO MANAGING DIRECTOR (FROM A POOL OF ~200 EXECUTIVE DIRECTORS) AND SIX TO EXECUTIVE DIRECTOR (FROM A POOL OF ~140 VICE PRESIDENTS) FOR EACH OF THE PAST THREE YEARS.

FIGURE 10: 2015 FRONT-OFFICE TURNOVER RATES (GLOBAL BANK)



Note: Numbers are for front office employees at a global investment bank's regional equities business

Source: Industry interviews, Quinlan & Associates proprietary data and analysis

Another problem with fast-tracking analyst promotions in a blanket fashion is that it does little to differentiate between high and low performers. It may also create false expectations among junior bankers as to the pace of their long-term career trajectories, especially when they encounter

prolonged promotion waiting times at the vice president level and above. This problem is even more acute for middle and back-office employees, where promotion quotas are even more limited.

RECOMMENDATIONS

1. Remove standardised timelines: Promotions should never be given according to fixed timelines. Standardised promotion timelines do not distinguish between high and low performers, and using them only serves to reward underperformers while creating substantial discontent among a bank's high-performing employees. Low performers are in turn incentivised to stay while high performers are encouraged to leave. A vice president we interviewed who works in the back office at a European investment bank shared this sentiment, stating that 'it is very off-putting to high performers when lower performers are commended for sub-standard work.' We feel meritocracy and differentiation are key.

2. Establish clear promotion criteria: Promotion criteria need to be clear, concrete and transparent. Rather than asking employees to write their own objectives at the start of each year, banks need to provide explicit guidance on what is required of their staff to move up the corporate ladder, including standardised objectives for particular roles. This is even more important for non-revenue generators (i.e. middle and back office employees). Clear KPIs and an effective 360 degree evaluation system is needed to ensure contributions can be appropriately measured and fairly compared.

3. Right-size the pyramid: No matter how clear promotion criteria are or how meritocratic the promotion process is, banks must take steps to right-size their employee pyramids if they are to effectively address the growing bottleneck of mid-level bankers waiting to be promoted. Faced with stringent headcount reduction targets during the GFC, banks brought the axe down heavily on their junior workforce, choosing instead to keep their senior revenue-generators. This has resulted in a top-heavy employee pyramid: for one front-office business we interviewed in Asia, executive directors and managing directors accounted for over 50% of the business' headcount. We believe an effective 'juniorisation' strategy is needed to rebalance the pyramid. This will need to be carefully implemented to ensure employees have appropriate levels of experience to effectively perform their roles.

2.2. TRAINING & EDUCATION

Global banks go to great lengths to ensure employees possess both the technical and soft-skills that are expected of them in their roles.

Goldman Sachs is one of many firms that initiates this technical training process at the junior level, well before an employee even steps foot in the office. An online learning platform called 'Jumpstart Your Learning' offers a series of fundamental training courses to entering analysts to ensure a minimum threshold of technical competence is met prior to formal commencement at the bank.

Graduates at most of the international banks spend their first weeks at work immersed in structured training programs, typically held in London (for European banks) or New York (for American banks). J.P. Morgan analysts in Europe receive two weeks of Financial Conduct Authority (FCA) training, followed by seven weeks of classroom training in the firm's New York office. This compares to six weeks of classroom training at Citi, Barclays and HSBC, and five weeks at UBS and Deutsche Bank.

In addition to developing their employees' technical skills, banks have also made sizeable investments in soft-skill training. Beyond incorporating communication skills and teamwork as priorities in graduate training programs, more seasoned employees are usually offered a variety of training courses through a combination of external providers and a bank's internal 'Learning & Development' team. UBS, for example, runs its own 'UBS Business University,' an in-house training platform offering a comprehensive range of online and face-to-face courses to its employees worldwide. The University's core focus is on 'enhancing leadership and management capabilities, business and professional skills, as well as building knowledge and competencies in legal, compliance and risk management.'¹¹

Amidst ongoing fines and an endless wave of litigation, the global banks have refocused much of their attention on bolstering their compliance training programs. Barclays demonstrated this in 2014 by setting up a Compliance Career Academy in partnership with Cambridge University for its rapidly growing population of compliance officers. Likewise, J.P. Morgan boasted over 800,000 compliance training hours being completed by its mortgage business employees in 2014 alone.¹²

11 UBS Business University website: https://www.ubs.com/hk/en/wealth_management/about_us/business-university.html

12 Bloomberg, 'The Rise of the Compliance Guru-and Banker Ire,' 25 June 2015, available at: <http://www.bloomberg.com/news/features/2015-06-25/compliance-is-now-calling-the-shots-and-bankers-are-bristling>

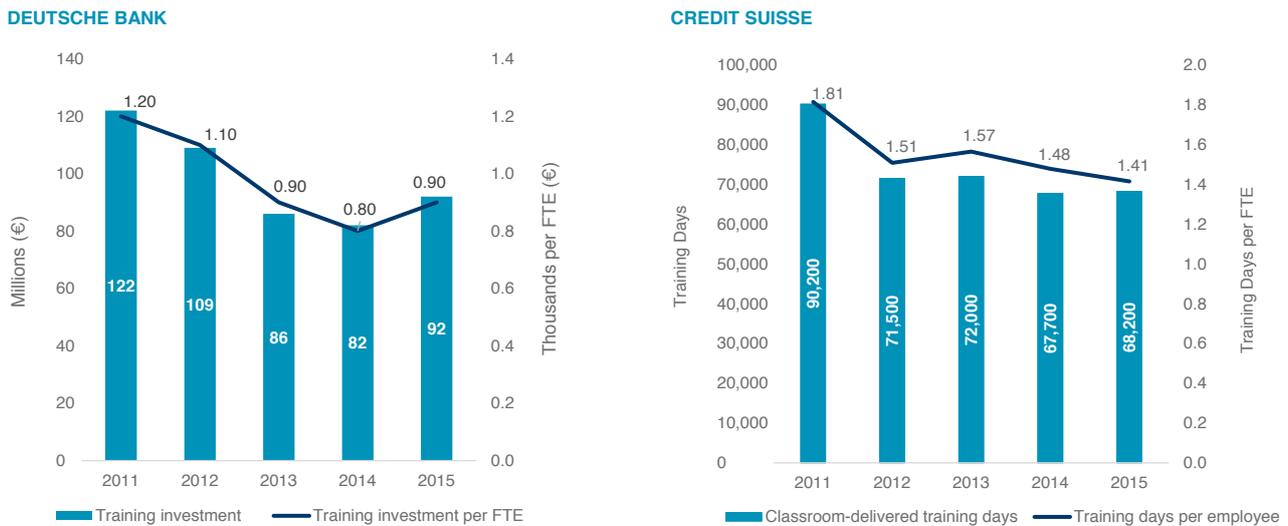
OUR PERSPECTIVES

Unfortunately, training program structures in their current state appear to be trading off one skillset for another. More and more reports of junior employees lacking basic financial modelling skills suggests that a vested interest in compliance is coming at the expense of technical training. In addition to an ongoing shift in focus to compliance training, budget cuts are taking their toll on both the depth and duration of training programs overall. One human resources representative we spoke to at a global investment bank agreed, saying that while there was an increase in compliance training courses over the past few years, the bank had cut the duration of all of its graduate training programs by several weeks. Many training locations were also moved from global to regional offices in an effort to minimise travel costs.

Data from a number of global banks reinforces this ongoing decline in training investment. From 2011 to 2015, Credit Suisse saw a 24% reduction in its overall training days from 90,200 to 68,200, with training days per employee falling by 22% to just 1.41 days. Over the same period, training spend at Deutsche Bank fell by 25% from €122 million to €92 million, with training spend per employee falling at the same rate (see Figure 11).

IN ADDITION TO AN ONGOING SHIFT IN FOCUS TO COMPLIANCE TRAINING, BUDGET CUTS ARE TAKING THEIR TOLL ON BOTH THE DEPTH AND DURATION OF TRAINING PROGRAMS OVERALL.

FIGURE 11: EUROPEAN BANK TRAINING COMMITMENTS (2011-15)



Source: Company Corporate Responsibility Reports, Quinlan & Associates analysis

Not only have budget cuts impacted bank training commitments, but they have also taken their toll on education sponsorship. The vast majority of the bankers we interviewed said their firms no longer provide financial support for qualifications such as an MBA or CFA. Even the provision of study leave is generally limited to one-to-two days per year, and is only granted on a case-by-case basis with line manager approval.

Furthermore, we believe the current method of training delivery, while convenient, is not conducive to skills development, given it is frequently delivered to employees via e-learning modules, which often attempt to present complex concepts in summarised, written formats with some basic voiceovers. Despite these compliance training modules being compulsory, it is common for staff to ‘skip’ through online courses with little attention due to a lack of engagement or direct supervision. Even for courses

with quizzes and minimum pass marks at the end, there is no limit to the amount of times the test can be retaken, and staff are not warned for repeated failures. Consequently, the provision of training isn’t efficiently translating into learned knowledge.

Of most concern is feedback from employees who feel the compliance training they are undertaking is simply a means to shift any legal burden from the organisation to the individual (i.e. that they will be held personally liable for any legal or compliance failures). We understand this has had a considerable impact on staff morale and their perceptions of compliance training in general. We get the distinct impression that many employees feel more personally at risk now than ever before.

RECOMMENDATIONS

- 1. Invest further in technical training:** Greater emphasis must be placed on technical training, especially at the junior level. In addition to classroom-based learning, we believe technical knowledge is best gained through hands-on experience. To facilitate this, an incentive program whereby each member of a previous cohort of analysts helps train incoming analysts (and, in turn, has his or her own review partially determined by the technical performance of the incoming analyst assigned) could be introduced. This would help to create a culture of 'technical best-practice knowledge sharing' among junior employees, well beyond a mere 'buddy system' that many banks already have in place.
- 2. Move away from online delivery:** Banks should place much greater emphasis on externalised and live instructional training, especially with respect to compliance topics. By externalising such training, there will be greater focus on – and transparency around – knowledge acquisition instead of completion rates. This should enhance outcomes from any assessments provided at course completion. Additionally, a live method of instruction, accompanied by interactive case study discussions, will enhance employee engagement around often complex and nuanced compliance topics, something online modules fail to deliver.
- 3. Institute mandatory soft-skill training:** Soft-skill training programs must be implemented at all employee ranks. We believe this is especially important for mid-and-senior level executives, whose roles regularly require them to exhibit a broad range of soft-skills: from sales and negotiation skills to stakeholder management, team management and workflow planning. Moreover, the current 'opt-in' convention for soft-skill training workshops allows a large and often undefined population of a bank's employees to sign up to a broad range of professional development courses. Often, 'high performers' are not motivated to attend (especially where their performance has traditionally been judged by their P&L contribution) while unengaged staff may sign-up to as many courses as possible to simply take a break from their daily office routines. Current soft-skill training programs need to be much more targeted and made available on an ongoing, regularly-scheduled basis.
- 4. Reinvigorate education sponsorship:** We believe it is critical for banks to reinvigorate education sponsorship for employees seeking to enhance their technical skills and professional credentials. Not only will employers receive the daily benefits of having upskilled staff members, but enhanced credentials can be used as a powerful marketing tool to pitch for new business (especially for employees in client-facing roles). While there is a clear upfront cost associated with education sponsorship, this payment can be used as an effective mechanism to 'lock in' staff for a defined period of time. For example, staff receiving education sponsorship may be required to stay at the bank for at least 24 months following the completion of their course, failing which they need to reimburse any tuition fees covered by the bank. Management consulting firms already employ such an approach, which has served as a useful retention lever.

2.3 MOBILITY

Both employees and employers benefit from well-designed job rotation programs. Whether positional, inter-departmental or geographical, internal mobility helps engage employees, increase organisational commitment and improve their job satisfaction.

Rotation programs also allow employers to share their company's core vision and values with their staff, and maintain corporate culture or DNA throughout the company. Through exposure to the wider organisation, employees are encouraged to develop new perspectives, build internal networks and develop a better understanding of the processes that tie a bank's various businesses together.

A number of global banks offer inter-departmental rotation programs to their junior employees. Aimed at interns and graduates, these rotations are designed to expose junior talent to numerous functions across the bank while giving them a practical understanding of the interdependency of each division in promoting the overall mission statement of the organisation. At their broadest level, graduates can choose to join 'generalist' training programs that provide them with wide-ranging exposure across a variety of businesses. For example, J.P. Morgan offers a two-year Corporate Analyst Development Program (CAPD), which consists of four six-month-long rotations in each of the program's core disciplines – analytics and business management, project management, process improvement, and risk and control – across the Chief Administrative Office.

Within the front office, Citi lets its markets graduates undertake four short rotations across the trading floor before being placed at a specific desk. A similar approach is adopted in Deutsche Bank's Global Markets business. HSBC puts its markets hires on two-year rotational programs, with three, four-month rotations in the first year in either sales or trading. It also offers a two year training program in its Global Banking business, in which trainees spend the first year focusing on either client coverage (origination) or client advisory (execution).

A handful of banks also offer geographic rotation opportunities to their employees. In 2016, UBS launched a program called 'Rotation 100,' providing approximately 100 junior bankers the opportunity to work in other regions, or temporarily cover other sectors or products, for up to three months. 'It's about empowering our employees so they feel – and are – treated like owners of this business and owners of their careers,' said Andrea Orcel, CEO of UBS.¹³

Beyond formal rotation programs, the majority of banks also actively encourage staff to apply internally to other roles within the organisation, primarily through internal job postings. Not only does this enable a bank to source a candidate who has already been pre-screened with a proven track record of performance, but it also allows them to save on substantial recruitment costs (e.g. new hire salary premiums, headhunter fees) associated with sourcing talent externally.

13 Reuters, 'UBS tells bankers 'take two' in bid to get the balance right', 1 June 2016 available at <http://www.reuters.com/article/us-ubs-employees-idUSKCN0YN51K>

OUR PERSPECTIVES

Despite the efforts of some firms to enhance internal mobility, many still don't offer rotation programs for their employees. New joiners are often pigeonholed into specialised functions and stay in that role for their entire career, with team leads sometimes actively discouraging any interest in exploring other opportunities within an organisation. While we recognise the value of specialisation, we also feel it can limit perspectives, fails to equip employees with a more holistic skillset, and ultimately hinders cross-business awareness (and hence collaboration).

Most rotation programs are also limited to graduates/junior employees and are usually only offered for a very limited period of time. We feel this lack of broad applicability, coupled with limited rotation time periods, fails to build meaningful employee expertise and deliver a real impact to the bank. This is because high performers may lack managerial skills or an understanding of the wider organisation as they move into senior management positions – many of the individuals we interviewed shared this view of their banks' senior managers.

Professionally, employees stand to gain broader skillsets and networks from a mid-career rotation, and their seniority and decision making authority would allow cross-pollination of ideas and improved collaboration between rotating divisions.

We also note that, when it comes to internal job mobility, banks have a number of restrictions on compensation and corporate rank adjustments for employees shifting roles and/or departments (i.e. compensation and title remain the same, regardless of the new job scope). We have noted this to even be the case with employees moving from a middle office to a front office role. We believe such policies fail to provide employees with adequate incentives to explore new roles, and banks ultimately suffer by having to pay a premium to fill the position externally.

RECOMMENDATIONS

- 1. Look to wider adoption:** The key improvement for rotation programs lies in wider adoption across the ranks. Conventionally, the uncertain nature of the financial markets has meant that investment banks have adopted a reactive human resources strategy, hiring senior and mid-level executives laterally into the firm when a particular business experiences growth. With rotational programs for middle and senior management in place, banks should be better able to draw on in-house talent to fill positions, improving workforce planning efforts and minimising costs associated with external hires.
- 2. Secure senior sponsorship:** We feel that future senior leaders should be especially encouraged by current senior management to take on rotation opportunities and broaden their experience. Even exposure to different desks within the same division will ensure an emerging leader is better equipped to run that division.
- 3. Increase internal hiring flexibility:** Banks should become more flexible with their internal employee transfer practices. Blanket freezes on compensation and corporate ranks for employees transferring into a new role does not appropriately reflect any changes in their responsibilities. An individual's compensation and rank should always be adjusted in line with the market and to the new role. This will provide staff with adequate incentives to explore internal opportunities while ensuring they do not feel under-valued at their current firm.

2.4 ELITE PROGRAMS

High-potential programs aim to equip mid-level executives with the necessary skills to assume leadership positions. Banks invest resources into these 'Acceleration Programs' to develop the managerial competence of high-potential assistant vice presidents, vice presidents and directors through multiple opportunities to interact with talent professionals, peers and management across the bank. Selection criteria is often very high, with only 2-3% of the talent pool typically chosen to participate in such programs.

UBS, for example, has had an Ascent program in place for over ten years. The 12-month program (previously 24-months) allows associate directors and directors to expand their perspectives, technical and soft skills, and assume additional responsibilities throughout the firm. A 'business challenge' component also helps improve problem solving abilities as participants work in cross-functional teams to solve real managerial problems, such as generating revenue or reducing costs. These teams are given the opportunity to present their recommendations to senior management.

OUR PERSPECTIVES

A stringent financial situation has led to widespread budget cuts for many high-potential programs. The compelling offsite travelling opportunities to entice exceptional mid-level executives have largely been culled. Moreover, the tight resourcing situation in many banks, coupled with the additional workload of participating in such programs, means that current program structures offer little in the way of attraction for participants.

In our discussions with one global investment bank, we found there was a 50-60% retention rate of employees three to five years after participating in such programs. However, we question the efficacy of such programs for really developing and retaining managerial talent.

More structured, on-the-job training is just as important. Deutsche Bank initiated a Resource Managers' program in early 2016, an initiative similar to a number of its peers. This optional leadership development program for vice presidents allows participants to undertake a greater role in recruiting and managing junior bankers. The accompanying stipulation is that client accounts and deals will have to be renounced for much of the year. This is similar to initiatives in place at banks like Goldman Sachs, where a designated mid-level banker will rotate into an IBD staffer role for a year and spend the vast majority of time managing juniors.

RECOMMENDATIONS

- 1. Create more targeted programs:** We believe that slimmed down, more targeted and better tailored programs are needed. More importantly, care needs to be taken to ensure any problem-solving projects do not become theoretical box-ticking exercises – for example, where ‘problems’ need to be sponsored by a willing manager, digested by a cross-functional team, and fit within the timeframe of the program.
- 2. Incentivise, don’t penalise:** Banks need to ensure that employees taking on greater responsibility to manage talent are not penalised for doing so. In the case of Deutsche Bank’s program for Resource Managers, foregoing revenue generating work for a year highlights a tremendous opportunity cost to manage and develop talent, but is also evidence of how important talent management is. Employees who make the trade-off should be assured it will not adversely impact their career trajectory. We believe that this investment in managing talent will pay off: a team of high potential talent can take on more responsibility. This would be an effective way to empower and motivate high performers, as well as free up senior management time.
- 3. Talent’s a long game:** Elite programs on their own are not a sufficient mechanism by which to nurture and retain top talent. There needs to be recognition that senior management has an ongoing role in developing future leaders. Rather than simply sending a group of high-potential individuals away for a week of networking and problem solving activities, these employees should be genuinely mentored and sponsored by senior management over the long-term.

2.5 NETWORKING

Part of the allure of working in investment banking is the access employees have to an elite network of professionals. Employees generally use these networks to make meaningful contacts to help with their career advancement, as well as meet like-minded individuals within their firm and industry. In holding numerous networking events for members of this elite community, investment banks continue to facilitate the process for employees to achieve such aims.

A large number of networks have proliferated at the global banks. For example, Citi has over 100 employee networks in place, while Goldman Sachs and J.P. Morgan have over 80 and over 70, respectively. These networks allow employees to reach the target demographic with whom they wish to connect easily. With specific networks such as J.P. Morgan’s ‘AccessAbility’, Bank of America’s ‘Black Professional Group’ and Morgan Stanley’s ‘Veterans Employee Networking Group’ in place, banks have successfully set the criteria for network finding based on age, ability, gender, race, sexual orientation, military service and family, among others.

OUR PERSPECTIVES

The vast majority of the networks that exist at banks, including the events that surround them (such as networking drinks or speed networking events), are employee-initiated. As such, many individuals we have spoken to feel their employers are not genuinely committed to building their social engagement at the firm. This is most apparent with budget allocations, which are often extremely slim or non-existent. One employee at a global investment bank we spoke to said that the 'networking drinks' which followed an internal presentation consisted of water and tea. We feel such gestures send a very poor signal to staff around the value their employers place on enhancing connectivity across the organisation.

In addition, we understand the conversion rate of these networking events into useful relationships is limited by the structure of the events themselves. Our research indicates many events repeatedly fail to achieve an appropriate senior-to-junior attendee ratio, with many seniors simply 'too busy' to participate. We believe this reflects a broader cultural problem at many banks, where little value is seen in nurturing more junior staff members outside of one's direct reporting line, given a lack of recognition – be it financial or otherwise – from the firm for doing so.

We found this absence of engagement among senior management to be most pronounced for front office employees, where a culture of 'revenue first' often comes at the expense of devoting time to internal, organisational endeavours. As a result, many junior and mid-level employees feel they are unable to procure meaningful connections with their senior front office colleagues. This is compounded by the fact that specific follow-up events are not hosted, while major firm-sponsored events are typically held, at most, on an annual basis.

RECOMMENDATIONS

- 1. Enhance mid-to-senior focus:** More structured networking events for mid-to-senior-level employees should be explored. Banks stand to benefit greatly from enhancing relationships between key decision-makers/influencers across various business lines, which should help to break down silos and improve cross-sell opportunities.
- 2. Lift funding commitments:** While we recognise the cost-conscious environment that banks are currently in, we believe funding for networking events (such as the provision of food and/or refreshments) is a critical part of making any event a success and demonstrating to employees that the bank values connectivity. In the overall context of a bank's total cost base, these funding commitments are relatively negligible.
- 3. Institute opt-out attendance:** We believe it is important to achieve an appropriate mix of attendees at networking events – including a low junior-to-senior employee ratio – to deliver a richer networking experience. As part of this, senior employees, especially those in front office roles, should be required to attend such events as part of their annual performance objectives. Banks may also wish to explore replacing the current 'opt-in' approach with an 'opt-out' one for certain events.
- 4. Implement strategic matching:** A strategic matching process can be conducted well in advance of a networking event, with metrics such as an employee's current division or division of interest, department or geographic location, being used to identify the most appropriate mix of attendees. We believe an initial screening process that better matches juniors to specific senior executives will greatly improve the networking experience for all participants.
- 5. Foster long-term relationships:** As opposed to hosting a greater quantity of networking events, investment banks should focus on fostering ongoing relationships. Employees should be given more formal opportunities to reconnect and nurture their professional links, which could ultimately evolve into formal mentoring programs.

3. CAREER ENGAGEMENT

3.1 DIVERSITY & INCLUSION

Diversity and inclusion is a tremendous asset for any organisation. Not only does it allow a company to assess complex problems and devise innovative solutions from multiple angles, but it also correlates strongly with a key criterion in attracting and retaining talent: company openness.

There has been a global trend towards achieving greater gender diversity in the workforce. In March 2016, Germany passed legislation mandating a minimum 30% of non-executive members at large companies be female. Minimum one third and maximum two thirds quotas for either gender on the executive boards of listed companies have been in place in Belgium since 2011.

In light of such trends, it comes as no surprise that investment banks have jumped aboard the bandwagon to become more gender-inclusive work environments. Goldman Sachs, J.P. Morgan, Credit Suisse and Morgan Stanley have all implemented 'Returnship' programs. These programs target jobseekers looking to re-enter the workforce following years of voluntary leave, offering them an internship to re-develop their skills prior to securing potential employment offers. This is an attempt by banks to expand upon diversity by attracting individuals with broad, cross-industry experience and to provide skilled workers with an avenue back into the workforce.

Further efforts to address gender inequality can be seen through Goldman Sachs' 10,000 Women initiative. The program seeks to provide the necessary resources to 10,000 female entrepreneurs lacking the necessary education, mentorship and funding required of their business. Although not a part of its formal recruitment process, it represents a continued effort by the bank to narrow the gender gap well outside of its own corporate structure.

With increased global recognition being given to LGBT concerns, banks have similarly shown their openness and acceptance towards breaking down discrimination based on sexual orientation. The development of LGBT networks at investment banks such as Bank of America Merrill Lynch, UBS, Deutsche Bank, J.P. Morgan and Credit Suisse reflect an almost universal commitment by global banks towards the cause.

As for fostering educational diversity, banks also seek out candidates from a wide variety of talent pools. Barclays, for instance, states it is more interested in 'who you are than what you've studied.' Officially, it seems banks are more inclined towards taking a holistic approach in assessing candidates than in having them fit a pre-defined template.

OUR PERSPECTIVES

Despite banks' efforts to create more diverse working environments, we feel meaningful inclusion has yet to be achieved. With respect to gender diversity, while banks are showing stronger overall female presence now than in previous decades, female representation at the senior management level still remains extremely low. For example,

while females currently account for roughly 40% of the global workforce at UBS, Credit Suisse and Deutsche Bank, they comprise only 20% of senior management positions (see Figure 12).

FIGURE 12: EUROPEAN BANK GENDER COMPOSITION (2015)



Note: Senior management for Credit Suisse includes Directors & Managing Directors, at all banks represents employees ranked at Director or above

Source: Corporate Responsibility Reports, Quinlan & Associates analysis

The situation is even more acute at the board and executive committee level. In examining the gender composition at twelve of the world's largest international banks, we found no single institution had more than 40% female representation on either their board or executive committee. On average, females comprised only 20% of executive committee members,

with representation falling to as low as 9% and 8% at HSBC and Credit Suisse respectively (see Figure 13). What's more, the majority of roles occupied by females are back office or group/central functions, including human resources, legal and operations.

Even so, a vice president working in the back office of a European bank suggests extremely low female representation for employees working in such capacities. The respondent stated that ‘in a meeting with nearly 100 back office directors, only 5 were women.’

Ultimately, females represent only 4% of all executive committee members holding front office positions. We feel this is unacceptably low.

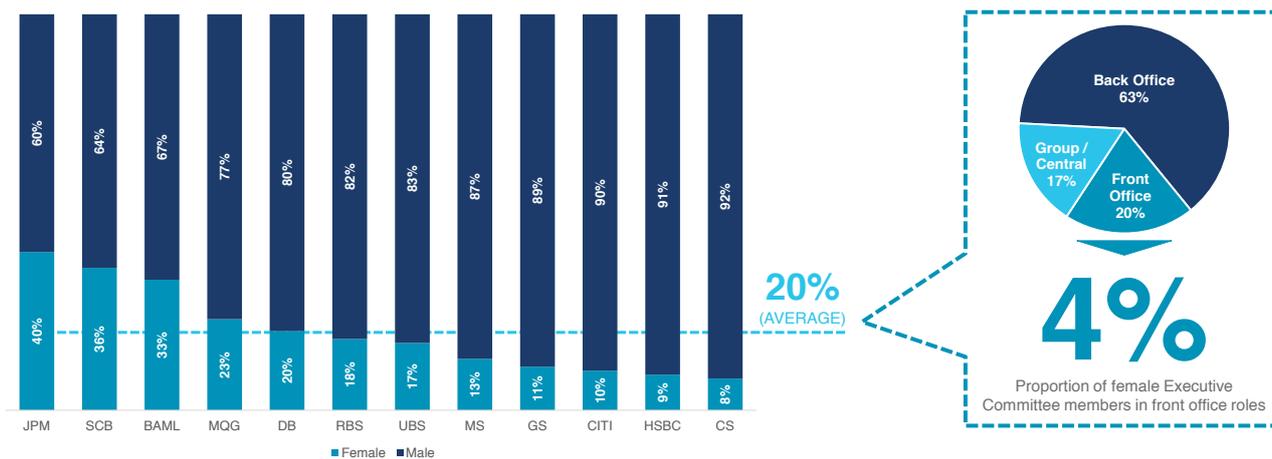
FIGURE 13: BANK BOARD AND EXECUTIVE COMMITTEE GENDER COMPOSITION

	JPM	SCB	BAML	MQG	DB	RBS	UBS	MS	GS	CITI	HSBC	CS
BOARD MEMBERS	Board of Directors	Board of Directors	Board of Directors	Board of Directors	Supervisory Board	Group Board	Board of Directors	Board of Directors	Board of Directors	Board of Directors	Board of Directors	Board of Directors
# PEOPLE	11	14	14	10	19	13	12	14	14	16	20	13
# FEMALES	2	4	4	4	7	4	3	2	2	5	6	3
% FEMALE	18%	29%	29%	40%	37%	31%	25%	14%	14%	31%	30%	23%
EXECUTIVE COMMITTEE	Operating Committee	Management Team	Executive Management Team	Executive Committee	Management Board	Executive Committee	Group Executive Board	Operating Committee	Executive Officers	Operating Committee	Senior Management	Executive Board
# PEOPLE	10	14	15	13	10	11	12	16	9	20	11	12
# FEMALES	4	5	5	3	2	2	2	2	1	2	1	1
% FEMALE	40%	36%	33%	23%	20%	18%	17%	13%	11%	10%	9%	8%

Positions held by females in Executive Committees: J.P. Morgan (CRO, Asset Management CEO, General Counsel, CFO), Standard Chartered: (CEO Retail Banking, Regional CEO Europe and Americas, CEO Commercial and Private Banking, Group Head Human Resources, Group COO), Bank of America (Chief Operations & Technology Officer, Global Human Resources Executive, Vice Chairman, Chief Administrative Officer, Corporate General Auditor), Macquarie (MD and CEO Macquarie Bank, COO Head of Corporate Operations Group, Head of Macquarie Asset Management), Deutsche Bank (COO, Chief Regulatory Officer), RBS (Chief Executive Commercial & Private Banking, Chief Human Resources Officer), UBS (President UBS Asia Pacific, Group Head Human Resources), Morgan Stanley (Global Chief Operating Officer of Institutional Securities, Co-Head of Wealth Management), Goldman Sachs (Executive VP and Global Head of Human Capital), Citigroup (CEO Citibank North America, CEO Latin America), HSBC (Group Head of Internal Audit), Credit Suisse (Chief Compliance Officer)

EXECUTIVE COMMITTEE GENDER COMPOSITION

JPM, SCB, BAML, MQG, DB, RBS, UBS, MS, GS, CITI, HSBC, CS

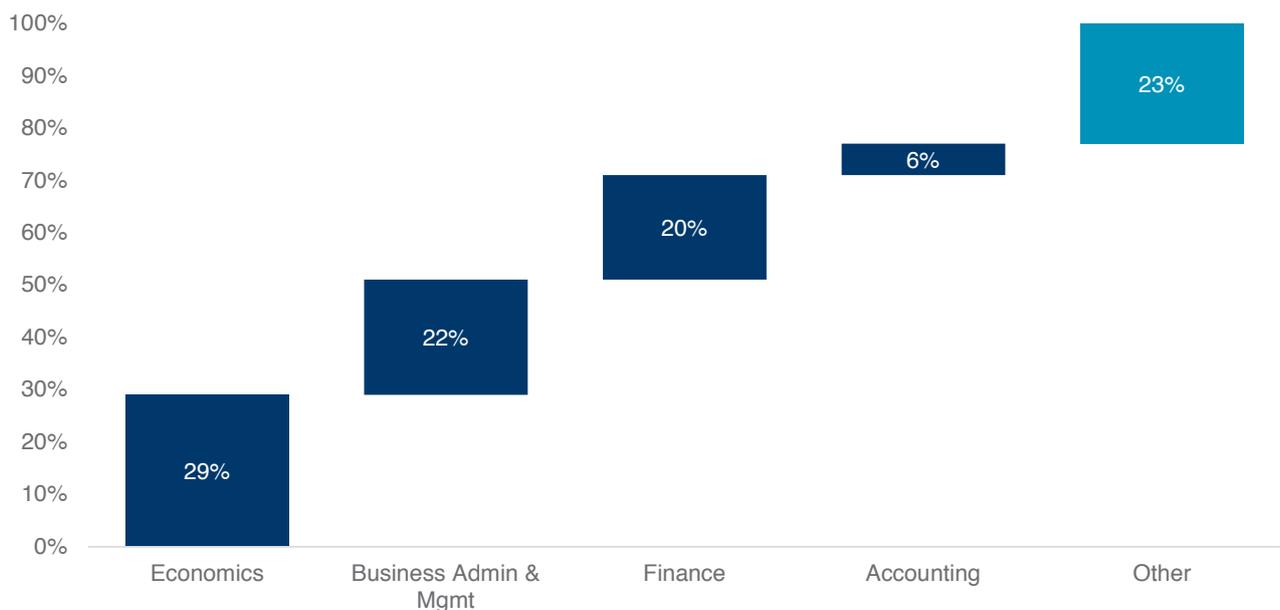


Source: Corporate Responsibility Reports, Quinlan & Associates analysis

On the educational diversity front, a study conducted by efinancialcareers in January 2016 of the more than 1.5 million CVs in their database found that over 75% of all investment bankers in the U.S. hold undergraduate degrees in Finance, Accounting, Economics or Business Administration (see Figure 14). A desire for graduates with quantitative skills tends to draw recruiters towards prospective

employees that fit a specific 'niche,' despite no formal policy mandating a particular background. The dangers of groupthink should act as a proponent of increased educational diversity, to improve decision-making through the consideration of more varied alternatives and perspectives.

FIGURE 14: U.S. BANKING EMPLOYEES BY UNDERGRADUATE MAJOR



Source: efinancialcareers, Quinlan & Associates analysis

Investment banks also tend to limit their recruitment to the very top students at the world's best universities, with strict academic cut-offs. While we recognise this as a relatively straightforward way to filter the many thousands of applications banks receive each year, we feel this unreasonably narrows the potential pool of talent that banks can source, and can quite often result in stronger applicants being overlooked.

This sentiment was most recently reflected in global accounting firm Ernst & Young's (EY's) graduate recruitment screening criteria. In August of 2015, the firm's U.K. business announced it was scrapping its policy of requiring a 2:1 honours degree at university-level and the equivalent of three B-grades at A-level in order to open opportunities for talented individuals, irrespective of their background.

Maggie Stilwell, EY's managing partner for talent, said the company would use online assessments to evaluate the potential of applicants. While academic qualifications will still be taken into account and remain an important consideration when assessing candidates as a whole, they 'will no longer act as a barrier to getting a foot in the door,' she said. Ms. Stilwell also commented that '[EY's] own internal research of over 400 graduates found that screening students based on academic performance alone was too blunt an approach to recruitment. It found no evidence to conclude that previous success in higher education correlated with future success in subsequent professional qualifications undertaken.'¹⁴

¹⁴ Ernst & Young company website, 'EY transforms its recruitment selection process for graduates, undergraduates and school leavers,' 3 August 2015, available at: <http://www.ey.com/uk/en/newsroom/news-releases/15-08-03—ey-transforms-its-recruitment-selection-process-for-graduates-undergraduates-and-school-leavers>

RECOMMENDATIONS

- 1. Set gender quota targets:** Eliminating the current barriers for women reaching more senior positions will require a conscious shift towards more inclusive practices. This could include gender quota targets at the senior management level, and a commitment to opportunities being provided at each and every rung of the career ladder (e.g. assigning a senior coach and sponsor for 'next generation' female leaders).
- 2. Promote academic diversity:** Investment banks should seek to break the cliché of only hiring top students from the elite universities. The recruitment process needs to be revisited to ensure greater educational diversity is targeted from a larger and more diverse pool of talent. An overall shift in recruiting 'top-university' students to recruiting 'top talent' will encourage the sourcing of individuals from non-traditional and non-Ivy League universities who may be limited by personal finances and/or geographical location. A greater emphasis to recruit non-traditional degree holders must also be made, with greater flexibility around academic entry cut-offs.
- 3. Improve transparency in recruitment:** A rethink of current recruitment practices and a system of checks and balances needs to be implemented in the recruitment process. Measures to safeguard against potential hiring manager biases in hiring one's own alma mater, enhanced CV filtering protocols and a review of 'target school lists' should be explored. Internal recruiters need to be vigilant that senior positions are given to the most qualified of candidates.
- 4. Assess all skills:** Hiring practices must take a more holistic approach, especially for mid- to senior-level hires. The importance of softer skills, such as presentation, communication and teamwork, need to be emphasised equally – if not more than – technical and/or quantitative skills. Assessment programs can be redesigned to encompass a larger scope of necessary skills and abilities.

3.2 MENTORING

Understanding that mentorship is a top priority for junior employees, various investment banks have been quick to provide new analysts with formal mentorship programs.

Bank of America Merrill Lynch, Citigroup and Barclays allocate one senior and one junior mentor to each summer analyst. Most other investment banks conventionally offer one mentor. At Société Générale, the pairing process of junior and senior colleagues is done via an internal, online mentoring portal.

Typically, mentors and mentees meet several times throughout a year to discuss a range of topics related to their professional growth and development. The timing, frequency and duration of these mentoring sessions is largely left up to the individuals to organise, as are the topics covered. In our discussions with a number of junior bankers, most said they looked to their mentors to provide them with advice on matters including internal promotion processes, engaging with other departments at the bank, or navigating their relationships with senior stakeholders, including their line managers.

Some banks have also begun expanding mentoring initiatives beyond entry-level employees. In 2014, for instance, J.P. Morgan piloted the 'Maternity Mentors' program. The purpose of this program was to pair new mothers with more experienced mothers in the New York office to foster a better understanding of how best to balance motherhood and work. A year earlier, Citibank Singapore launched a 'Student Mentorship' program for university students with an interest in finance. The program was designed to give students one-on-one guidance, as well as the networking opportunities required to be successful applicants in the future.

OUR PERSPECTIVES

We believe mentorship programs in their current form are currently lacking for a variety of reasons.

Firstly, a number of bankers we spoke said their employers do not offer formal mentorship programs to all their new joiners. Typically, mentoring initiatives are limited to particular business units and/or geographies, such as a ‘buddy’ system in a bank’s corporate finance department. We believe that having a mentor is a crucial ingredient for all new joiners as they settle into a new corporate environment.

Secondly, it is often the case that constructive feedback is not adequately emphasised as part of mentoring programs. In our discussions with various junior bankers, we found many went through their entire analyst training programs without much concrete interaction with their mentors. For many, their assigned mentors at the managing director level were often too busy to spend adequate time coaching junior bankers. In fact, some had never scheduled a single meeting with their mentees.

Thirdly, even for those employees who regularly met with their mentors, we were told that discussions could be rather unstructured, with huge variability in the quality of dialogue (depending on the individuals we spoke to). For a number these employees, the mentoring relationship had failed to deliver any meaningful value with respect to their personal and professional development.

Fourthly, there is little if any mentoring support provided for mid-level and senior executives, with initiatives focused primarily on junior employees. This holds the potential to reduce creativity and induce complacency for higher-level executives, who lack an effective sounding board or network to provide them with constructive feedback. We feel this lack of mentoring support for seniors is a function of the negative stigma attached to more seasoned executives seeking out a mentor; some of the individuals we interviewed said they felt it sent a signal of intellectual inferiority to their peers. We believe this reflects a broader cultural problem in the banking industry, where stakes – and often egos – can run very high.

WE BELIEVE THAT HAVING A MENTOR IS A
CRUCIAL INGREDIENT FOR ALL NEW JOINERS
AS THEY SETTLE INTO A NEW CORPORATE
ENVIRONMENT.

RECOMMENDATIONS

- 1. Mandatory mentors for new joiners:** We believe all banks should offer mentoring programs to their new joiners as a matter of policy, including fresh graduates and experienced lateral hires. Whether this is labelled as a mentor-mentee relationship or not, we feel it is critical for new joiners to receive the support of a seasoned employee, not just their immediate manager, as they settle into a new organisation. Given the size and organisational complexity of many banks, mentors can help new joiners to navigate a range of issues at the firm outside of their immediate line responsibilities.
- 2. Develop mentor training:** We feel banks need to invest considerably more time into training their mentors – specifically, on what it means to be a good mentor. While we understand that mentors will all have different working styles and personalities, we feel further training is needed on how to best structure mentoring engagements, including process-related matters such as frequency and duration, to content-related matters such as topic identification and how to create an open and trusting environment with a mentee.
- 3. Explore reverse mentorship:** Reverse mentorship policies, such as Barclays' move in 2016 to have associates discuss improvements that can be made to senior management, should be further explored. We believe this will promote greater dialogue between senior mentors and junior mentees, leading to better engagement and a greater exchange of ideas.
- 4. Roll out peer-to-peer mentoring:** Peer-to-peer mentoring programs for mid-ranking and senior executives should be explored to encourage a greater flow of creative ideas and help prevent intellectual stagnation. We feel the stigma of seeking out a mentor for more seasoned professionals needs to be addressed if such initiatives are to be effective, which will require sponsorship from a bank's most senior leadership team.

3.3 TEAM DYNAMICS

Team dynamics are a vital element of every individual's career. While banks spend a considerable amount of time and money promoting their corporate identity to prospective employees, it is current employees who experience and create the ongoing environment within an organisation.

Investment banks are notorious for their long working hours, limited social life, cut-throat competitive nature, to name a few. That is why, when opportunities arose, banks used to be willing to spend huge amounts of money on lavish social events to indulge their staff, including team off-sites and year-end parties.

In the wake of the global financial crisis, banks that once took over entire floors of the most luxurious nightclubs and restaurants have downsized or even scrapped their holiday parties and many other division-wide events, given they are still wary of inviting public backlash by spending big money on such extravagant bashes. Instead, banks are sticking to low-key parties in smaller groups or not having any at all.

According to the Financial Times, in 2015 J.P. Morgan bankers celebrated Christmas with a global budget limit of USD 20 a head that some people chose to fork out and supplement. It was even worse at RBS where it limited the budget to a modest £10 per head in 2012. In that same year, Bank of America, Morgan Stanley, Citi, Credit Suisse, Deutsche Bank and Barclays decided not to hold company-sponsored holiday parties, reported the New York Times. In more recent years, some banks have asked their managing directors to fund year-end Christmas parties for their business divisions.

Aside from team events, heightened concern around job security and compensation has driven a widespread feeling that many seniors are focusing increasingly more time on cementing their position within the organisation through aggressive upward management. This ongoing 'politicking' has created an unhealthy working environment for some teams, with self-interest taking priority over broader team objectives, including the management of more junior staff members and helping them reach the next stage of their career.

In-fighting and internal competition among senior individuals has also become relatively common – and even encouraged – at some banks as a means to stimulate the workforce. Much of this is a function of loosely defined scopes of activities and target client universes, resulting in significant overlaps between different departments. Internal competition is even more pronounced in teams managed by co-heads, often resulting in an inefficient and sometimes toxic power struggle. Many of these deliberate organisational setups designed to promote competition have taken a heavy toll on promoting a more positive team dynamic, particularly in terms of encouraging collaboration and the free exchange of information.

OUR PERSPECTIVES

We feel the blanket removal of budgets for employee social events, including year-end celebrations, are a step too far. With compensation on the decline and the industry suffering a protracted structural slowdown, staff morale remains at all-time lows. It is at this very time that banks need to focus their efforts on engaging their employees, not reinforcing the mood of despair the industry has found itself in. Firm-wide social events provide a great chance for staff to not only meet, understand and interact with one another, but also build corporate culture through common memories and experiences.

Working with much leaner teams than in previous years, working hours for many individuals have also increased. While we understand budgets need to be carefully considered in the current climate, we believe the need to enjoy 'down time' and reward hard work is more crucial than ever, with the long-term benefits far outweighing any costs associated with sponsoring employee social events.

Many junior bankers also feel that individual performance is emphasised and rewarded more than teamwork. This is primarily a function of forced peer rankings, where analysts are bucketed into performance 'quartiles,' which in turn determines the quantum of their annual bonus payment. Many analysts generally feel insecure about their place in the team and believe there is a lack of genuine collegiality – apart from spending long nights in the office together. Some interviewees felt this was reflective of the broader banking culture, and that voicing any concerns with their managers would be unwelcome and, in any event, futile (see section on 'Firm Communication' for more insight).

Similarly, we see co-head structures creating an unhealthy dynamic at a number of firms. Many bankers we interviewed working under co-head structures said that their business units were highly fragmented, with intense internal competition driving a breakdown in teamwork and collaboration. There was also an implicit understanding that employees would need to align themselves with one of the co-heads, given remaining impartial was often referred to as 'no man's land.' Such environments are highly counter-productive

RECOMMENDATIONS

- 1. Train people to manage people:** We believe banks need to train managers to spot and mentor emerging talent, putting in place strategies that identify and nurture future leaders. This should include active, on-the-ground and on-the-job training for employees, as well as exposure to the kinds of situations that would arise in the next phase of their careers. An inclusive, supportive working environment that promotes collaboration and open communication is key. This includes ensuring managers set the right example and tone for junior employees, especially in the current climate.
- 2. Fund social events:** Banks should set aside larger budgets for staff social engagements. Such events are critical in boosting morale and act as a low-cost means to recognise and reward employee contributions in a cost-conscious climate.
- 3. Deliver structured team events:** Most recently, banks such as UBS have tried to be more strategic in enhancing team dynamics, whether by bringing global management teams or regional junior teams together at more structured events that focus on team building and imparting the corporate vision. We believe similar options should be explored by other banks.
- 4. Abolish co-head structures:** Wherever possible, co-head structures should be eliminated. While banks regularly cite the complementary skillsets that co-heads can bring as justification for their use, we feel they are highly detrimental to creating a cohesive, unified team culture. Moreover, co-head structures are extremely expensive to sustain. Through abolishing them, the money saved on one of the co-heads' compensation can be deployed to other, more value-add endeavours.

3.4 COMMUNITY ENGAGEMENT

While global banks have worked on improving their capital strength, cost efficiency and effectiveness, as well as further strengthening their risk management capabilities, they have also looked to community-associated endeavours as a means to regain public trust and improve overall corporate citizenship.

From a monetary perspective, several banks have donated generously to a number of causes, as well as set up online matching programs to double up employee donations to selected charities. Banks like J.P. Morgan, UBS and Deutsche Bank in US have had matching programs in place for a number of years whereby each employee's donation, capped at a certain amount per year will be matched by the firm. Via the same framework, J.P. Morgan also offers volunteer grants to charitable organisations once employees (or groups of employees) have volunteered at said organisation. Team-based grants are capped at USD 1,000, once employees have collectively volunteered for 100 hours.

Deutsche Bank has often been recognised for their innovativeness and creativity regarding community efforts. The bank instituted the *Donate One Day* program at their Singapore and U.K. offices, where employees first get to nominate their favourite charities, and then have the opportunity to donate between one and thirty days' base salary to the four-most voted charities. The bank also launched a Corporate Community Partnership program which provides employees with the opportunity to take paid leave in order to assist on overseas community projects.

Morgan Stanley, too, maintains an aggressive mindset of giving back to charity and the overall community. In June each year, the bank holds the Global Volunteer Month, a period intended for the firm to come together as a means of giving back to the community. The campaign, now in its 11th year, has amassed over 1.3 million hours of volunteering. The bank has also launched the Institute for Sustainable Planning, seeking to drive capital towards investments promoting sustainable growth at the organisational level.

OUR PERSPECTIVES

It is clear that global banks have initiated programs to encourage employees to volunteer at partner organisations, as well as providing contractual support to them. Deutsche Bank employees in the U.K. are provided with the option of taking up to two days a year out of the office in order to volunteer, as indicated in the bank's U.K. employee handbook. UBS provides employees with a two-day allowance to volunteer at UBS-specific volunteering projects, while Credit Suisse offers employees up to four working days on full pay to assist with charitable projects run by partner organisations.

A review of various bank Corporate Responsibility Reports highlights somewhat of a mixed picture with respect to their volunteering commitments. Since 2012, UBS and Morgan Stanley have seen a sizeable increase in both overall volunteering hours and the number of volunteers, with Morgan Stanley's total company volunteering hours nearly tripling from 2012 to 2014, from 176,000 hours to 484,000 hours. Deutsche Bank, on the other hand, saw a substantial decline in both volunteer hours and the numbers of volunteers from 2012 to 2015. However, the number of volunteer service hours performed during office hours has actually increased, from 37% of total volunteer hours in 2013 to 48% of total volunteer hours in 2015 (see Figure 15).

FIGURE 15: BANK VOLUNTEERING COMMITMENTS

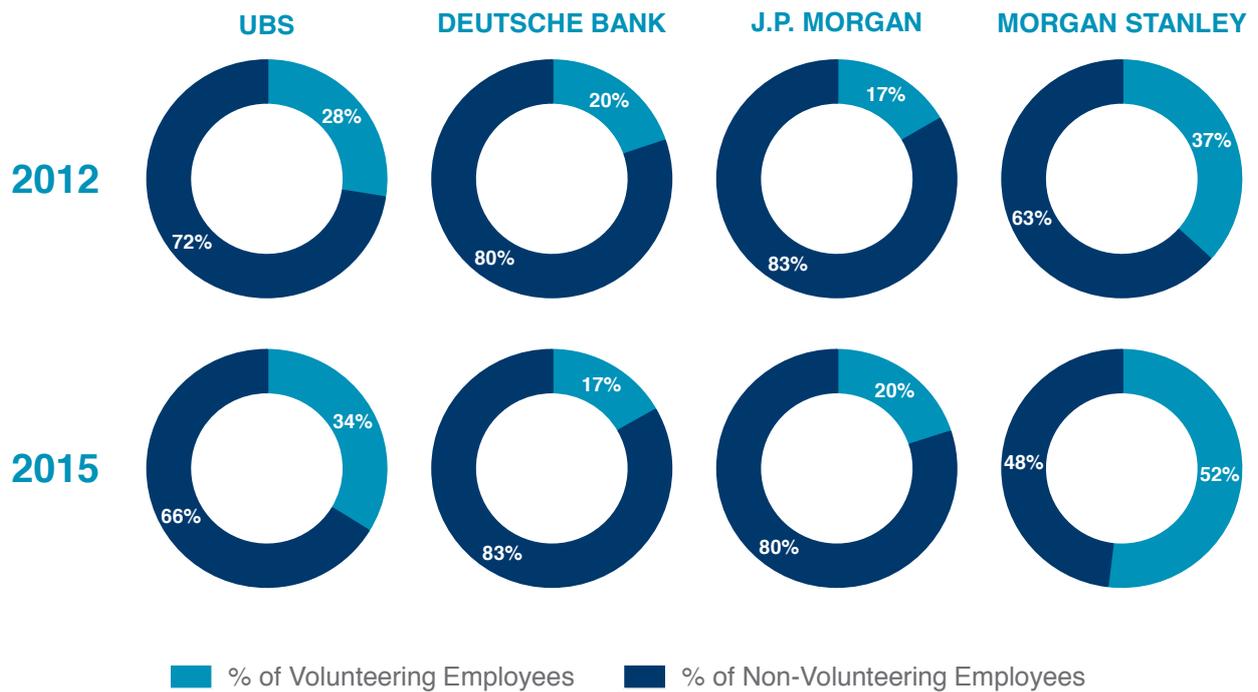


Source: Company Corporate Responsibility Reports

Despite being relevant to some banks' performance reviews, and often linked to training requirements, the vast majority of employees do not engage in taking out working days to volunteer. At Deutsche Bank and J.P. Morgan, for example, less than one in four employees took part in volunteering activities in 2015.

This is considerably lower than Morgan Stanley, with 52% of the bank's employees volunteering their time in 2014 (see Figure 16).

FIGURE 16: VOLUNTEER PARTICIPATION RATES



Source: Company Corporate Responsibility Reports

We believe community engagement initiatives are important as they represent a broader reflection of a firm’s overall culture, especially its commitment towards corporate social responsibility endeavours. With banking employees increasingly being labelled as ‘banksters’ following the GFC, an organisation’s community engagement efforts are also critical in repairing the industry’s image by positioning

banks as ‘good corporate citizens.’ Beyond cultural and branding benefits, community engagement initiatives help to enhance engagement and cohesiveness between colleagues, an important talent retention lever.

RECOMMENDATIONS

Although improvements have been made in volunteering participation ratios at a number of banks, we believe more can be done, including:

- 1. Encourage volunteer leave:** We suggest banks take a bigger step in encouraging employees to take advantage of the amount of working days they can contribute to community efforts. This could be done via an extensive internal communication campaign and/or adaptations to company policies. Deutsche Bank's 2014 Corporate Responsibility Employee Survey showing that a mere 33% of employees believe it is easy for them to find time to volunteer while at Deutsche, indicating that there is plenty room for improvement.
- 2. Reorganise events formats:** Instead of organising large-scale community-service events on an infrequent basis, banks should look to engage in smaller, frequent events requiring more manageable time commitments from their employees. Doing so should help promote the willingness of individuals to participate in volunteering efforts.
- 3. Host joint events:** Wherever possible, banks are suggested to organise community-based events tied to other internal endeavors to encourage employees across different ranks and functions to participate; examples include team outings that are jointly packaged with community-based events, or mentor-mentee community service events. These events not only improve community contributions at each respective bank, but also serve to improve team dynamics and nurture professional relationships.
- 4. Democratise community partners:** Another approach to increase the commitment of employees towards community efforts would be to involve them further in the selection of community/charitable partners. To this end, simple surveys can be conducted to identify those charities most supported by a bank's employees. We believe it is critical to give employees the opportunity to support charities and community endeavours that they stand behind.

3.5 FIRM COMMUNICATION

Effective communication is a critical tool by which to drive employee engagement and foster a more transparent, inclusive working environment. This can occur at the group, divisional, team and individual level.

Banks have traditionally invested considerable resources in managing their communication efforts with key external stakeholders, including its clients, shareholders and regulators. In more recent years, external communications efforts have been in 'damage control' mode, with banks' in-house communication teams increasingly working with external public relations agencies to develop messaging strategies designed to reassure clients and shareholders amidst an onslaught of fines and criminal lawsuits.

Banks have similarly focused on internal communications efforts to manage the flow of negative information within their organisations, with a view to raising employee awareness and engagement. Key communication channels include town halls, newsletters and email communiques from senior management, which are delivered at the firm, divisional and regional/country-level. Many teams (e.g. COO teams, product teams) also hold meetings on a weekly basis. These meetings provide team members with the opportunity to share progress updates with their colleagues, highlight their upcoming priorities and revise their 'to do' lists based on the team's evolving objectives.

At the individual-level, all banks conduct annual performance evaluations for their employees. These reviews take place near calendar year-end, several months in advance of the firm's annual bonus cycle. Managers are required to evaluate the performance of their team members against the objectives they set at the start of the year. Employees are then given a performance rating, typically on a 5-point scale (e.g. 5 = significantly above expectations, 1 = significantly below expectations). Informal mid-year evaluations are also provided by many organisations, acting as a 'pulse check' on employee progress.

In 2016, Morgan Stanley and Goldman Sachs abandoned their quantitative performance rating scales and moved to evaluating their employees using more qualitative measures, including describing individuals using adjectives, as well as focusing on their respective strengths and weaknesses. These new rating systems are designed to provide employees with feedback that is more direct and useful, recognising 'softer' contributions to the firm beyond how much money employees bring in.¹⁵

15 Bloomberg, 'Morgan Stanley said to follow Goldman dumping numbers in reviews,' 3 June 2016, available at: <https://www.bloomberg.com/news/articles/2016-06-02/morgan-stanley-said-to-follow-goldman-dumping-numbers-in-reviews>

OUR PERSPECTIVES

While most banks ramped up their external investor relations efforts following the GFC, we feel much more needs to be done internally. This is especially so in light of the relentless negative media scrutiny facing the industry, which is having a severe impact on employee morale and staff engagement. Coupled with precarious job security and a bleak compensation outlook, many employees are seeking even greater levels of assurance from senior management around the strategic direction of the firm and future of their individual business units, including their own careers.

Whilst we recognise banks have done a relatively sound job with their group-wide communication efforts, we believe this messaging has failed to effectively cascade down through the wider organisation. A number of employees we interviewed at a global investment bank said their regional business division had not held a town hall for over two years. None of these employees were aware of the business unit's strategy and said they did not feel part of a larger, unified effort. Together with their colleagues, they felt completely disengaged at work. This sentiment was echoed by many of the bankers we spoke to working at global firms.

Among those employees who attended town halls, there was also a widespread feeling that things were 'too rehearsed,' with a by-the-book approach failing to deliver any meaningful insight or opinions from senior management. Even questions directed at senior management from the audience were planted/pre-agreed with the bank's corporate communications team, such that more controversial or taboo topics that employees wanted to discuss were often scrapped.

We also found team-level communication efforts were severely lacking at a number of international firms. Many of the employees we interviewed did not have regular team meetings, resulting in a feeling of relative isolation at work and a poor understanding of the broader mission of their respective business unit. Even for employees who had regular team meetings, there was a widespread feeling among those we interviewed that the meetings added little value, and were designed more as a 'box ticking' exercise for managers to keep track of their staff. Rarely were meetings used to promote the brainstorming of new ideas, and seldom did juniors receive updates from their managers on 'bigger picture' issues.

Individual-level communication was even more varied in quality, which was largely a reflection of each employee's manager. Interview feedback indicated that some managers were simply too busy to coach or train their staff members, and many others did not take the time to provide constructive feedback and outline meaningful development priorities. For some of the junior bankers we spoke to, there was a feeling of complete disengagement, driven by a lack of concern from their managers regarding their career development, with 'times are bad' often being used as an overarching reason as to why employee priorities took a back seat. Some individuals we interviewed also felt they were unable to air their true opinions, such as speaking openly about excessive workloads or unrealistic sales targets. This was largely due to a perception that banking's cut-throat working culture looked down on any sign of 'weakness.'

RECOMMENDATIONS

- 1. Institute communications objectives for management:** Communication targets for senior management should become part of their annual evaluation criteria. It is critical for senior management to recognise that effective internal communication (such as a regional town hall for an entire division) is an essential part of their role as a leader, not just a 'nice to have.'
- 2. Enhance manager training:** banks need to invest more time in communications training for all their managers. This should include training on how to deliver difficult messages to their team members, effective ways to provide constructive feedback, as well as how to create an open and trusting environment for their team members. This is particularly relevant when it comes to annual performance reviews.
- 3. Ensure a two-way communication flow:** all departments should have weekly or bi-weekly, semi-structured team meetings where junior and senior team members are in attendance. These meetings must be all-encompassing and allow for more than a basic status update by team leads going around the room. Juniors should regularly be given the opportunity to present on a particular project they have worked on, allowing peers to gain a better understanding of their responsibilities while they develop their soft skills. To dispel the notion that managers are overworking their teams and not working themselves, seniors should also take the opportunity to explain their own undertakings, which will also help juniors to understand the 'bigger picture.'
- 4. Drive in-person delivery:** Increasingly, electronic dissemination has become the primary method of communication for key internal announcements. We feel this de-personalises management. Organisational and administrative announcements should be presented and discussed in person to the greatest degree possible, with emails only being used as a tool for follow up.
- 5. Sponsor informal events:** Informal events such as 'brown bag lunches' should be held across all departments, in which senior employees can speak about their personal or career journey, or present on a more technical topic that might be of broader interest to their peers. Through interactive Q&A sessions, attendees can gain a better understanding of their colleagues to enhance team dynamics, while juniors can gain greater insight into different career paths at the bank while building on their technical knowledge.
- 6. Create a 'no door' policy:** In businesses such as investment banking where offices are still seen as a status symbol that 'you've finally made it,' the removal of offices for all bar the most very senior management not only democratises the workplace, but is an important aspect of enhancing communication and training, as junior-level staff can be privy to more ad-hoc communication with clients and colleagues. While this has been implemented to some degree, we feel true change will occur when the environment moves from an 'open door' policy to a 'no door' policy.
- 7. Remove Q&A filters:** In the current climate, it is imperative that both junior and senior team members feel that they are able to ask questions about sensitive or so-called taboo topics. To facilitate open and honest communication, questions should be encouraged to be submitted anonymously or encouraged to be asked without pre-filtering in an open forum without fear of being singled out or ostracised. It is important for senior management to answer the questions that are front of mind for employees and follow through with proper answers or a solution/subsequent meeting if the question cannot be adequately addressed at the time.

4. WORK-LIFE BALANCE

4.1 OVERALL WORKING HOURS

Historically, the banking industry has been characterised by long, intense working hours. This continues to be the case, with the industry facing headwinds from many directions. With increased uncertainty in capital market activities and continued regulatory pressure weighing on the outsized revenue streams of the past, headcount freezes and budget cuts have become all too common. Staff departures frequently mean a permanent loss of headcount, or a time-consuming justification process to retain the headcount. In the meantime, a departing employee's work is spread across the remaining team. Where it is a team leader position, a senior team member may end up 'double hatting' an existing role with added management responsibilities.

Though fewer resources are being directed towards revenue-generating activities, overall workloads are not necessarily declining. Much of this reflects the sharp increase in activities that cater to satisfying more complex regulatory requirements, including increasingly onerous KYC, client entertainment and staff hiring rules, as well as stricter listing sponsor and corporate governance obligations in certain markets.

As regional regulators exert more influence, banks also face pressures to restructure their organisations along geographic and functional lines, as opposed to historical divisional and product delineations. Coupled with a quest to exact cost savings, this has led to a massive overhaul of roles and skillsets, especially in operations and other support functions. As a result, entire teams are being redeployed, offshored and outsourced. At an individual level, this has meant heightened job instability, significant investment in retraining to get up to speed in new roles, or getting roped into extensive change management projects on top of existing day jobs.

STAFF DEPARTURES FREQUENTLY MEAN A PERMANENT LOSS OF HEADCOUNT, OR A TIME-CONSUMING JUSTIFICATION PROCESS TO RETAIN THE HEADCOUNT. IN THE MEANTIME, A DEPARTING EMPLOYEE'S WORK IS SPREAD ACROSS THE REMAINING TEAM.

OUR PERSPECTIVES

We have observed attempts by employers to improve working hours in a bid to retain employees, especially at the junior level. Junior ranks in client-facing roles, in recognition of the slight power shift towards the millennial generation, have been able to push for less punishing workloads and travel schedules. We believe that this has positively impacted the traditional issue of face time (i.e. 'sitting in the office until the boss leaves,' even when there is no work to do), especially in Asia.

As a new generation of clients emerges, we also expect this to reflect in different ways of interacting with clients which may reduce the intensity of business travel. For example, whilst 'pressing the flesh' will still be an important part of relationship building, increasingly tech-savvy clients will be more willing to meet virtually online.

On the other hand, we believe banks' middle and back offices are under intense pressure from budget cuts and organisational changes. Employees in these functions are at particular risk of burnout. We note that processes at many banks remain very manual; whether it is booking and reconciling revenue or risk positions, or monitoring and reporting on employee misconduct. However, operating under an environment of heightened risk awareness and zero tolerance of errors (especially in light of punitive regulatory penalties), there is even greater pressure to work the extra hours to 'get everything right.'

We have noted that functional realignments and the allocation of scarce existing headcount to subject matter experts has led to a fundamental reduction in headcount to actually complete tasks. We believe this is especially pronounced in Asia, which has been affected by disproportionate cuts in headcount that do not take into account the complexity of operating in a multi-jurisdictional region: for example, settlement of trades for an average of ten currencies, compared to a single currency for the Euro-bloc.

RECOMMENDATIONS

- 1. Track hours:** Banks must have a better understanding of the hours employees are working. From a risk perspective, this also helps to understand pressure points in the system. Similar to professional services firms, such as law and accounting firms, there should also be more sophisticated efforts to track the hours spent by individuals on different projects. This is necessary both for determining the true profitability of deals and clients, and for better resource allocation from front-to-back. This could also lead to an evaluation of the current work culture, from the conduct of meetings to the effectiveness of committees.
- 2. Evaluate blanket headcount freezes:** Hand in hand with a better understanding of hours being worked across an organisation, banks need to be more pragmatic in managing headcount. The risks of burn out from overworked staff cannot be underestimated, including unintentional errors and the potential for deliberate acts from disgruntled employees.
- 3. Invest in technology:** Many banks continue to suffer from under- and ineffective investment in technology. We believe that a consistent long-term investment in technology is still required at many banks to simply replace legacy systems, ranging from core infrastructure to the management information systems required for managerial decision making. At the same time, rapid advances in the FinTech space, particularly the development of artificial intelligence (AI) technology, can be expected to replace many of the manual processes that currently require human judgement. Only by investing in innovative technology will banks be able to reduce the overall work-hours of their staff, whilst making meaningful reductions to persistently high personnel and non-personnel costs.

4.2 PROTECTED TIME

Investment banks – particularly their M&A and capital markets teams – have long been known for their brutal working hours, with 100+ hour weeks not unheard of for junior employees. For many young bankers, sacrificing one's health and personal life has long been seen as a rite of passage in their early years.

However, investment banking working conditions came under the global media spotlight in the summer of 2013 following the death of Moritz Erhardt – an intern at Bank of America Merrill Lynch – from an epileptic seizure following a 72-hour stint at the bank's London office.

In the months following Erhardt's death, investment banks rolled out a variety of protected time initiatives designed to deliver greater work-life balance for their junior employees. Goldman Sachs, for example, now prohibits analysts from working on Saturdays, while Deutsche Bank and Bank of America Merrill Lynch offer two 'protected weekends' every month. Similar policies have been instituted at other global banks (see Figure 17).

FIGURE 17: PROTECTED TIME INITIATIVES (CORPORATE FINANCE ANALYSTS)

BANK	FRI	SAT		SUN		PROTECTED TIME	FREQUENCY
	PM	AM	PM	AM	PM		
GS	Protected	Protected	Protected	Unprotected	Unprotected	FRI 9pm – SUN 9am	Weekly
Citi	Protected	Protected	Protected	Unprotected	Unprotected	FRI 10pm – SUN 10am	
CS	Protected	Protected	Unprotected	Unprotected	Unprotected	FRI 7pm – SAT 12pm	
DB	Unprotected	Protected	Protected	Protected	Protected	Weekend	2 x Month
BAML	Unprotected	Protected	Protected	Protected	Protected		
JPM	Unprotected	Protected	Protected	Protected	Protected	Weekend	1 x Month
UBS	Unprotected	Protected	Protected	Protected	Protected		
MS	Unprotected	Unprotected	Unprotected	Unprotected	Unprotected	No Explicit Policy	N/A

■ Protected Time
 ■ Unprotected Time

Source: Press releases, industry interviews, Quinlan & Associates analysis

GOLDMAN SACHS, FOR EXAMPLE, NOW PROHIBITS ANALYSTS FROM WORKING ON SATURDAYS, WHILE DEUTSCHE BANK AND BANK OF AMERICA MERRILL LYNCH OFFER TWO ‘PROTECTED WEEKENDS’ EVERY MONTH. SIMILAR POLICIES HAVE BEEN INSTITUTED AT OTHER GLOBAL BANKS...

OUR PERSPECTIVES

While efforts to create well-defined periods of protected time are indeed a step in the right direction, we believe they fail for a number of key reasons:

Narrow application: protected time is only provided to analysts working in a bank's investment banking/corporate advisory department. More senior employees (including associates and vice presidents) are not afforded such protection, and neither are junior employees working in other parts of the bank, regardless of their working hours.

Loose enforcement: in our discussions with numerous analysts at bulge bracket investment banks, we found protected weekends are rarely enforced. Moreover, there is currently no mechanism to ensure analysts are prohibited from working during protected times (e.g. disabling building security passes or blocking remote network access via VPN).

Loopholes: we found a number of loopholes that allow protected time to be bypassed. At Goldman Sachs, Senior Partners can authorise analysts to work on Saturdays, while J.P. Morgan provides this 'protection' insofar as an imminent, live deal is not to be announced the following Monday.

Limited suitability: protecting specific work days is not well-suited to the lumpy nature of the corporate advisory business. Per point (2) above, weekend work will often be necessary when a live deal is to be announced early the following week. Mandated protected time can put transactions at unnecessary risk. They can also deprive junior bankers of the chance to work on high-profile deals.

Shifting workloads: an analyst at one bank we spoke to said protected weekends had resulted in an 'on call' merry-go-round system, in which analysts are called up at very short notice to cover for colleagues on their protected weekends. As a result, protected weekends were merely shifting the workload from one junior employee to another.

Continued burnout: defined periods of protected time do little to address the problem of excessive overall working hours. One analyst we spoke to at Goldman Sachs said that protected Saturdays had merely resulted in longer weekday hours and working on Sundays.

The underlying problem with protected time initiatives is they unintentionally redistribute employee workloads over a fewer number of specified days. They also remove any element of choice as they force analysts to take defined periods of time away from the office, irrespective of their workloads.

RECOMMENDATIONS

1. Re-think protected time: If investment banks want to get serious about work-life balance, they will need to look more holistically at the way employees spend their time at the office. This could involve instituting a broader mix of time protection policies that operate in tandem (e.g. weeknight curfews and caps on the number of consecutive workdays allowed, together with protected weekends) to prevent work from merely being reallocated to other times. Greater efforts can also be made to monitor long-term workloads, such as systematically tracking the hours worked by employees each month to identify those in need of 'down time' and crediting them with additional annual leave. Employees can also be given greater discretion as to when to utilise their protected time.

2. Re-engineer processes: While these suggestions should help strengthen bank policies with respect to protected time initiatives, we believe true work-life balance will only be achieved when there is a fundamental re-engineering of culture among mid-to-senior investment bankers. This could involve greater scrutiny over the nature of deals being chased by senior bankers (e.g. weeding out deals that offer minimal revenue potential or have a low probability of success) and the types of tasks being assigned to juniors (e.g. minimising low value-add, redundant tasks). Strict output limitations and clear content guidance – such as defining the specific parameters of a pitch book and putting a cap on the number of slides that can be used – can also help to solidify expectations and reduce ambiguity, in turn optimising work hours. An analyst we interviewed working in M&A at a North American bank suggests the need for a fundamental 'change [in] the culture of everything needing to be done as soon as it is given.'

3. Set the tone from the top: To affect any meaningful change, the tone must be set from the top. More importantly, senior bankers must be held accountable for delivery. This may include reprimanding bankers who regularly exceed pitch book slide limits or those who manage teams with consistently high attrition rates. Most importantly, the long-held badge of honour that comes from working multiple 'all-nighters,' as well as the conventions around 'face time,' need to be challenged at their very core. Whilst we understand such a dramatic change in culture will be far from easy, we believe it is a necessary step in preventing burnout and providing a more sustainable career platform for a bank's more junior employees.

4.3 FLEXIBLE SCHEDULES

The concept of flexi-schedules, including part-time work arrangements and the ability to work from home, have long been used by companies as a means to provide employees with greater autonomy over their working hours while reducing the risk of burnout.

Notwithstanding their widespread adoption across a variety of industries, part-time working arrangements have not been taken up with much enthusiasm by banks. They are typically only offered on an exceptional, case-by-case basis, subject to senior management approval. Such arrangements are also usually limited to a defined period of time: for example, a mother returning from maternity leave may be allowed to work four days per week for her first three months back in the office, after which she will be required to work full-time. Our discussions with numerous industry professionals in Asia Pacific suggests that only a small fraction of investment banking employees (i.e. less than 2%) currently work on a part-time basis, with the vast majority being secretarial and administrative staff.

Other, more specific flex-time initiatives have also been offered within the industry. For the past few years, Deutsche Bank Hong Kong has given its employees the opportunity to leave work at 4pm every Friday during summer months, subject to individual line manager approval. In May 2016, UBS implemented a policy called ‘take two,’ allowing both junior and senior investment bankers in the same team to take two hours away from the office for personal time each week, provided a co-worker agrees to cover for them. The new scheme is offered to roughly 6,000 staff at UBS’s investment bank globally, with 145 teams signing up to the initiative within its first week.¹⁶

OUR PERSPECTIVES

Though efforts to implement more flexible work arrangements are commendable, feedback from the investment banking professionals we interviewed highlighted three underlying problems with flex-time initiatives in their current form.

Firstly, most are provided on an opt-in rather than opt-out basis. There is often an implicit social stigma attached to employees – especially juniors – who put their hand up for flexible work arrangements; namely, that they are unable to cope with the stress and long hours demanded by an investment banking career. Consequently, few people in need of flex-time actually ask for it.

Secondly, flex-time applications are treated relatively informally and, as such, they are typically granted (or, as the case may be, denied) at the discretion of an employee’s line manager. The vast majority of junior employees we spoke to at Deutsche Bank in Hong Kong said they had never left the office at 4pm on Fridays during the summer, notwithstanding the existence of a policy to that effect. Most said their line managers expected them to simply work their regular hours. Even for those who had completed all their tasks for the week, there was a tacit understanding that leaving the office early on a Friday was frowned upon by senior bankers.

Thirdly, the application of flex-time policies differs wildly between regions and divisions. In Europe, for example, we found that flexible working arrangements are more readily supported than in Asia, where facetime is still deeply ingrained in the working ethos. Similarly, non-client facing functions appear much more amenable to flexi-schedules than front office roles, though stark differences also exist between departments within both the front and back office themselves.

¹⁶ Reuters, ‘UBS tells bankers to ‘take two’ in bid to get the balance right,’ 1 June 2016, available at: <http://www.reuters.com/article/us-ubs-employees-idUSKCN0YN51K>

RECOMMENDATIONS

- 1. Create globally standardised process:** A select number of flexible working arrangements should be offered through a formal, globally centralised process. This will ensure every application is treated as objectively as possible, and that a firm-wide approach to flexible working arrangements can be developed (replacing current cultural disparities between various regions or business units). While applications will still need to be determined on a case-by-case basis, the process should be one that appears globally endorsed.
- 2. Ensure stricter enforcement:** Bank-wide flexible working arrangements, such as early work departures before public holidays, need to be more strictly enforced. In order to remove facetime culture in certain jurisdictions or departments, senior management must set the tone for the wider organisation, and this must be forcefully cascaded down the ranks.
- 3. Look to other industries:** Many other industries readily embrace flex-time as a means to enhance work-life balance for their employees. For example, approximately 9% of lawyers at international law firm Reed Smith work reduced hours, with full employee benefits provided to staff who work at 60% capacity. Mothers returning from maternity leave may also work reduced hours for a period of three months. We feel similar approaches should be further explored by the investment banks.

4.4 SABBATICALS

A handful of investment banks are offering their employees paid sabbaticals in an effort to promote work-life balance over the long-term. However, the service requirements for eligibility tend to be rather onerous. For example, Goldman Sachs offers unpaid leave of anywhere between 24 to 52 weeks for employees wishing to work for a public service or charitable organisation, though this option is only available to select senior VPs and MDs. UBS offers their employees a 6 to 8 week sabbatical at 50% pay, but it does so only after 15 years of service (although mini-sabbaticals after 5 years of service are available in some locations).

Recognising the problems associated with lengthy service periods, some banks have sought to provide sabbaticals on a more accelerated timeline. Independent advisory firm Moelis & Company offers its employees four-week paid sabbaticals after five years of service. Morgan Stanley followed suit in June 2016 by instituting four-week paid sabbaticals for newly-promoted VPs. Both of these measures were designed to discourage talented mid-ranked employees from leaving the firm.

Despite these efforts, many investment banks still do not explicitly offer sabbaticals – be it paid or unpaid – as a matter of company policy. Instead, most are offered on an exceptional, case-by-case basis, subject to the approval of an employee's line manager, the bank's human resources department, and senior management.

For those banks that do offer sabbaticals, service requirements are still considerably lengthier than other professional services industries, with limited optionality around timing. Our research findings indicate that professional services organisations – including accounting and consulting firms – offer a variety of sabbatical options much earlier in employee career cycles (see Figure 18). Some even provide their staff with the ability to take multiple sabbaticals during the course of their careers.

Big 4 accounting firm Deloitte, for example, offers two sabbatical options to its employees, including a one-month unpaid sabbatical after six months of service, and a three-to-six-month partially paid sabbatical after two years of service. Global consulting firm Boston Consulting Group (BCG) runs a ‘Time For

You’ program, whereby consultants with more than 12 months of service are invited to take an eight-week voluntary, unpaid leave absence program. Participants retain the majority of employee benefits during that time off.

FIGURE 18: INVESTMENT BANKING VS. PROFESSIONAL SERVICES SABBATICALS

		Service requirements at investment banks appear much longer	Investment banking sabbaticals tend to be much shorter	Investment banks don't generally offer unpaid personal leave	Investment banks offer no guidance on combining other leave	Investment banks do not offer repeat sabbaticals to their employees
		Service requirement (Years)	Sabbatical Duration (Weeks)	Is the sabbatical paid?	Can it be combined with other leave?	Can it be repeated more than once?
PROFESSIONAL SERVICES FIRMS	Company					
	Deloitte (option 1)	0.5	4	×	✓	✓ ¹
	Deloitte (option 2)	2	13-26	✓ ²	✓	✓ ³
	BCG (consultants)	1	8	×	✓	?
	BCG (partners)	5 ⁴	8+	✓	✓	✓
PwC	5-7 ⁵	4	✓ ⁶	✓	?	
INVESTMENT BANKS	UBS	15 ⁷	6-8	✓ ⁸	?	×
	Goldman Sachs	10+ ⁹	24-52	×	?	×
	Moelis & Company	5	4	✓	?	×
	Morgan Stanley	5	4	✓	?	×

<ol style="list-style-type: none"> 1. Sabbatical can be taken again after 12 months of work 2. Employees are paid 40% of their pre-sabbatical base salary 3. Sabbatical can be taken again after 36 of months of work 4. Partners can take a sabbatical every 5 years 5. Estimated service required to reach Senior Manager/Director 6. Three weeks are paid, with one week taken from annual leave 7. 4 weeks unpaid sabbatical for 5 years of service available in some locations 8. Employees are paid 50% of their pre-sabbatical base salary 9. Estimated eligibility time for select VPs and MDs 	<p>Key:</p> <p>✓ Yes</p> <p>× No</p> <p>? Unknown</p>
---	--

Source: Company websites, press releases, Quinlan & Associates analysis

OUR PERSPECTIVES

We believe banks need to do more to embrace sabbaticals as a matter of company policy. Not only do they give employees the chance to properly recharge, but sabbaticals provide employees with a genuine avenue by which to pursue interests outside of work, be it travelling, learning a language or working at a non-profit organisation. They also send a clear signal that employers are committed to offering their employees a long-term career path, something banks have traditionally not been well known for.

We see sabbaticals as an integral part of the work-life balance equation and a vital tool by which banks can address talent bleed across the ranks. Moreover, we believe all of the concepts employed by other professional services firms with respect to sabbaticals can easily be transferred to the banking industry, including providing the option for employees to take shorter, unpaid sabbaticals earlier in their careers. Similar to protected and flexible time initiatives, true cultural change is needed and this must start at the very top if it is to be effective.

RECOMMENDATIONS

- 1. Roll out mandatory sabbaticals at various career milestones:** Sabbaticals can act as a useful retention tool for mid- to late-career professionals, providing them with a mental refresh. Like other professional services industries such as law and consulting, mandatory sabbaticals should be offered to banking employees at various major career milestones, such as their 10, 15 and 20-year work anniversaries. This should be strictly enforced by the bank, which will help shape a culture built around achieving a long-term, sustainable career rather than hitting short-term revenue objectives.
- 2. Explore accelerated eligibility:** Given the high-pressure nature of the banking industry (particularly departments like M&A), firms should look to provide accelerated sabbatical options for certain departments as a means to avoid employee burnout and associated replacement exercises. We believe banks such as Morgan Stanley and Moelis & Co have set the right tone in this regard, given the sabbatical options provided to newly-promoted vice presidents.
- 3. Provide unpaid sabbaticals:** To keep costs under check, banks can explore unpaid, mini-sabbatical options for employees who have met minimum tenure and performance requirements (e.g. a minimum of two years' full-time experience in the organisation at a satisfactory performance rating). This will allow firms to demonstrate support for employee diversity beyond things such as gender and ethnicity, to embracing individuals with varied interests outside of the office. This should also help to soften the cut-throat image of the industry and act as a major draw to employees who do not wish to sacrifice their interests and hobbies.

4.5 LEAVE ENTITLEMENTS

From annual holidays to sick leave and maternity leave, banks are well known for offering their employees generous leave entitlements.

Investment banks, in particular, have instituted sizeable paid maternity leave policies, despite the fact that it is not mandated in countries such as the United States. Morgan Stanley, Bank of America Merrill Lynch, Barclays and Goldman Sachs all offer 16 weeks paid maternity leave to their employees. J.P. Morgan increased its employee maternity leave to 16 weeks in January 2016, four weeks longer than its previous 12-week policy. Moreover, employees at J.P. Morgan who are non-primary caregivers receive two weeks of paid leave respectively. Goldman Sachs doubled its allowance for non-primary caregivers from two to four weeks in June 2015.

Swiss banks UBS and Credit Suisse lead the field with respect to paid parental leave allowances. In 2015, Credit Suisse increased its maternity leave allowance from 12 to 20 weeks. UBS offers a sizeable 24 weeks of paid maternity leave, which rises to 28 weeks for employees with more than 10 years of experience. As per Swiss legislation, this means that employees who have been with UBS for over a decade are receiving twice the mandated 14 weeks of maternity leave.

Moreover, nearly all banks now mandate 'block leave' (i.e. mandatory minimum time away from work) for all of their employees. At Barclays, this manifests itself as two mandatory, non-consecutive weeks of leave every calendar year. At another global bank, block leave takes the form of a minimum ten consecutive days of leave per calendar year (inclusive of weekends).

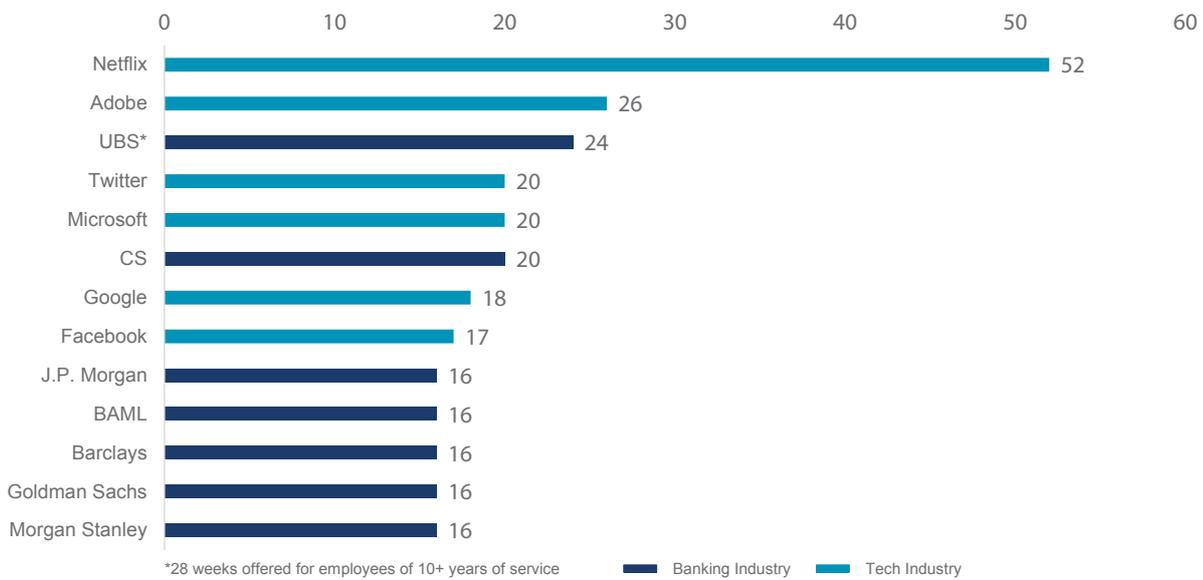
...NEARLY ALL BANKS NOW MANDATE
'BLOCK LEAVE' (I.E. MANDATORY MINIMUM
TIME AWAY FROM WORK) FOR ALL OF
THEIR EMPLOYEES.

OUR PERSPECTIVES

Although bank maternity leave policies have become more liberal, cross-industry analysis suggests scope for improvement. The technology industry has addressed its own competition for scarce talent through extremely generous parental leave policies.

Microsoft and Adobe, for instance, offer 20 and 26-week maternity leaves respectively. Netflix allows its employees to take unlimited maternity or paternity leave during the first year following childbirth or adoption (see Figure 19).

FIGURE 19: PAID MATERNITY LEAVE ENTITLEMENTS (IN WEEKS)



Source: Company websites, press releases, Quinlan & Associates analysis

While efforts to institute block leave seems to reflect banks' efforts to address infamous work-life balance issues, its underlying purpose is much less benevolent. For almost all organisations, block leave is designed as a regulatory compliance check, allowing banks to conduct detailed screenings of their employees while they are out of the office (e.g. checking traders' books). As such, its primary purpose of ensuring the effectiveness of operational risk measures does little to promote a genuine cultural concern for improving employee work-life balance.

Some professional services organisations have made considerable strides in expanding their annual leave policies. In September 2016, Deloitte announced it would provide 16 weeks of full paid family leave time for caregiving. 'By adding support for eldercare, spousal care, and children beyond the birth stage, Deloitte's family leave program provides our people with the time they need to focus on their families in important times of need,' said Cathy Engelbert, CEO of Deloitte LLP. 'Leaders often discuss how they can become more innovative, and one of the things that makes a big difference is to focus beyond business products and services and think about their people and the fabric of organizational culture.'¹⁷

Under this family leave program, mothers who give birth to a child are also eligible for up to six months of paid time off when factoring in short-term disability for childbirth.

RECOMMENDATIONS

- 1. Review duration of leave entitlements:** We believe it is time for banks to review their leave entitlement policies, given they are now starting to fall behind global professional services firms and technology companies.
- 2. Consider broader leave categories:** Deloitte's recent decision to provide their employees with 16 weeks of paid family leave is an explicit recognition that family time is valued by the firm as a matter of general principle, well beyond specific events such as childbirth. We feel efforts should be made by banks to explore similar initiatives, which will act as an important drawcard for potential employees.
- 3. Institute unpaid leave:** Many of those we spoke to working in the industry said their employers did not offer the option to take unpaid leave. We believe employees should be given the flexibility to take additional unpaid time off work, given personal circumstances may necessitate it. Global criteria for taking such leave (such as annual caps) can be easily instituted to ensure the system is not abused.

¹⁷ Deloitte Press Release, 'Deloitte announces 16 weeks of fully paid family leave time for caregiving,' 8 September 2016, available at: <https://www2.deloitte.com/us/en/pages/about-deloitte/articles/press-releases/deloitte-announces-sixteen-weeks-of-fully-paid-family-leave-time-for-caregiving.html>

SECTION 3

VOICE OF EMPLOYEES

'The banking industry is a massive sinking ship. [The] glory days have long gone.'

Vice President – Global Investment Bank

INTRODUCTION & SURVEY METHODOLOGY

In order to corroborate the opinions, interviews and secondary research undertaken in Section 2 of this report, we conducted a global talent survey of employees working in the banking industry. The purpose of this survey was to gauge employee sentiment by assessing the talent levers to which they ascribed the greatest levels of importance, as well as derived the most amount of current satisfaction.

We received over one thousand two hundred online survey responses across the Americas, Europe, the Middle East and Africa (EMEA), and Asia Pacific (APAC). Our survey respondents hailed from a wide variety of roles, departments and ranks across a range of local, regional and global banks. The majority of responses originated from front office employees, particularly those employed in markets divisions. A greater proportion of responses also came from employees working at global banks, particularly European firms.

The largest proportion of respondents by rank were mid-level bankers (i.e. assistant vice presidents and vice presidents), though we did receive a strong mix of responses from interns, junior (i.e. analysts and associates) and senior (i.e. executive directors and managing directors) executives. We also surveyed a sizeable number of university students who had an interest in working in the banking industry (see Figure 20).

Survey respondents were asked to provide their feedback on the 17 key talent retention levers outlined in Section 2 of this report according to:

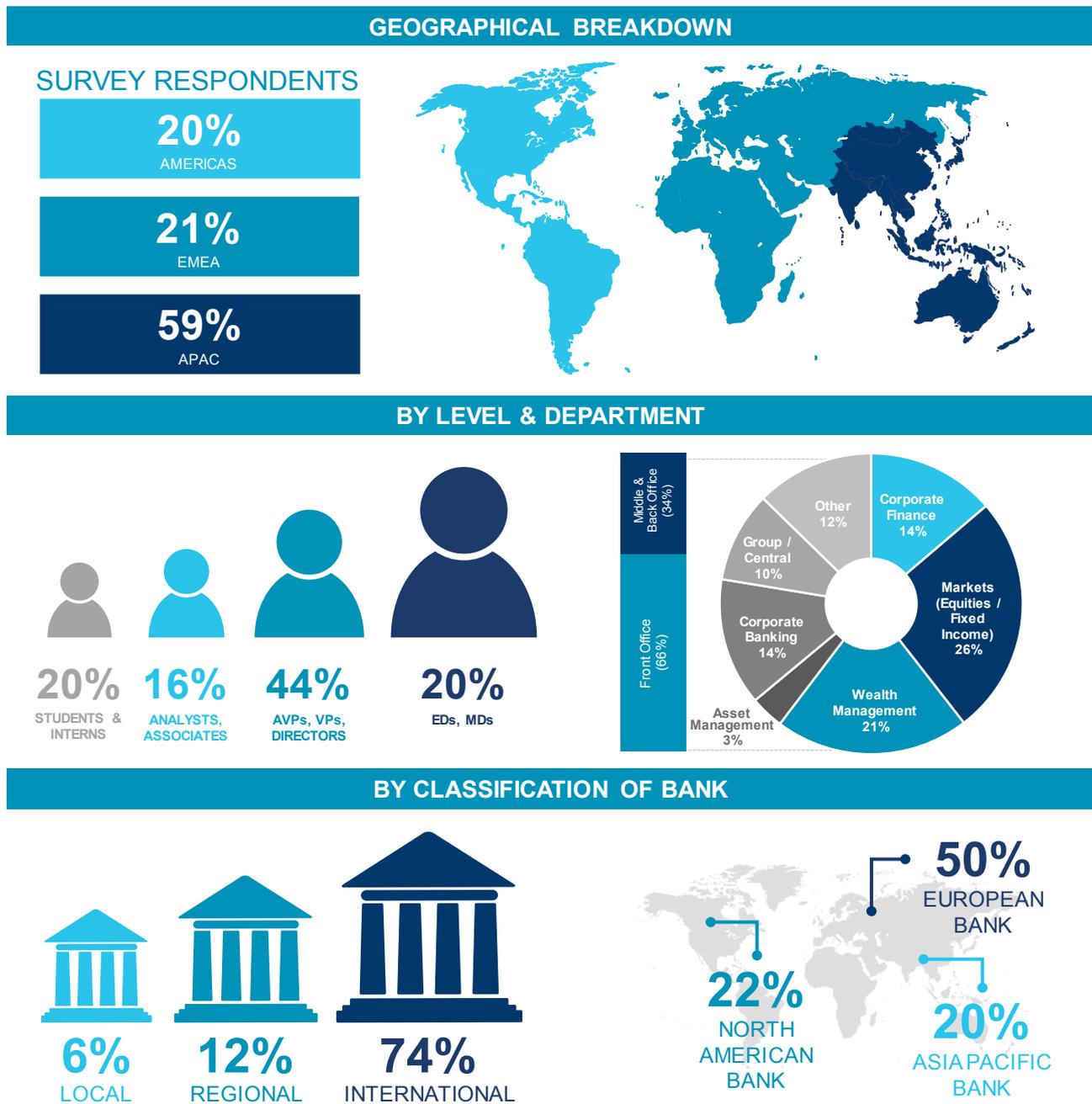
1. Its **IMPORTANCE** in deciding where to work: measured using a qualitative, 4-point scale, ranging from not important to critical; and
2. Their current **SATISFACTION** level at their employer: measured using a qualitative, 5-point scale, ranging from extremely satisfied to extremely dissatisfied.

We also calculated the average score of the resulting data for each lever to identify any discrepancies in overall levels of importance and satisfaction. Additionally, data was segmented by employee rank, employee function and employer location to identify any specific trends.

Furthermore, survey respondents were asked about their intentions to stay or leave their current employer in the next 12-24 months. Those looking to leave were also asked to identify up to three drivers for their decision.

Finally, respondents were given the opportunity to freely provide their own comments around their current concerns with the industry and where they felt banks could make improvements with respect to their talent proposition.

FIGURE 20: SURVEY DEMOGRAPHICS – OVERVIEW



Note: Figures listed by department and level and by classification of bank exclude 108 student responses (~8%)

Source: Quinlan & Associates survey data

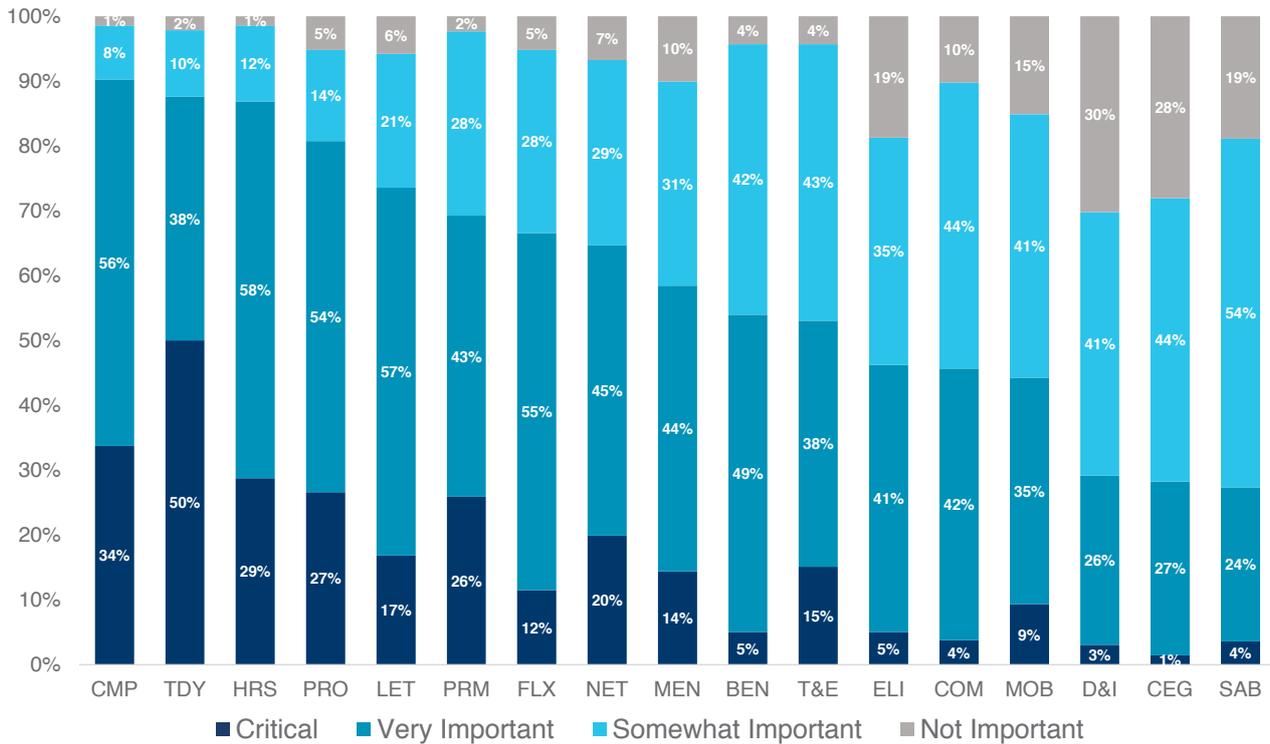
OVERVIEW

Survey respondents ranked compensation, team dynamics, work-life balance, protected time, and leave entitlements as the five most important factors influencing their choice of employer, with team dynamic considered critical by half of all survey respondents, the highest among all the levers analysed (see Figure 21).

Employees working at Asia Pacific and European banks had almost identical responses in terms of the levers that were most important to them, though North American bank employees ranked overall working hours as being the most important lever.

FIGURE 21: ASSIGNED IMPORTANCE TO LEVERS

Consolidated Level – All Respondents



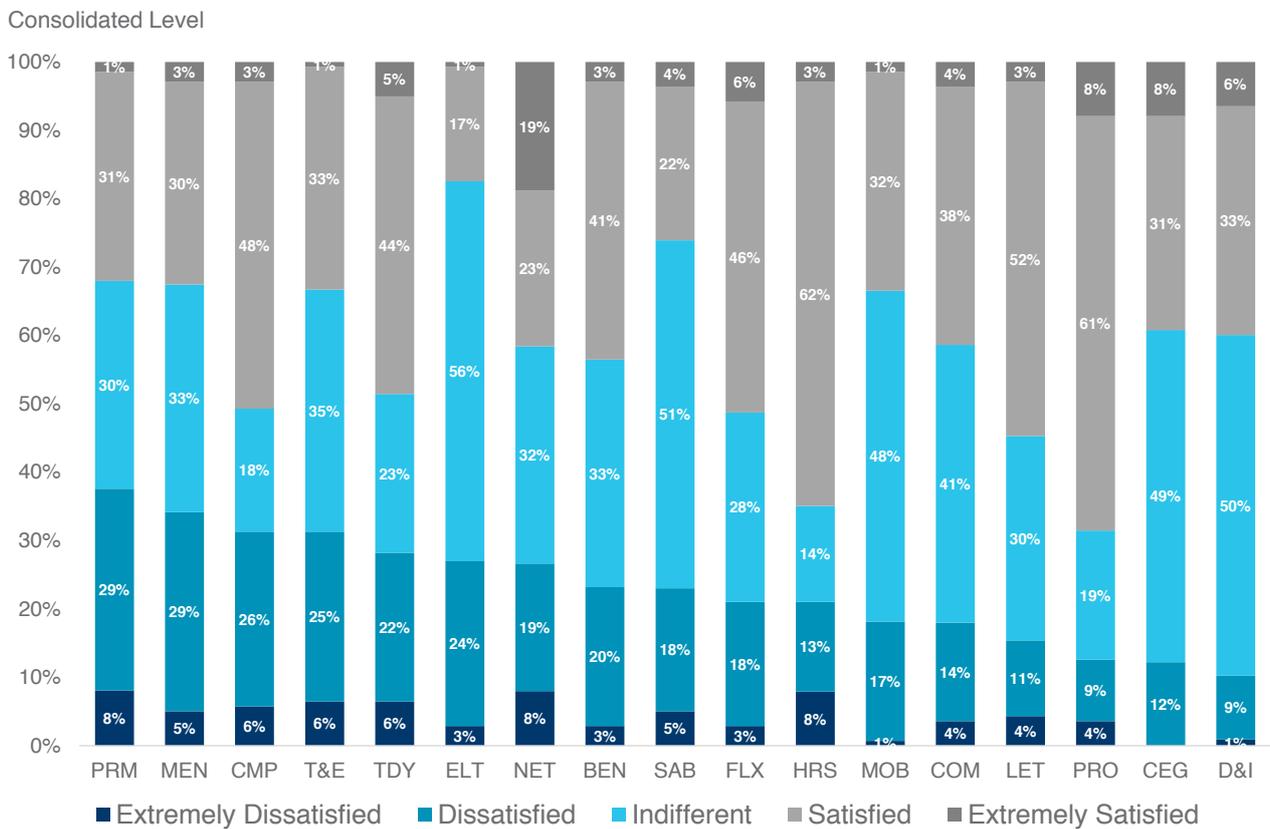
Note: Compensation (CMP), allowances & benefits (BEN), promotions (PRM), training and education (T&E), mobility (MOB), elite programs (ELT), networking (NET), mentoring (MEN), team dynamics (TDY), firm communication (COM), diversity & inclusion (D&I), community engagement (CEG), overall working hours (HRS), protected time (PRO), flexible schedules (FLX), sabbaticals (SAB) and leave entitlements (LET). Figures exclude responses from students.

Source: Quinlan & Associates survey data

In terms of satisfaction levels, promotions, mentorship, compensation, training & education, and team dynamics featured in the top-five levers by dissatisfaction. North American and European bank respondents were most dissatisfied with the

promotion measures currently in place at their firms. Asia Pacific employees, on the other hand, were most dissatisfied with current training and education offerings at their workplace (see Figure 22).

FIGURE 22: EMPLOYEE SATISFACTION TO LEVERS



Note: Compensation (CMP), allowances & benefits (BEN), promotions (PRM), training and education (T&E), mobility (MOB), elite programs (ELT), networking (NET), mentoring (MEN), team dynamics (TDY), firm communication (COM), diversity & inclusion (D&I), community engagement (CEG), overall working hours (HRS), protected time (PRO), flexible schedules (FLX), sabbaticals (SAB) and leave entitlements (LET). Figures exclude responses from students.

Source: Quinlan & Associates survey data

Overall, the results appear to suggest that employees converge around certain factors when determining their choice of employer, as well as share similar views on the greatest causes for dissatisfaction. Accordingly, these views appear somewhat universal in nature and reflective of broader industry sentiment, irrespective of bank type or location.

A. MONETARY REWARDS

Survey respondents placed the greatest overall importance on monetary rewards. Compensation, in particular, tended to become more critical with seniority. Dissatisfaction levels also rose with seniority, indicative both of banks' focus on paying juniors relatively well, and bank-wide pay freezes and limitations on bonuses.

Compensation was also the primary reason behind employees looking to leave their positions within the next 12-24 months. While compensation was the biggest pull-factor in looking for a new employer, there is potential for banks looking to retain employees to mitigate its effect by focusing on other levers that cause even more dissatisfaction: promotions and mentorship falling under the broad category of career development.

B. CAREER DEVELOPMENT

Overall, respondents appeared to be most dissatisfied with career development initiatives, particularly promotions; this was especially evident with mid and senior-level executives. In fact, promotions were the second most cited reason for employees at Asia Pacific banks and European banks looking to leave their positions within the next 12-24 months.

Career development as a category is the biggest driver of job dissatisfaction. Believing that their career is not progressing and feeling that the employer is not investing in their skills through training and education foments dissatisfaction among employees and catalyses the search for new opportunities.

C. CAREER ENGAGEMENT

Team dynamics were seen as the most important lever within career engagement. In fact, 50% of survey respondents regarded it as critical in deciding where to work. Importance levels were relatively uniform across rank, bank type and function. This was also the lever that elicited the strongest dissatisfaction. Since team dynamics encompasses both day-to-day staff management and performance feedback, this finding is unsurprising. Banking culture has been slow to evolve towards meaningful feedback mechanisms with direct links to promotion, and people management skills are under-emphasised in banking overall.

Respondents ascribed significantly less importance towards diversity and community engagement, despite banks placing an abundance of efforts on both levers (though this did result in minimal dissatisfaction).

D. WORK-LIFE BALANCE

As an overarching category, work-life balance was second only to monetary rewards in terms of ascribed importance. Although importance placed on the category was relatively consistent across career levels, both back office employees globally and all North American employees found it almost as important as monetary rewards. Having said this, work-life balance was also the category that brought the least dissatisfaction to employees, suggesting banks' efforts in this space are being recognised.

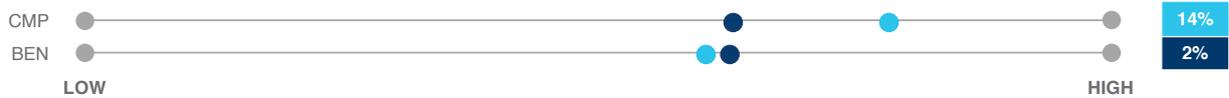
However, one lever where dissatisfaction was high was overall working hours, which was the third most important criteria in employer selection and the third most self-reported reason for employees looking to leave their jobs in the coming 12-24 months. Unsurprisingly, assigned importance to work-life balance increased with employee seniority, reflecting multiple demands on employees' times as they enter different stages of their lives.

E. OVERALL DISCREPANCIES

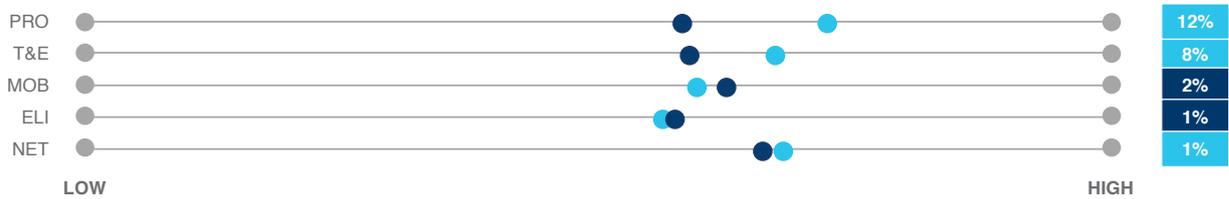
Analysis of the four overarching categories of talent retention reveals mid-level executives showing the largest discrepancy between assigned levels of importance and current levels of satisfaction. This is in line with our findings that the majority of initiatives around talent focus on more junior employees (i.e. analysts and associates), often at the expense of mid-level and senior executives. Specifically, career development initiatives for mid-level employees appear to be the most critical gap banks need to address (see Figure 23).

FIGURE 23: EMPLOYEE PRIORITY ALIGNMENT (BY CATEGORY)

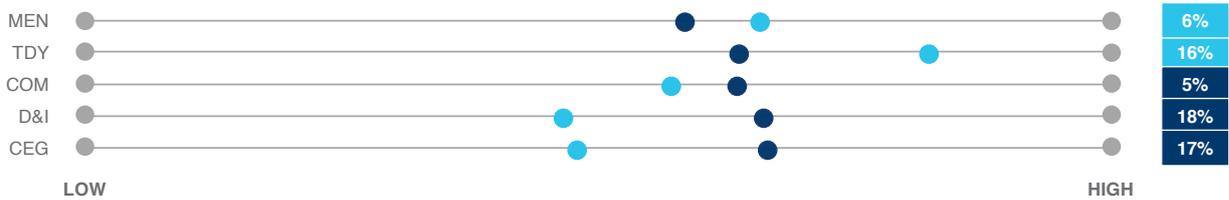
MONETARY REWARDS



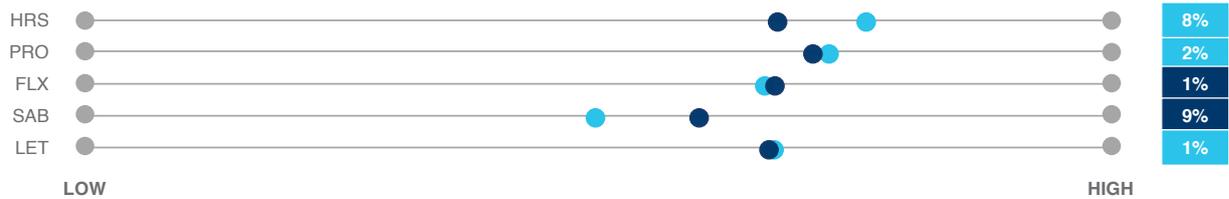
CAREER DEVELOPMENT



CAREER ENGAGEMENT



WORK-LIFE BALANCE



● Weighted Average Satisfaction ● Weighted Average Importance SAT < IMP SAT > IMP

Note: Compensation (CMP), allowances & benefits (BEN), promotions (PRM), training and education (T&E), mobility (MOB), elite programs (ELT), networking (NET), mentoring (MEN), team dynamics (TDY), firm communication (COM), diversity & inclusion (D&I), community engagement (CEG), overall working hours (HRS), protected time (PRO), flexible schedules (FLX), sabbaticals (SAB) and leave entitlements (LET). Figures exclude responses from students.

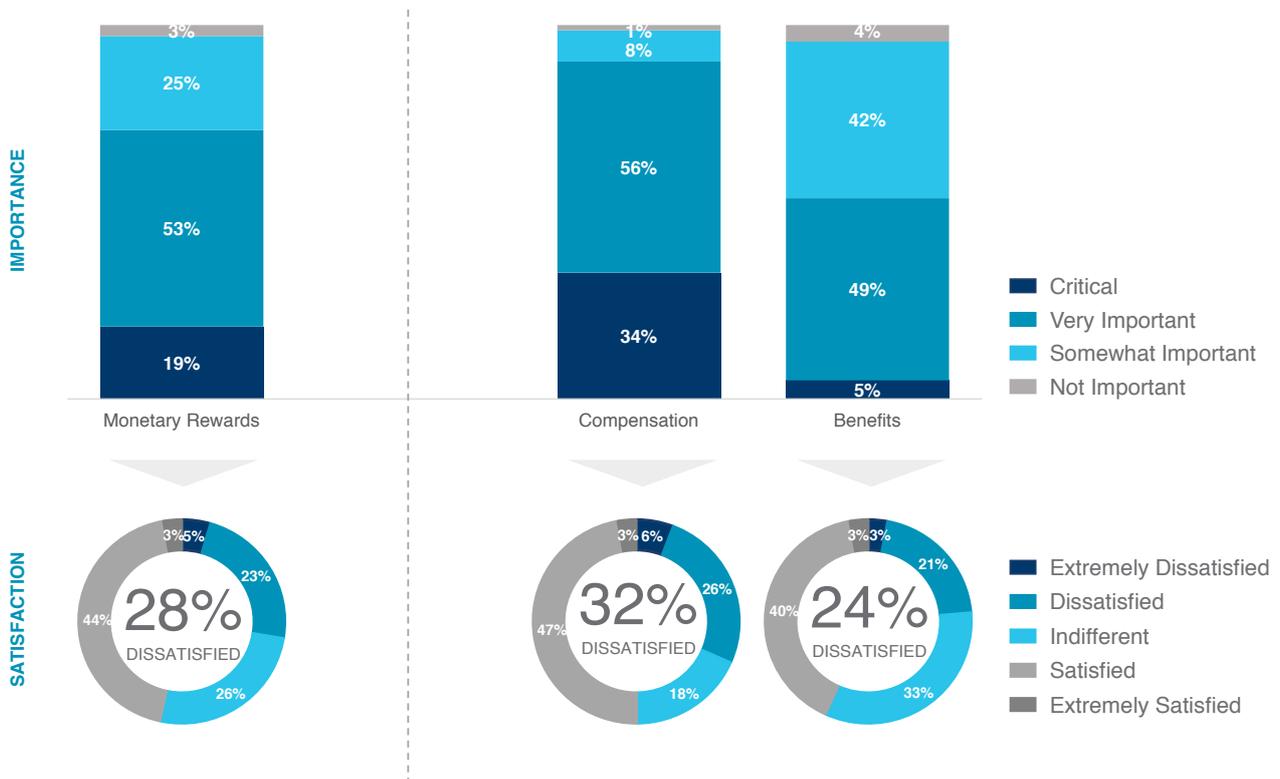
Source: Quinlan & Associates survey data

MONETARY REWARDS

Monetary rewards are a key driver in banking employees' choice of employer. Survey results show that 72% of respondents regarded monetary rewards as either very important or critical in

selecting a potential employer; the corresponding figure was 90% in relation to compensation, with little variance between the type of bank respondents worked at (see Figure 24).

FIGURE 24: IMPORTANCE & SATISFACTION (MONETARY REWARDS)



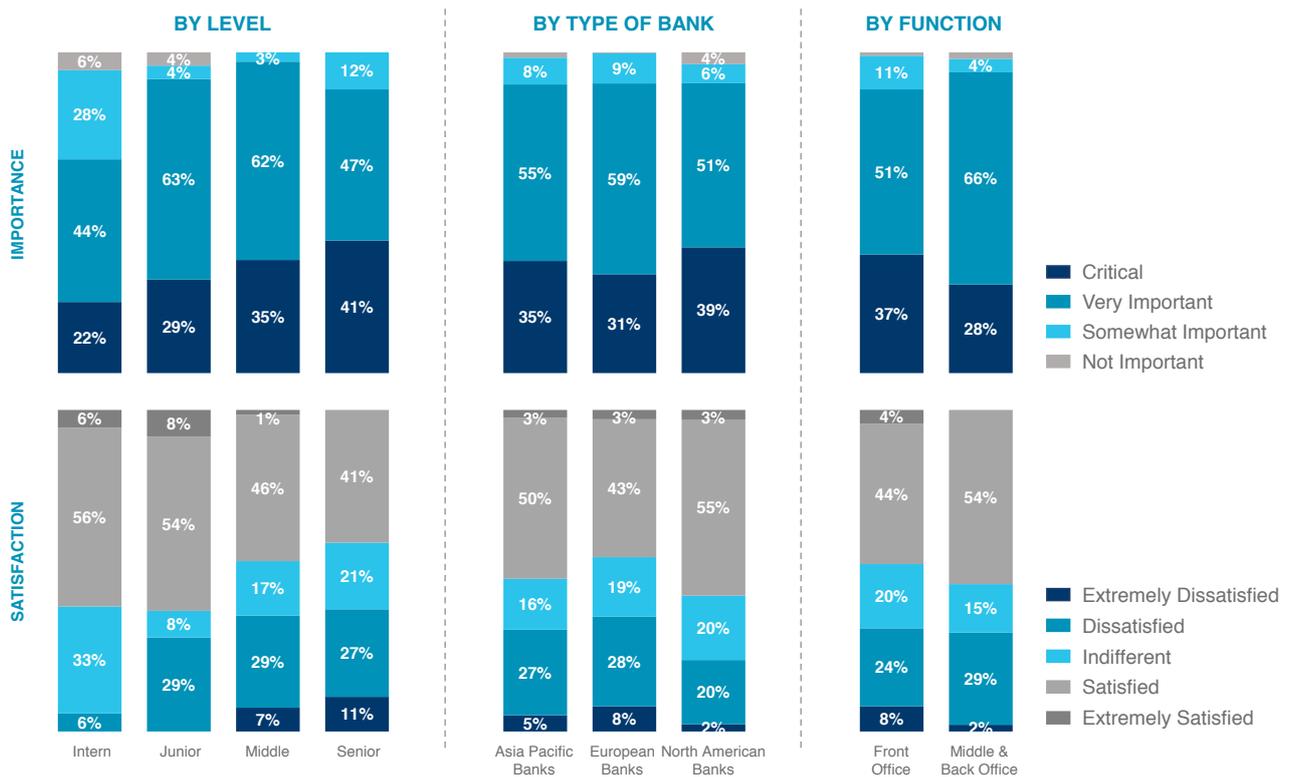
Note: Figures exclude responses from students.

Source: Quinlan & Associates survey data

Compensation also becomes more critical with seniority, with 41% of Executive Directors and Managing Directors viewing it as critical in determining their employment choice, compared to only 22% of interns and 29% of analysts and associates. Compensation is also seen as more critical for front office employees.

Worryingly, 32% of respondents find themselves either dissatisfied or extremely dissatisfied with their current compensation levels; the third highest ranked category in terms of dissatisfaction.

FIGURE 25: IMPORTANCE & SATISFACTION (COMPENSATION)

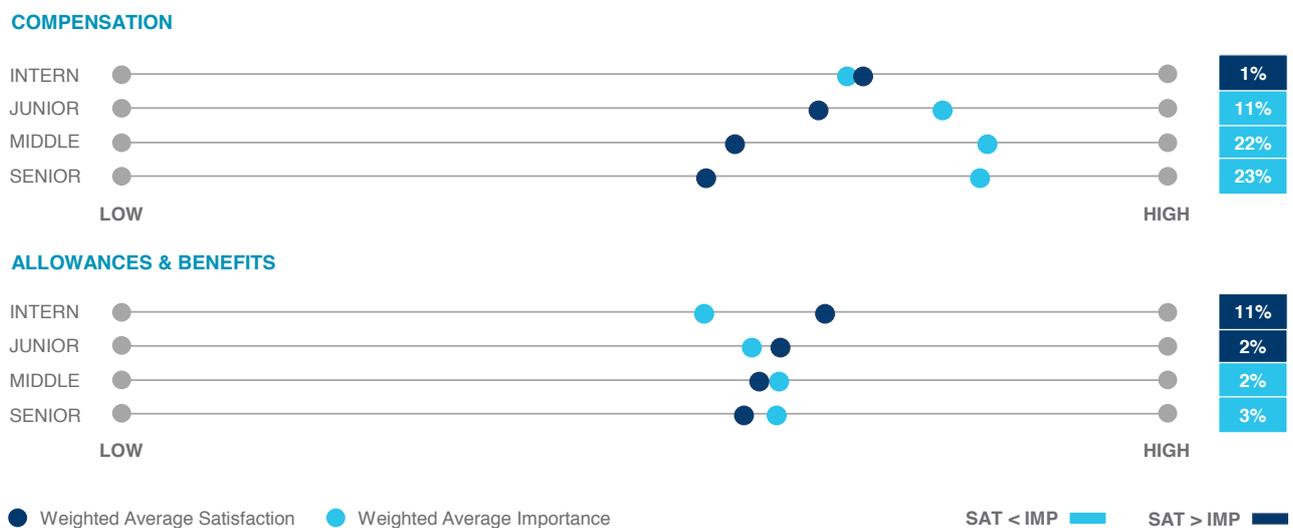


Note: Figures exclude responses from students.
 Source: Quinlan & Associates survey data

Employee dissatisfaction with compensation increases with seniority, with 38% of executive directors and managing directors either dissatisfied or extremely dissatisfied with their compensation. This is particularly the case for employees at European banks, which is understandable in light of the European Union bonus cap and lengthy deferral periods instituted by a number of European firms (see Figure 25). This further explains why 37% of senior executives intend to leave their current positions in the next 12-24 months, with 90% of them citing compensation as a key driver.

Allowances and benefits are not considered as important as compensation in influencing where survey respondents work, particularly for senior executives and front-office employees. Despite this, senior executives and European bank employees find themselves most dissatisfied with their current allowances and benefits.

FIGURE 26: EMPLOYEE PRIORITY ALIGNMENT (MONETARY REWARDS)



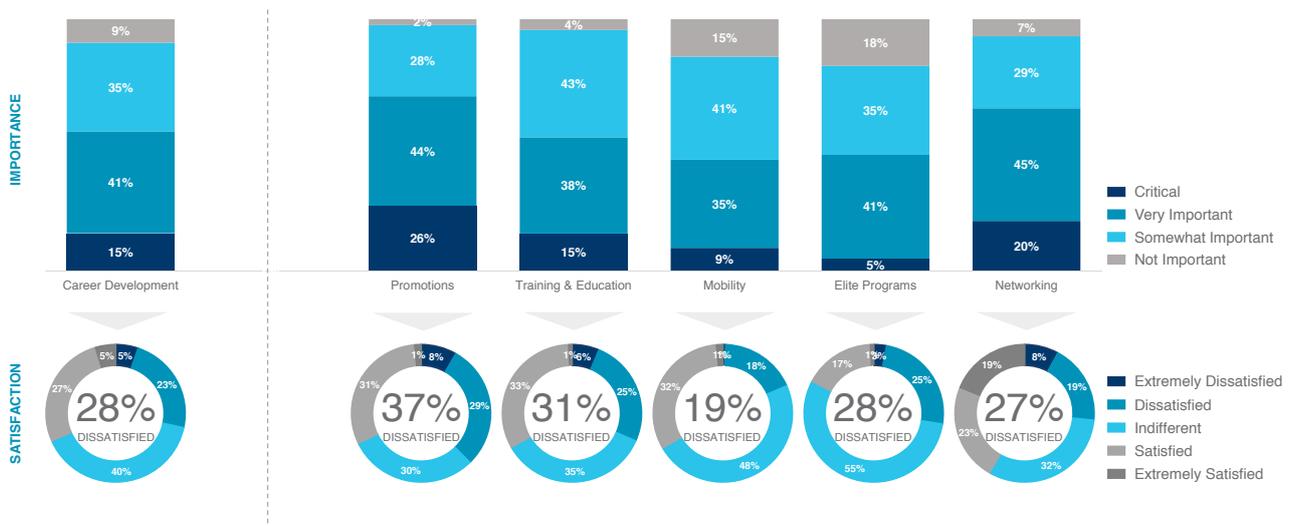
Note: Figures exclude responses from students.
 Source: Quinlan & Associates survey data

Analysts and associates displayed the lowest discrepancy levels between average importance and average satisfaction with regards to monetary rewards, primarily a function of base salaries rising

in recent years. Overall discrepancy appears to increase with seniority for both compensation as well as allowances and benefits (see Figure 26).

CAREER DEVELOPMENT

FIGURE 27: IMPORTANCE & SATISFACTION (CAREER DEVELOPMENT)



Note: Figures exclude responses from students.

Source: Quinlan & Associates survey data

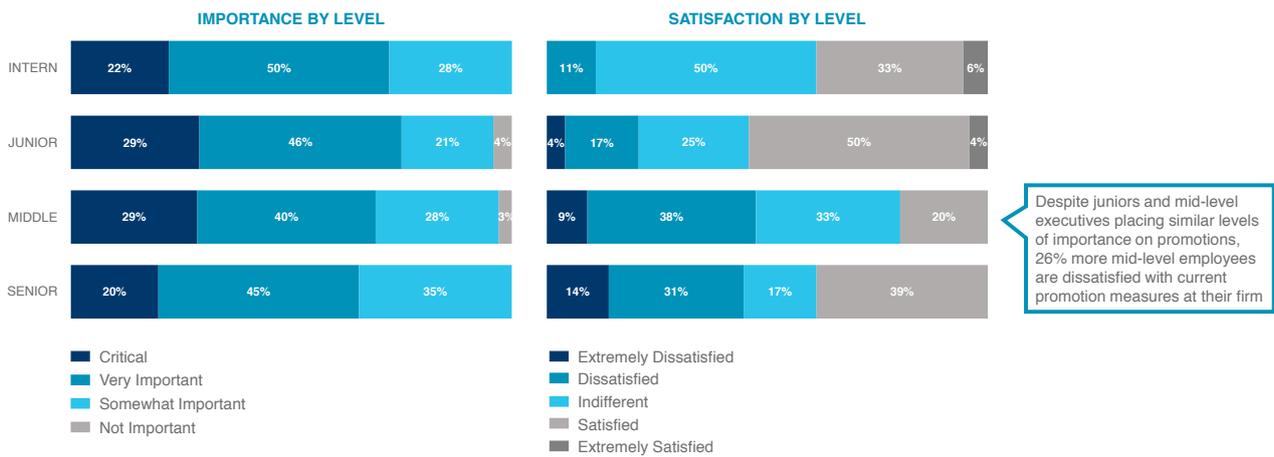
57% of survey respondents said career development was either critical or very important in deciding where to work (see Figure 27).

Of the four sub-categories under career development, respondents ranked promotions as the most important determinant in deciding where to work, especially those working in Asian banks. Interestingly, among all levers analysed, respondents were also the most dissatisfied with their existing promotion opportunities. This was particularly true for those working in European banks. A vice president we interviewed working in wealth management at a European bank referenced the need for a ‘clearly established promotion system, particularly for back office employees,’ while another working in markets said that ‘meritocracy should not

be based on age or longevity with a firm, but should instead be driven by the principle of fairness upon performance.’

From an employee seniority perspective, results indicate that only 20% of mid-level executives were satisfied with current promotion measures at their employer, considerably lower than 54% of analysts and associates (see Figure 28). This is despite the fact that both juniors and mid-level employees rank promotions almost equally with regards to its importance in employer selection. Such responses appear to reflect the growing promotion bottleneck being experienced by mid-ranked employees. It also helps explain why promotions are the second biggest factor behind those respondents who are looking to leave their positions in the next 12-24 months.

FIGURE 28: IMPORTANCE & SATISFACTION (PROMOTIONS)



Note: Figures exclude responses from students.

Source: Quinlan & Associates survey data

By rank, junior employees placed the highest importance on training and education. Unsurprisingly, banks' greater relative focus on this group left them the least dissatisfied. Mid-level executives found themselves to be the most dissatisfied, as did employees working at Asia Pacific banks. A managing director working in the M&A division of a European bank highlighted the need for a greater 'opportunity to learn' at senior levels.

Interestingly, junior employees assigned the highest relative importance and satisfaction levels to elite programs. The irony, however, is that the primary target group of these programs (i.e. mid-level executives) are the most dissatisfied and also demonstrate the largest discrepancy between average importance and average satisfaction levels.

Analysis by seniority also indicates mid-level employees were the most dissatisfied with mobility programs, with little difference between geographies. This appears to reflect the fact that rotation opportunities currently offered by banks tend to be targeted exclusively at more junior employees.

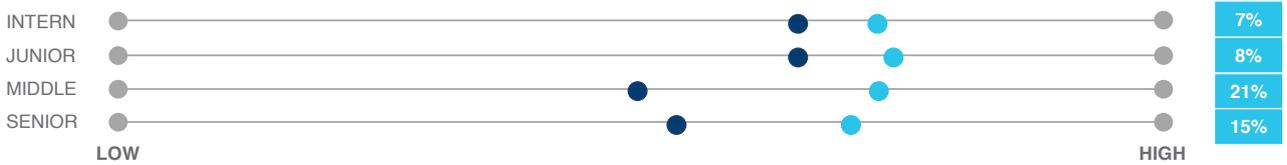
Employees placed less importance on networking as seniority increased. Given that the maximum marginal benefit of networking events is conventionally achieved earlier in one's career, the resulting data was anticipated. It was slightly surprising to see mid-level executives placing an almost equal importance on the lever as their junior counterparts. However, given the relative scarcity in promotions at the middle level, it is arguable mid-level executives saw networking as a powerful means of climbing the career ladder.

Networking program satisfaction levels were highest for juniors and lowest for mid-level employees. Despite this, a junior associate working in M&A at a European bank conveyed concerns that 'more senior management is needed at networking events.' However, the largest discrepancy between assigned importance and current satisfaction of this lever was seen for mid-level executives, while senior employees showed greater satisfaction than prescribed importance (see Figure 29). Yet, the discrepancy at the senior level must be interpreted with caution as the lowest levels of assigned importance were seen here.

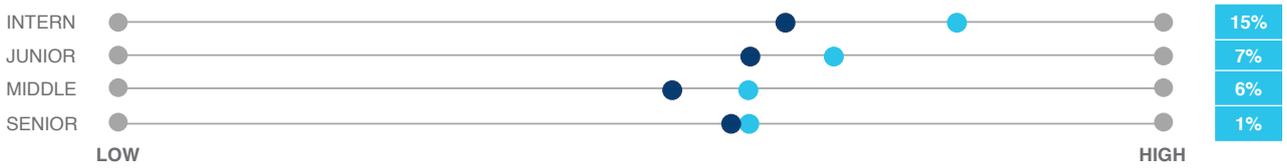
GIVEN THE RELATIVE SCARCITY IN PROMOTIONS AT THE MIDDLE LEVEL, IT IS ARGUABLE MID-LEVEL EXECUTIVES SAW NETWORKING AS A POWERFUL MEANS OF CLIMBING THE CAREER LADDER.

FIGURE 29: EMPLOYEE PRIORITY ALIGNMENT (CAREER DEVELOPMENT)

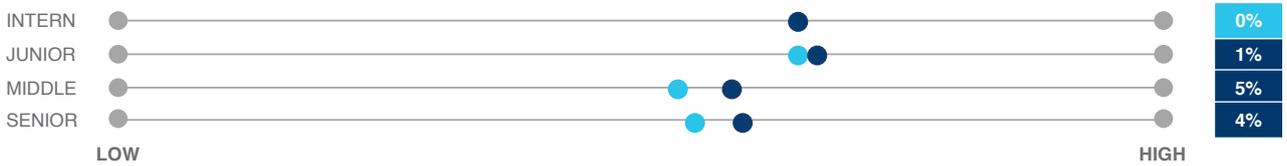
PROMOTIONS



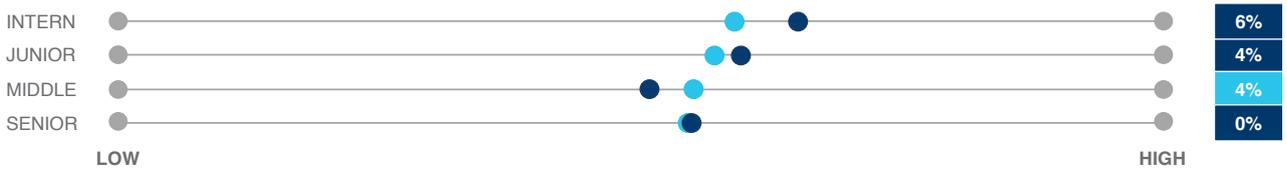
TRAINING & EDUCATION



MOBILITY



ELITE PROGRAMS



NETWORKING



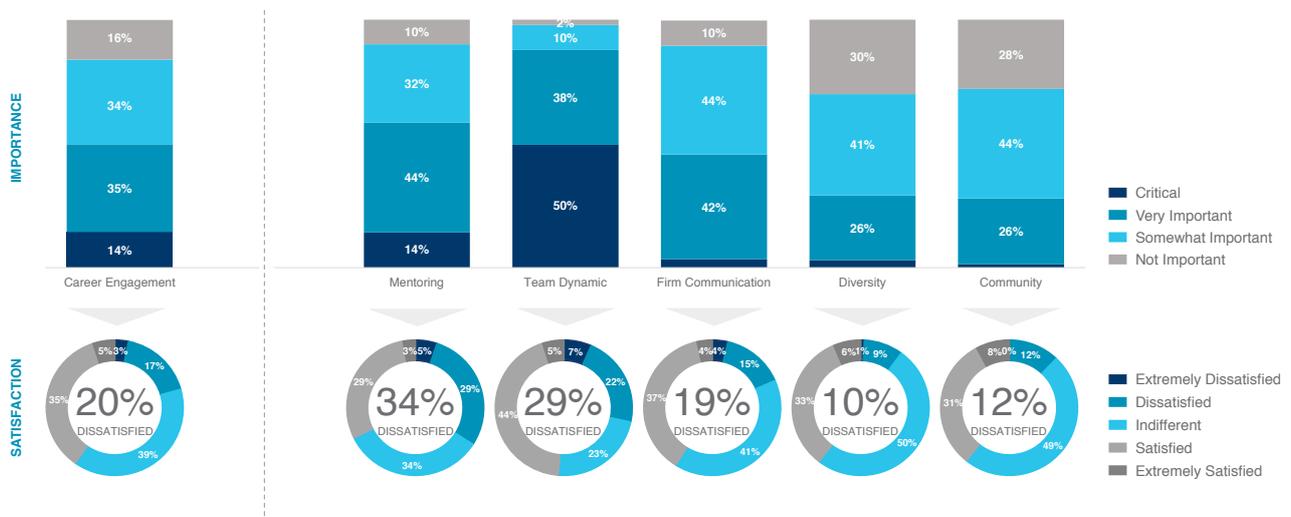
● Weighted Average Satisfaction ● Weighted Average Importance SAT < IMP SAT > IMP

Note: Figures exclude responses from students.

Source: Quinlan & Associates survey data

CAREER ENGAGEMENT

FIGURE 30: IMPORTANCE & SATISFACTION (CAREER ENGAGEMENT)



Note: Figures exclude responses from students.

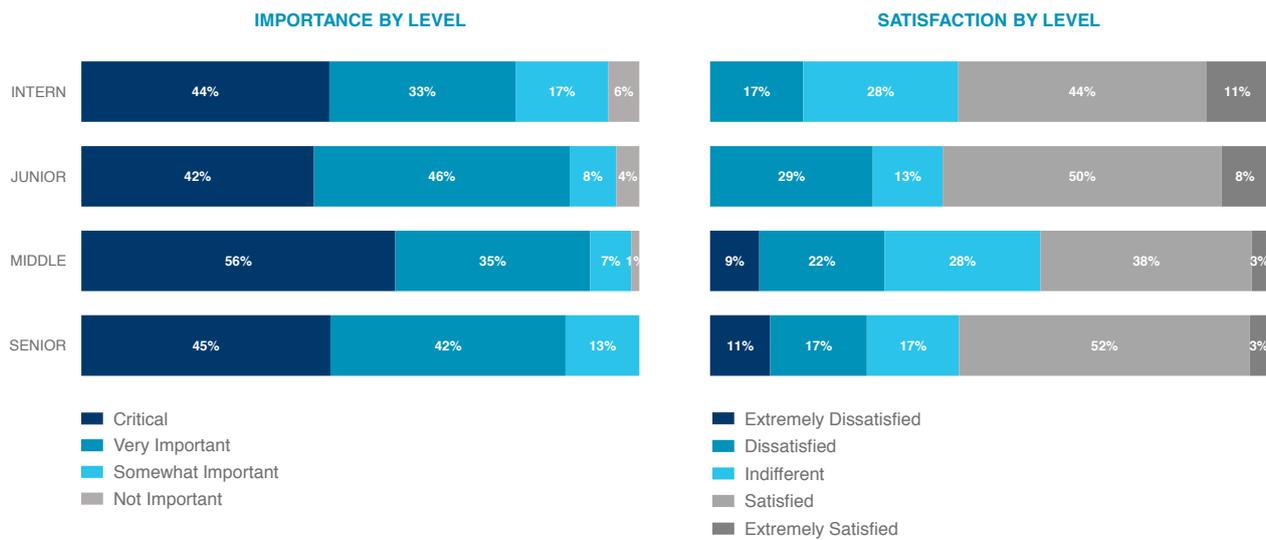
Source: Quinlan & Associates survey data

49% of survey respondents said career engagement was either critical or very important in deciding where to work (see Figure 30).

As team dynamic plays an integral role in shaping the daily working environment, it is unsurprising that 88% of survey respondents viewed it as either very important or critical in deciding where to work, second only to compensation (see Figure 31). It is also the most important sub-category of career engagement across all regions and the third most cited reason for employees looking to leave their position in the next 12-24 months.

Interestingly, overall dissatisfaction with team dynamic increased with seniority, with the greatest discrepancy between average importance and average satisfaction being seen with mid-level executives. One vice president in the markets division of a European bank suggested the need for more ‘team building to foster cross-team collaboration.’ Bearing in mind their role in managing teams, mid-ranking employees reporting the highest dissatisfaction with team dynamics is cause for some concern.

FIGURE 31: IMPORTANCE & SATISFACTION (TEAM DYNAMIC)



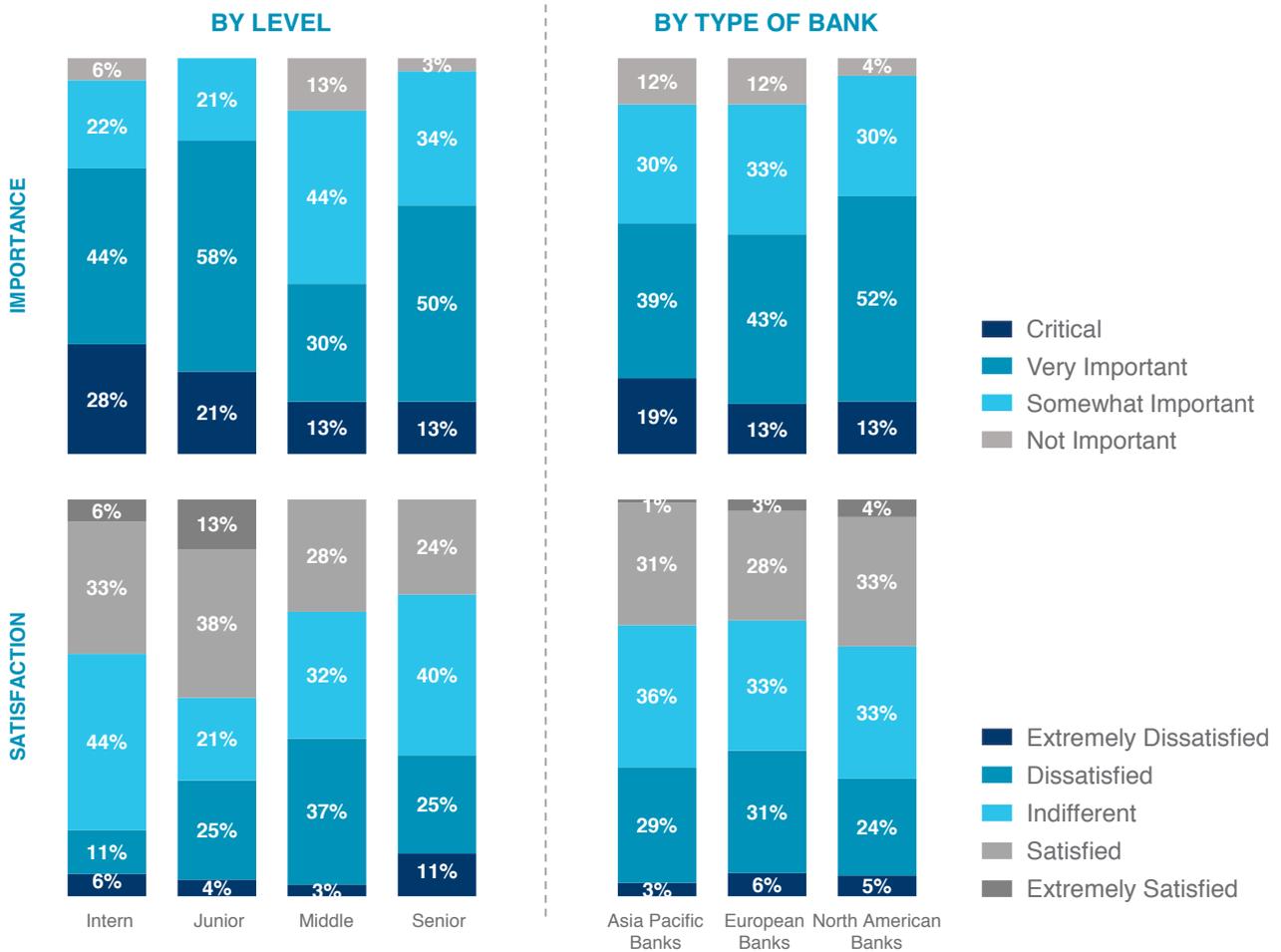
Note: Figures exclude responses from students.

Source: Quinlan & Associates survey data

It is no surprise that juniors placed the greatest importance on mentoring and senior employees the least (see Figure 32). This reflects the importance junior employees assign to having someone introduce them to and familiarise them with the bank’s operations. An intern at an Asia Pacific bank even reported the need for greater ‘mentoring [during] internships,’ which he felt was lacking. Employees at North American banks placed a greater importance on mentoring than those working at European or Asia Pacific firms.

Among the various aspects of career engagement, survey respondents said they were most dissatisfied with mentoring programs at their current firm, especially mid-level and senior level executives. A vice president working in the markets division of a European bank suggests there is greater need for ‘developing talent to become the next generation of leaders.’ Mentorship also ranked the second highest category in terms of dissatisfaction across all levers analysed, suggesting that banks still have much to do in the way of providing adequate mentoring support to those who seek it.

FIGURE 32: IMPORTANCE & SATISFACTION (MENTORING)



Note: Figures exclude responses from students.

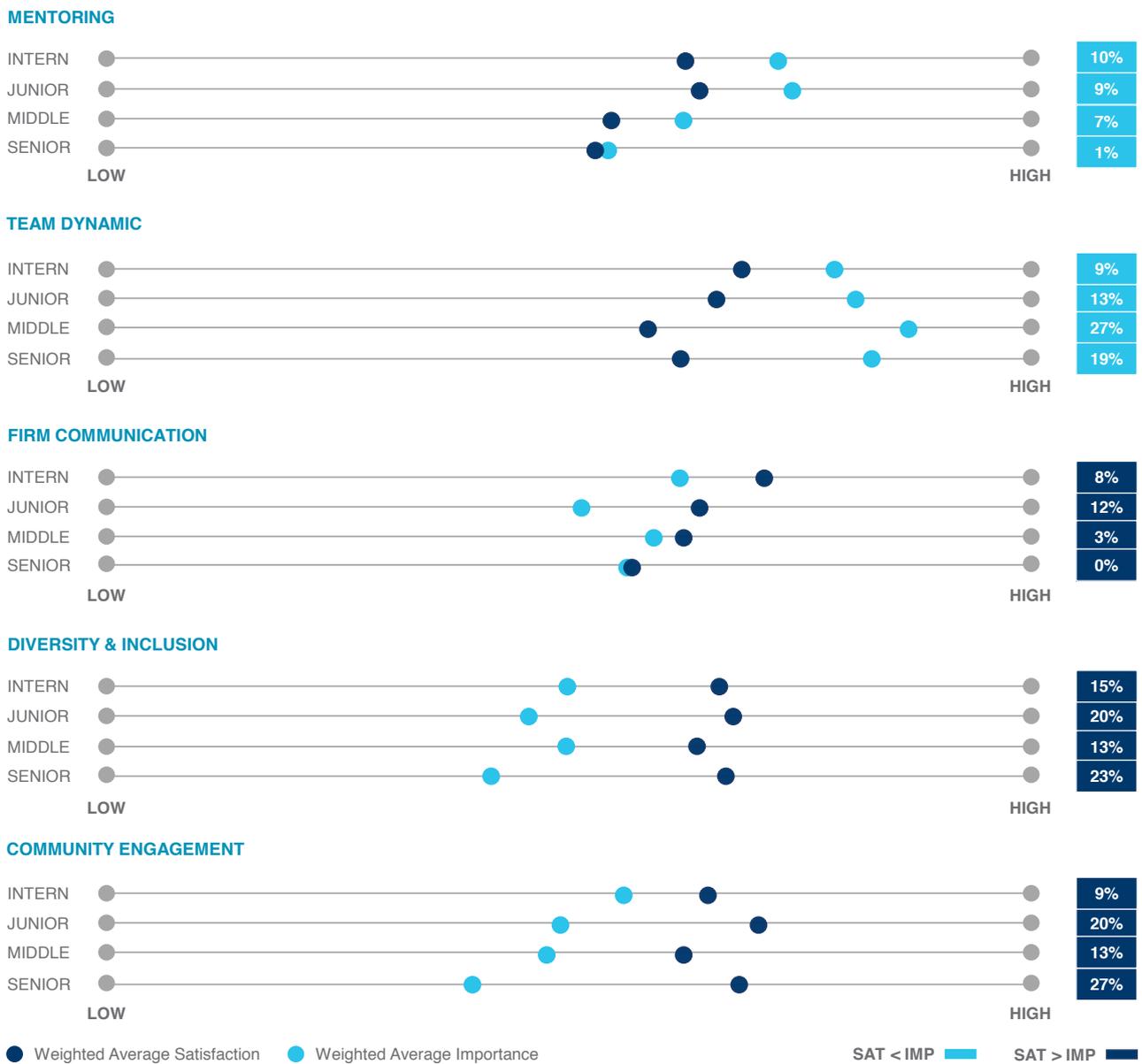
Source: Quinlan & Associates survey data

The vast majority of respondents viewed firm communication as being either somewhat important or very important, with mid-level executives regarding it with more importance than junior and senior survey respondents. Employees working at European and Asia Pacific banks placed greater levels of importance on firm communication than those working at North American banks, as did employees working in middle and back office roles. Having said that, banks' efforts are generally well recognised, with average satisfaction levels exceeding average importance for all levels.

Both diversity and inclusion, as well as community engagement, were regarded as not important by 28% and 30% of all survey respondents respectively, making them the least important categories for employees in deciding where to work. Nevertheless, junior employees did report higher dissatisfaction with their firms' diversity initiatives, reflecting the greater preoccupation junior employees have with the subject. The importance of community engagement was especially low for senior employees, which helps explain low turnout rates of senior executives at charity events. However, with average satisfaction levels exceeding average importance for all levels, it is clear that bank efforts in this space are being well received (see Figure 33).

EMPLOYEES WORKING AT EUROPEAN AND ASIA
PACIFIC BANKS PLACED GREATER LEVELS OF
IMPORTANCE ON FIRM COMMUNICATION THAN
THOSE WORKING AT NORTH AMERICAN BANKS...

FIGURE 33: EMPLOYEE PRIORITY ALIGNMENT (CAREER ENGAGEMENT)



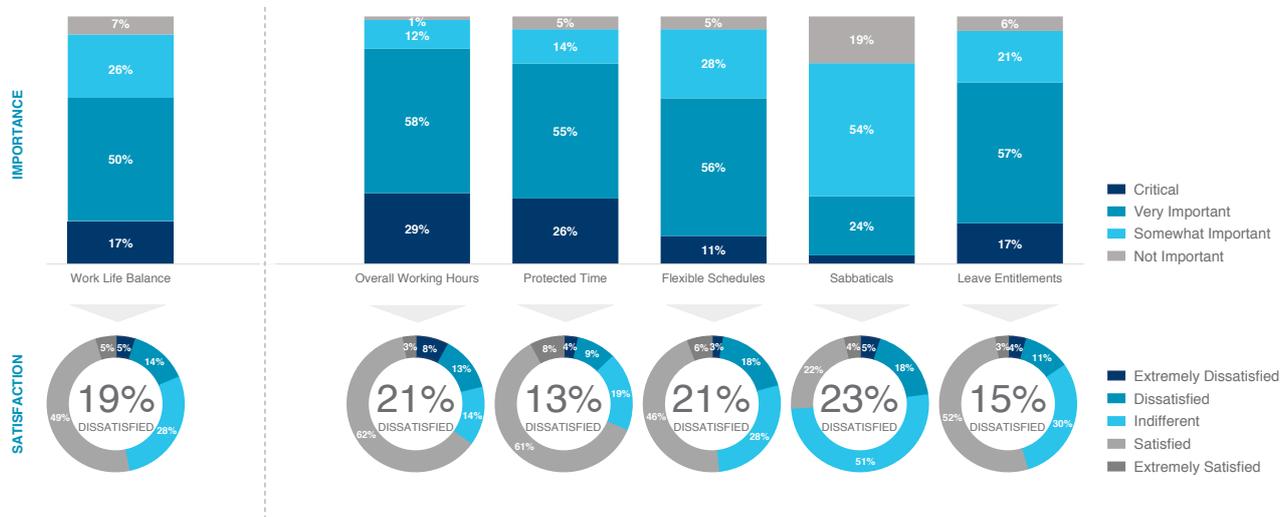
Note: Figures exclude responses from students.

Source: Quinlan & Associates survey data

WORK-LIFE BALANCE

FIGURE 34: IMPORTANCE & SATISFACTION (WORK-LIFE BALANCE)

WORK LIFE BALANCE: IMPORTANCE & DISSATISFACTION



Note: Figures exclude responses from students.

Source: Quinlan & Associates survey data

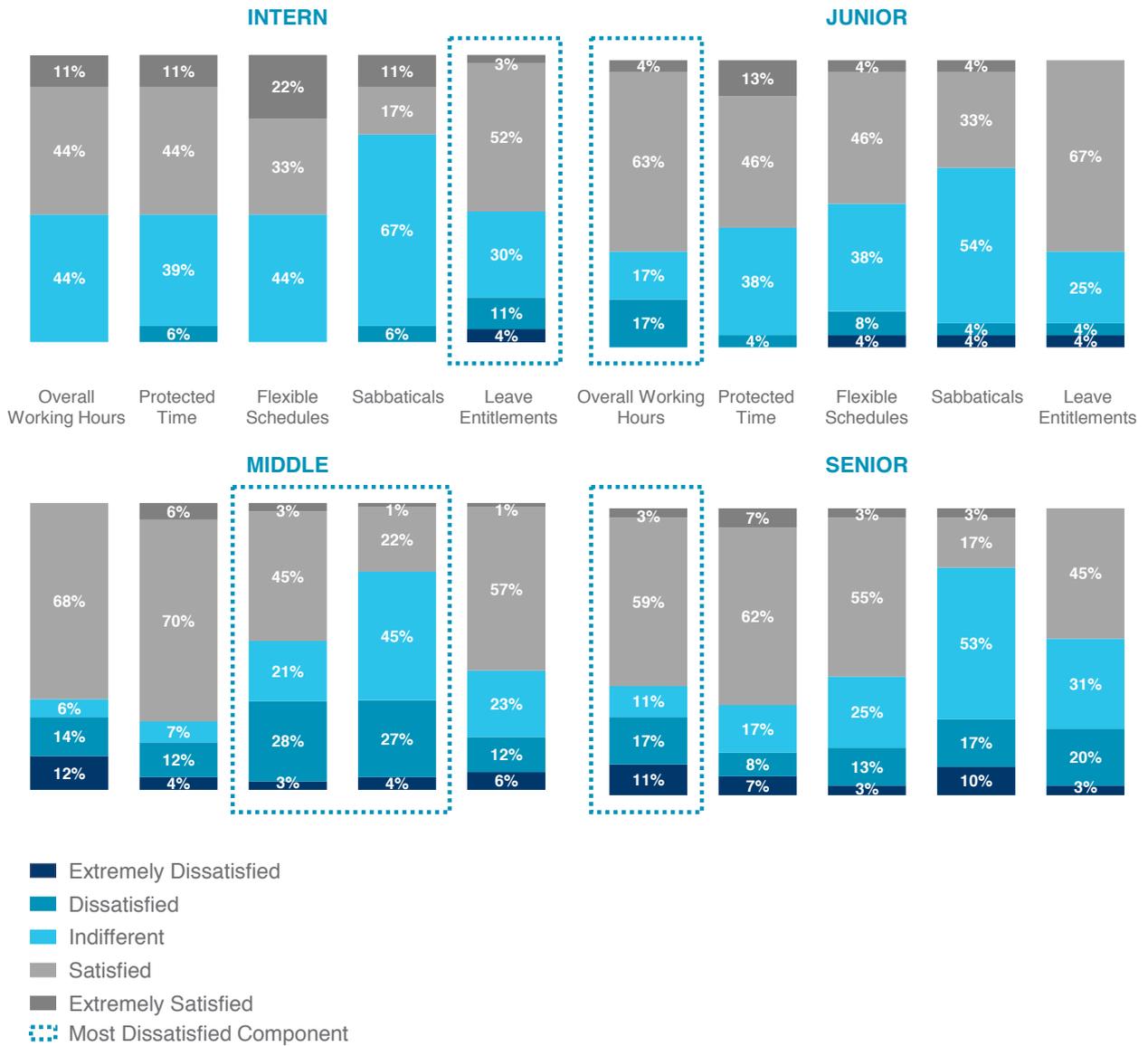
Work-life balance is seen as a critical driver in determining banking employees' choice of employers, with 77% of survey respondents regarding it as either critical or very important (see Figure 34).

Respondents identified overall working hours as the third most important criteria in employer selection. Employees at North American banks, however, ranked it in the top position, even above compensation. A junior associate working in the M&A division of a North American bank reaffirmed this in saying that 'unpredictability is the worst part about banking,' with long hours and weekend work very common.

Notably, work-life balance was also the third most self-reported reason for employee turnover in the next 12-24 months.

An overall increase in importance ascribed to work-life balance was seen with rising seniority. Unsurprisingly, seniors were also most dissatisfied, though the largest discrepancy between average importance and average satisfaction was found for mid-level executives (see Figure 35).

FIGURE 35: SATISFACTION BY RANK (WORK-LIFE BALANCE)



Note: Figures exclude responses from students.

Source: Quinlan & Associates survey data

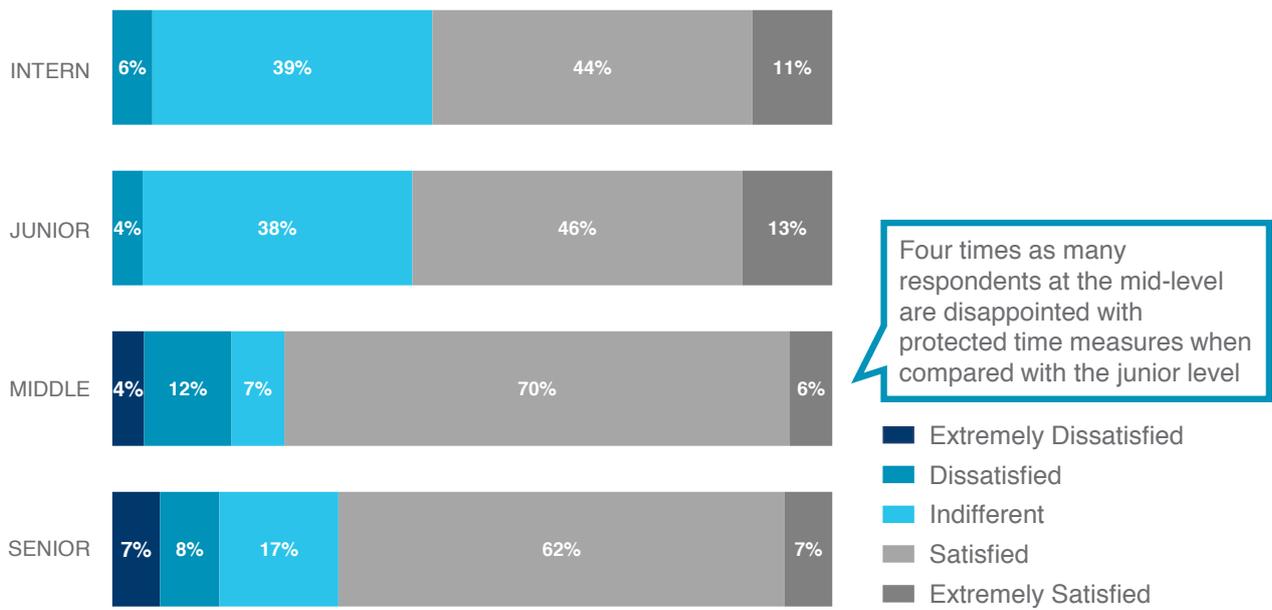
Sabbaticals were seen as the least important sub-category of work-life balance among survey respondents, with employees at all levels assigning greater values to their satisfaction than to their importance. Junior and mid-level respondents ascribed greater importance to sabbaticals than senior executives, suggesting a desire for employees to take sabbaticals earlier on in their careers.

A greater proportion of senior-level employees were dissatisfied with their leave entitlements than their junior colleagues, though mid-level executives showed the greatest discrepancy between average satisfaction and average importance, given the high level of importance they assigned to this lever. A call for more 'annual leave benefits' by a vice president working in wealth management at a European bank was therefore hardly surprising.

The proportion of respondents dissatisfied with protected time initiatives increased more than four-fold moving from junior (4%) to mid-level (16%) employees, though the majority of mid-level employees were satisfied. Interestingly, none of the junior survey respondents reported extreme dissatisfaction. This can either be attributed to the success of the programs or, more likely, the lower relative importance juniors place on work-life balance as compared to more senior employees (see Figure 36).

THE PROPORTION OF RESPONDENTS DISSATISFIED WITH PROTECTED TIME INITIATIVES INCREASED MORE THAN FOUR-FOLD MOVING FROM JUNIOR (4%) TO MID-LEVEL (16%) EMPLOYEES...

FIGURE 36: DISSATISFACTION (PROTECTED TIME)



Note: Figures exclude responses from students.

Source: Quinlan & Associates survey data

Flexible schedule programs were considered as very important or critical by two-thirds of survey respondents, but only marginally increased in importance moving up the ranking ladder. However, mid-level employees showed the lowest levels of satisfaction, and were also the only level of employees to show average satisfaction scores fall below average importance. This could reflect competing needs on mid-level employees' time, who are typically at the stage of their lives where they are beginning to burn out or looking to start a family.

Asia Pacific bank employees had the greatest relative dissatisfaction with flexible schedules. A vice president working in corporate and transaction banking at an Asia Pacific bank commented on the need for 'flexible working hours,' while a managing director working in markets at a European Bank called for more 'flexible working practices, especially in APAC.' These higher incidence of dissatisfaction in the Asia Pacific region appears to reflect cultural challenges associated with 'face time' (see Figure 37).

FIGURE 37: EMPLOYEE PRIORITY ALIGNMENT (WORK-LIFE BALANCE)

OVERALL WORKING HOURS



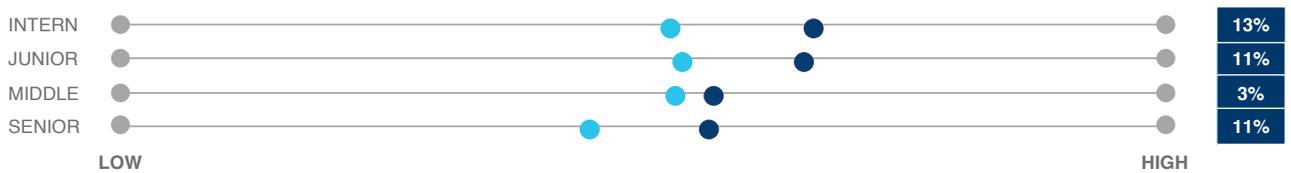
PROTECTED TIME



FLEXIBLE SCHEDULES



SABBATICALS



LEAVE ENTITLEMENTS



● Weighted Average Satisfaction ● Weighted Average Importance SAT < IMP ■ SAT > IMP

Note: Figures exclude responses from students.

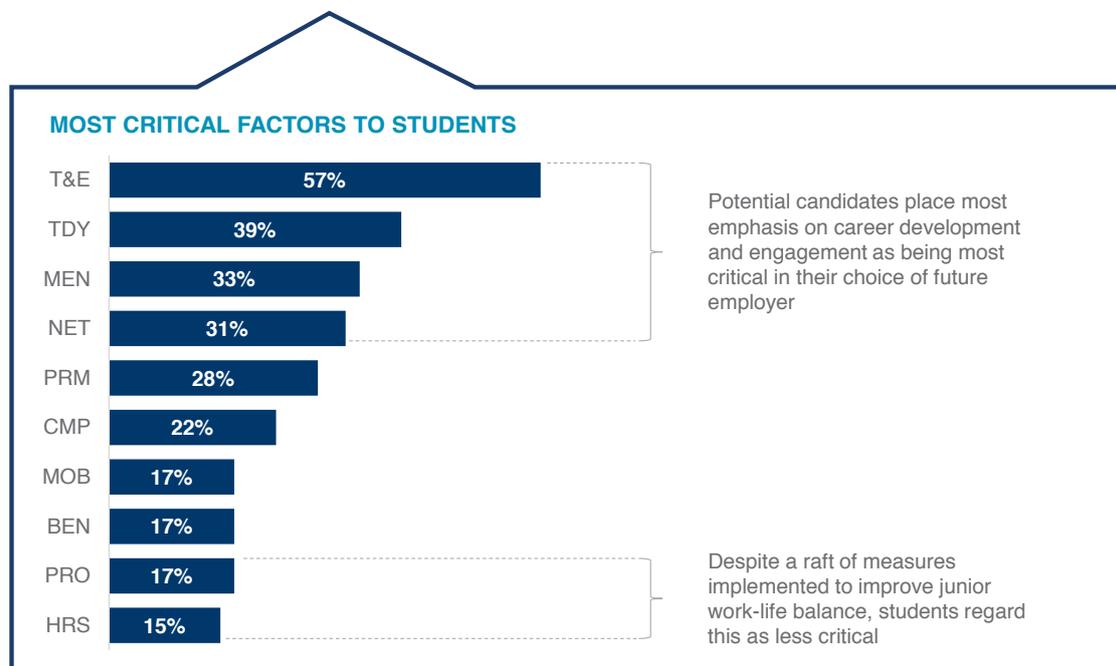
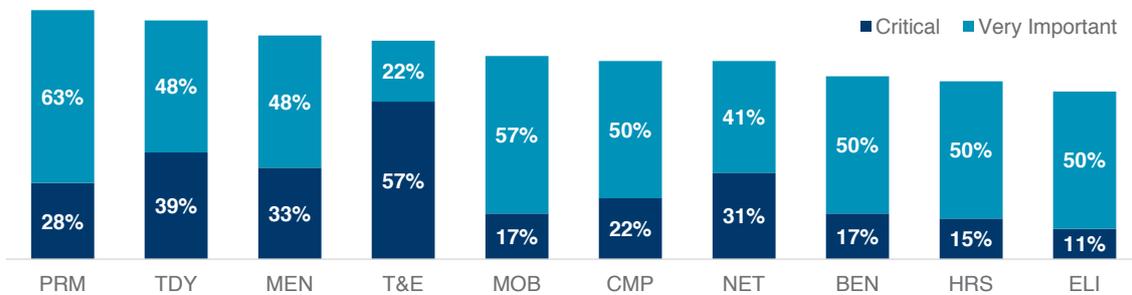
Source: Quinlan & Associates survey data

STUDENTS

We surveyed a variety of university students hoping to enter the banking industry. Given their lack of

industry experience, their responses were analysed independently to avoid skewing any of our earlier results or conclusions.

FIGURE 38: ASSIGNED IMPORTANCE (STUDENTS)



Note: Compensation (CMP), allowances & benefits (BEN), promotions (PRM), training and education (T&E), mobility (MOB), elite programs (ELI), networking (NET), mentoring (MEN), team dynamics (TDY), overall working hours (HRS). Figures only include responses from students.

Source: Quinlan & Associates survey data

The lever students found to be most critical in employer selection was training and education (T&E), with 57% of students seeing this as critical. This is highly understandable in light of students being accustomed to operating in a structured learning environment. Promotions, team dynamic and mentoring also featured high on student priority lists (see Figure 38).

However, bank efforts around promoting the work-life balance of new graduates – as opposed to focusing their efforts on existing employees – may be somewhat misaligned with the priorities of future new joiners. This may be reflective of the fact that juniors entering the industry fully anticipate the challenges around work-life balance, and are also at a stage in their lives where personal responsibilities around family have not yet materialised.

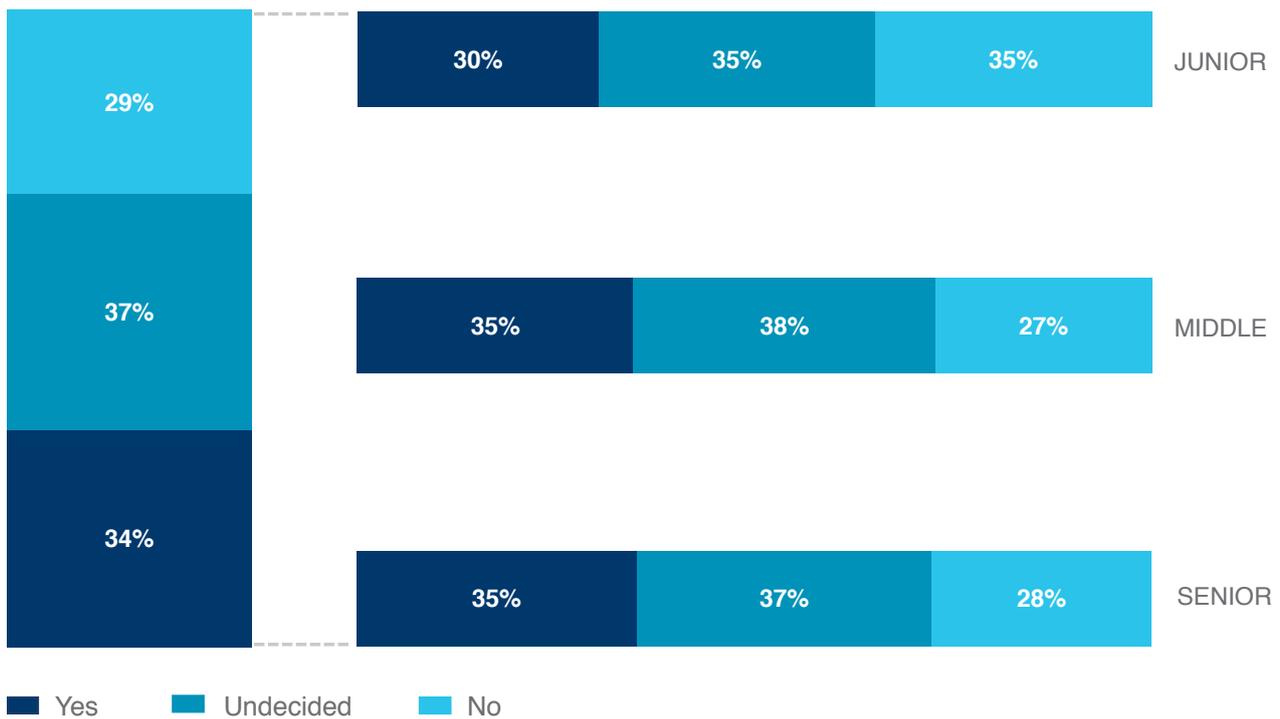
When considering the levers that have the highest ranking of cumulative importance (i.e. combination of critically important and very important), promotion measures (PRM) rank above all others. This suggests a preoccupation with career development. It is also aligned with the importance banking industry employees place on career development.

RETENTION INSIGHTS

The survey results paint somewhat of a gloomy picture with respect to the outlook for talent retention in the banking industry.

Over one-third of survey respondents are intending to leave their current position in the next 12-24 months, with another third undecided. By rank, mid-level and senior executives have the greatest desire to leave (see Figure 39).

FIGURE 39: EMPLOYEE CAREER MOVE INTENTIONS



Note: Figures exclude responses from students.

Source: Quinlan & Associates survey data

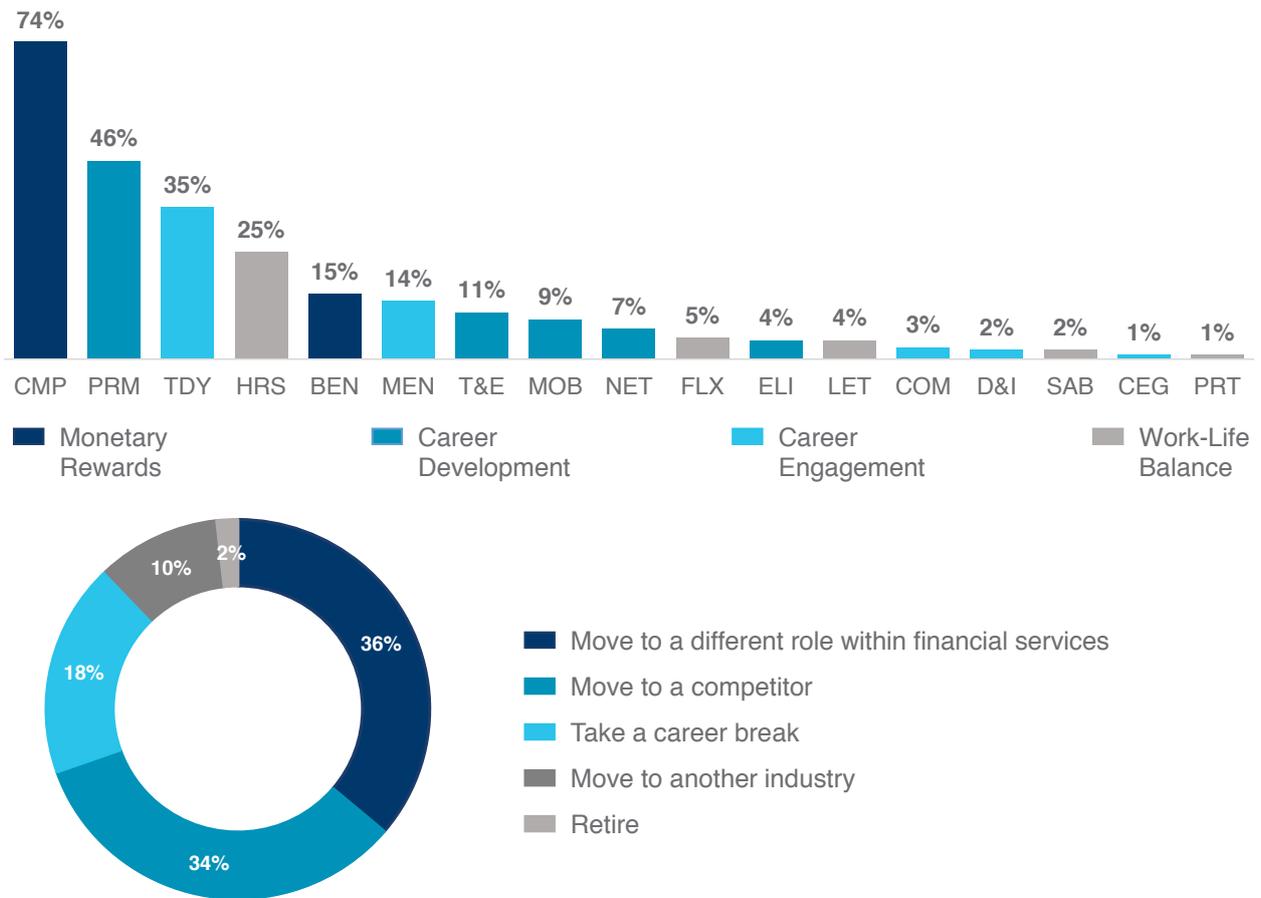
It appears initiatives targeting the work-life balance of junior staff need to be supplemented with a greater focus on the levers more pertinent to more senior staff. Addressing promotions (i.e. the lever with which the most survey respondents were dissatisfied) is a preliminary step in retaining key talent who are considering leaving.

The biggest driver behind survey respondents looking to leave their current positions was compensation (chosen by 74% of survey respondents), with protected time measures the least cited (see Figure 40).

Considering banks have been very active in implementing protected time policies against the backdrop of highly stringent compensation regulations, such results can be understood.

This signifies that despite banks implementing work-life balance measures as well as instating career development and engagement initiatives, employee retention is often driven by compensation, a tangible reward. Banking, after all, is still largely about money.

FIGURE 40: DRIVERS OF EMPLOYEE CAREER MOVE INTENTIONS



Note: Compensation (CMP), allowances & benefits (BEN), promotions (PRM), training and education (T&E), mobility (MOB), elite programs (ELT), networking (NET), mentoring (MEN), team dynamics (TDY), firm communication (COM), diversity & inclusion (D&I), community engagement (CEG), overall working hours (HRS), protected time (PRO), flexible schedules (FLX), sabbaticals (SAB) and leave entitlements (LET). Figures exclude responses from students.

Source: Quinlan & Associates survey data

Roughly 70% of all reported leavers plan to stay in the financial services sector, with 34% planning to move to a competitor firm and 36% looking for a different role within the industry. This should be seen as an opportunity for banks, since it means that a

large proportion of employee dissatisfaction is firm-specific, and can therefore be readily addressed. Clearly, a refocus of bank efforts is required to deter the impending attrition of many high-ranking industry professionals, even in the current climate of job cuts.

SECTION 4

CONCLUSIONS & RECOMMENDATIONS

THE PROBLEM

The banking industry is in peril of a talent crisis. Since the GFC, many of the world's largest and most prestigious institutions have lost tremendous brand value, with new joiners – such as MBA graduates of leading global business schools – increasingly seeking out careers in alternative industries, including the big technology firms. At the same time, voluntary employee turnover rates have been on the rise. We are consequently left in a situation where the talent pool is running thin due to a simultaneous reduction in new entrants and increase in leavers. This is particularly apparent among mid-level employees, creating a dangerous 'hollowing out' of organisations and a critical shortage of next-generation leaders.

WHY SHOULD WE CARE?

Even at a time when banks are slashing their global headcounts, the rise in voluntary employee turnover rates should be cause for concern as it indicates many firms are losing the best and brightest future leaders at an increasing rate. Not only does this create a 'brain drain' for an employer, but it also represents a substantial hidden cost.

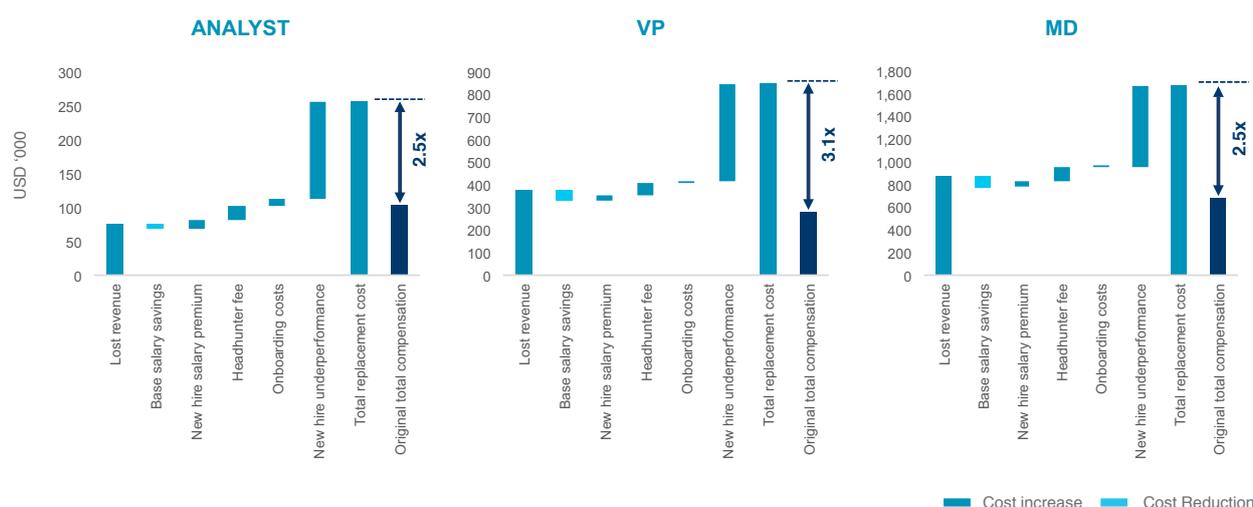
Despite the savings in personnel costs that a bank enjoys from a voluntary resignation, this is offset by a combination of factors such as:

- lost revenue from the position being vacated until a replacement is found;
- the salary premium paid to the new hire;
- headhunter fees;
- fixed onboarding costs;
- revenue underperformance of a new employee while they get up to speed; and
- unquantified risk of triggering additional departures

Our analysis indicates that replacing a mid-level front office employee working in markets at a global investment bank (e.g. a vice president equity salesperson) can cost up to ~USD 850,000, ~3.1x their total annual compensation. Conservative estimates of replacement costs can add up to ~USD 1.7 million for a managing director in the same role (see Figure 41).

We believe the reluctance by banks to counter-offer their best employees that are intending to leave ultimately costs the organisation substantially more in the long-term.

FIGURE 41: REPLACEMENT COST ANALYSIS – FRONT OFFICE MARKETS (USD)



ASSUMPTIONS	ANALYST	VP	MD
COMPENSATION			
Base Salary (\$)	80,000	180,000	400,000
Bonus (%)	30%	50%	70%
LOST REVENUE			
Annual revenue	1,000,000	3,000,000	5,000,000
Months seat is empty	3	3	3
Impact (revenue reduction)	30%	50%	70%
BASE SALARY SAVINGS			
Months headcount is empty	1	3	3
NEW HIRE SALARY PREMIUM			
% of ex-employee base salary	15%	15%	15%
HEADHUNTER FEE			
% of new base salary	25%	25%	25%
ONBOARDING COST			
Fixed bank cost	10,000	10,000	10,000
NEW HIRE UNDERPERFORMANCE			
Months for new hire to get up to speed	4	4	4
Revenue underperformance	50%	50%	50%

Note: for simplicity, we assume staff work through their entire notice period, and the impact of bonuses have been ignored for this analysis (i.e. we assume, on average, that bonuses forfeited as a result of a voluntary resignation are offset by the cost of a bonus buyout for a new joiner)

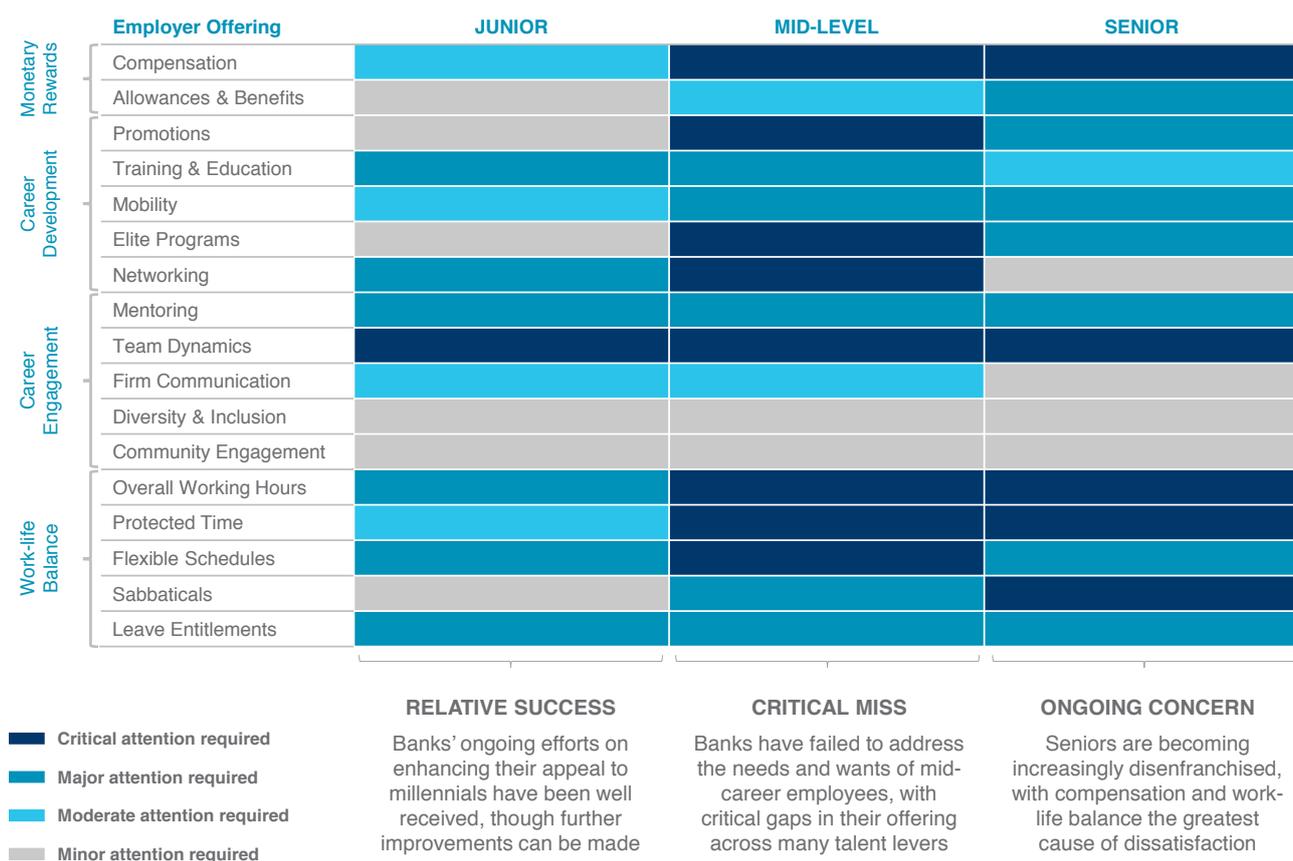
Source: assumptions based on interviews with industry professionals, hiring managers, human resources professionals, financial services headhunters, and Quinlan & Associates proprietary analysis

We estimate every 1% rise in voluntary employee turnover rates is costing each global bank between USD 250-500 million per year in replacement costs. With voluntary staff turnover now 1-2% above historical levels for a number of leading firms, some banks are incurring up to USD 1 billion in incremental replacement costs annually.

WHAT DOES THE DATA SAY?

Our research indicates the recent rise in voluntary employee turnover rates is a result of banks failing to accurately address the concerns and priorities of employees at different stages of their career lifecycle (see Figure 42).

FIGURE 42: PRIORITY GAP ANALYSIS



TEAM DYNAMICS REMAINS A CRITICAL GAP ACROSS ALL RANKS

Source: Quinlan & Associates analysis

While banks' efforts to improve working conditions for millennials have resulted in few critical gaps in their junior talent offering, they have failed to deliver a satisfactory proposition to their more seasoned staff. This is most pronounced among mid-level employees (i.e. vice presidents/junior directors), a large number of whom remain demoralised and are looking to leave their current role. Most importantly, team dynamics – identified by 50% of survey respondents as 'critical' in selecting a future employer – remains a key gap across all corporate ranks. This suggests there is a broader cultural problem with the working environment in today's banking industry.

WHAT KEY CHANGES ARE NEEDED?

As highlighted throughout Section 2 of this report, we feel there are a number of policy changes that can be made to improve the talent proposition currently on offer at many banks.

MONETARY REWARDS

With respect to monetary rewards, it is clear that compensation still remains a driving force in determining employer selection. Newly introduced EU bonus caps, coupled with lengthy deferral periods and clawback provisions, have had a clear impact on the compensation structure of many senior bankers. It is therefore unsurprising that compensation was the most cited reason for employees intending to leave their current positions.

However, our survey results indicate more than 70% of those looking to leave their current role intend to move to a competitor or assume another position within the financial services sector. It is therefore arguable that regulations are not the sole reason for dissatisfaction with compensation. We believe rising dissatisfaction stems from the cultural component often accompanying its delivery.

With banks struggling to deliver on their bonus promises, it is not uncommon for employees to have their bonus expectations reinforced throughout the year, yet receive a 'doughnut' (i.e. a zero bonus) come bonus season. The high degree of subjectivity involved in the allocation of bonuses makes this a regular occurrence and promotes a demoralising culture. This makes it all the more important for rigor and transparency surrounding the distribution of bonus pools. Firm-wide employee value can only be reinforced through bonus allocations that are based purely on performance and not subjective measures.

CAREER DEVELOPMENT

In terms of career development, survey respondents were most dissatisfied with their current employers' promotion measures. Considering the bleak promotion prospects for many mid-level employees, it comes as no surprise that these executives are among the most intent on leaving their current positions.

To address this, greater transparency around promotion criteria is needed. KPIs used to evaluate employees must be made clear and banks must think more strategically around rebalancing their top-heavy employee hierarchies to address the ongoing promotion bottleneck facing increasingly disenfranchised mid-career executives. Instituting a culture of meritocracy also necessitates committing to non-standardised, performance-based promotion timelines across all employee ranks.

EMPLOYEE ENGAGEMENT

While banks have done a considerable amount of work to improve employee engagement, team dynamics remains a key gap across all corporate ranks, with employee morale remaining extremely low.

We believe more must be done to drive employee engagement and to create a high performance working environment that breaks down silos through promoting collaboration and the free exchange of information. This can be achieved through improving internal communications endeavours, encouraging mentoring efforts, and removing inefficient organisational barriers such as co-head structures. As part of this change, banks need to better recognise and reward collaboration efforts.

WORK-LIFE BALANCE

On the topic of work-life balance, bank efforts appear somewhat misdirected, given they have been targeted towards juniors at the expense of more senior employees who value it the most. Moreover, many of the measures that have been implemented for juniors (i.e. protected time initiatives) do nothing more than redistribute the same work over a shorter amount of time.

Truly addressing work-life balance involves reducing the workload itself and not the time in which it must be completed. To do so, banks will need to start working smarter, including better leveraging technology to streamline many of the manual processes which still occur throughout the industry. More importantly, workloads need to be better monitored to ensure they are kept within reason, and senior bankers need to be held accountable. An environment that promotes working 'smarter' over working 'longer' is needed.

WHAT IS REQUIRED FOR SUCCESSFUL IMPLEMENTATION?

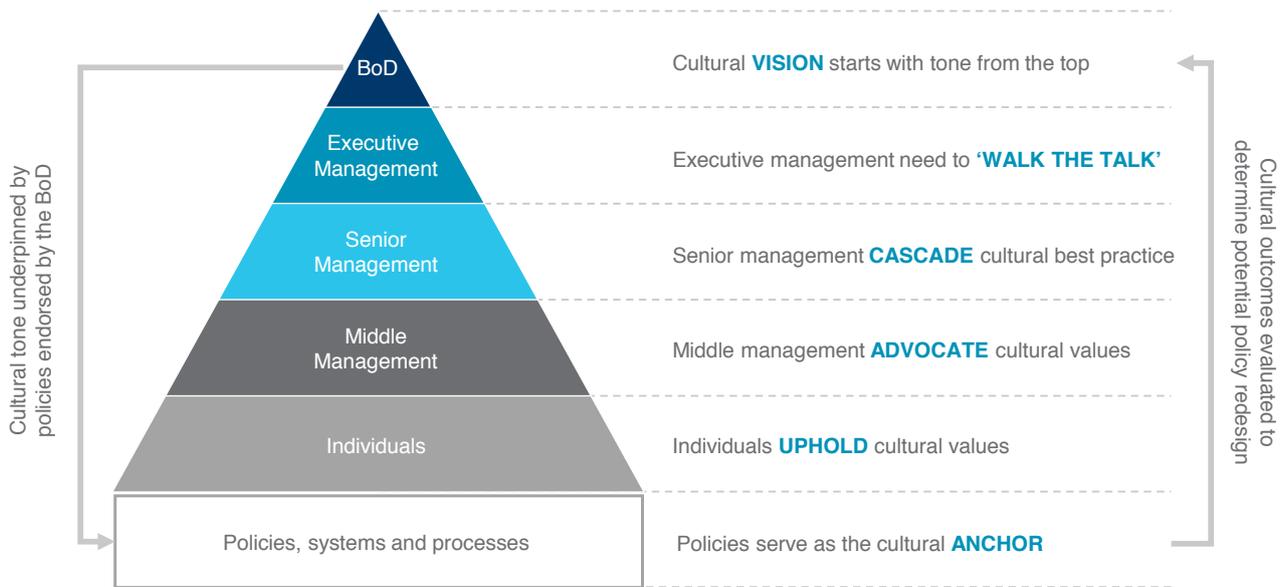
While a number of policy changes should be considered to better align banks' efforts with employees priorities, policies alone are not enough to have a lasting impact. The structure and governance surrounding the implementation of these programs, as well as the underlying culture of the organisation, must undergo a fundamental transformation.

Banking culture must evolve to reward employees more transparently for their work and overall contribution to the firm. Staff value their employers' investment in their personal career development. Banks can signal they take this seriously by revamping feedback mechanisms, instituting mentoring channels across all ranks, investing in their employees' people-management skills, and improving their commitment to work-life balance. However, these recommendations are most useful in a meritocratic, performance-based corporate culture. The demoralising and face time-driven culture that currently permeates throughout so many organisations – including negative stigmas of 'weakness' or 'laziness' attached to employees seeking out greater work-life balance – does little to cement employee loyalty.

We also feel there is still a strong disconnect between banks' human resources departments and their business units. For any policy changes to be successful, human resources must execute talent initiatives in-line with the goals of specific business units, and not generic ones that add little firm-wide value. Closer collaboration in the hiring process needs to occur right from the outset, with hiring managers and human resources departments working in partnership to identify and recruit the most appropriate candidates. By the same token, human resources departments must maintain a certain degree of independence to ensure they act as an appropriate check and balance on the recruitment, compensation and promotion practices of the business units they support.

However, it is important to stress that a bank's overarching talent retention and development strategy should not be left to their human resources departments alone. For any change in culture to occur, the tone must be set from the very top. For a true change in a bank's DNA to occur, a bank's executive management must 'walk the talk,' with senior management cascading best practice down through the entire organisation. Middle management must then advocate this cultural best practice in order for individuals to truly uphold the firm's cultural values (see Figure 43).

FIGURE 43: CULTURAL EVOLUTION CYCLE



Source: Quinlan & Associates analysis

It is also important to remember that when it comes to culture, there is a symbiotic relationship that exists between policies and people. While banks have focused much of their attention in recent years on developing new talent policies, they will only be effective to the extent that they are supported with fundamental changes in a bank’s culture.

With employee disenfranchisement and voluntary staff turnover on the rise, we believe talent strategy deserves the full attention of a bank’s board. Until then, employers shouldn’t bank on their best and brightest staying.

SECTION 5

HOW CAN WE HELP?

Our consultants have considerable experience in designing and executing talent retention and development strategies at global banks. Our project work typically involves a number of key phases:

PHASE 1

Carry out gap analysis across the full spectrum of talent levers outlined in Section 1, e.g.:

- Custom-design a bank-wide employee pulse survey to identify overall staff mood and key areas of dissatisfaction
- Conduct extensive interviews with employees to develop a granular understanding of their priorities and concerns as they relate to talent
- Analyse turnover rates across departments to identify underlying drivers of attrition
- Benchmark existing talent offering against competitors and other industries to identify potential areas for improvement of redesign

PHASE 2

Detail and prioritise talent policy recommendations, e.g.:

- Identify talent levers that require critical attention
- Outline policy changes to address key gaps (e.g. tailoring training programs, launching communications plans, revamping performance evaluation criteria)
- Provide a timeline and framework against which to measure success

PHASE 3

Implement an overarching program of cultural change, e.g.:

- Identify cultural problems linked to a bank's talent proposition, including any reasons driving current cultural impediments
- Identify avenues to effect cultural change (e.g. incentive structures, reporting lines)
- Implement appropriate senior governance structure between the business, human resources and senior management to ensure the tone is set from the top

Despite the various measures banks have taken to address the talent bleed, employee-initiated turnover is on the rise. There are a number of clear gaps between employee priorities and where banks have focused their efforts. A number of cultural impediments also remain.

With this talent crisis costing each global bank up to USD 1 billion in annual incremental replacement costs, we believe now is the time for talent strategies to be revisited.

QUINLAN & ASSOCIATES

STRATEGY WITH A DIFFERENCE

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