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People Analytics for Financial Services

Adapting to digital transformation with data-driven decisions

May your workforce be with you!

The financial services industry is undergoing a digital transformation that requires a different type of workforce. Our guide provides a comprehensive analysis of key technology trends that are disrupting the finance industry, a rundown of how this affects HR and where people analytics fits to the broader strategy.

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Introduction

The financial services industry has undergone a massive transformation as it responds to changing customer expectations, regulatory pressure, and start-up challengers. This has impacted the priorities of human resources (HR) professionals, and the type of workforce that is needed in the era of digitalization. As the industry grapples with multiple challenges, people analytics can ensure that strategic decisions are informed by data and can help companies thrive now - and in the future.

Transformation is a major theme in financial services and the industry faces change on multiple fronts: customer expectations, the regulatory environment and the competitive landscape are all rapidly evolving. And this has implications for human resources (HR) professionals and business leaders, who need to transform their businesses - and workforces - effectively by making people decisions that are based on data and analytics, and not gut instincts.

These decisions have a real impact; financial services companies are large employers and major contributors to the economy. Business Research Company, for example, estimates the industry's value will be more than US$28 trillion by 2025, and other figures estimate its contribution to global GDP is around 25%. With a high proportion of financial institutions' operating costs being spent on human capital, a lot of is at stake when it comes to decisions about the workforce.

Financial services have evolved rapidly and now customers expect solutions to be easy, quick and digital. So much can be done on the go, such as sending money instantly to a friend in another country, or a corporate treasurer approving a US$1 million transfer, from their smartphone. Bank branches are disappearing as banks' services are becoming more and more digitized. These days much is automated, and algorithms are driving this globalized, connected, real-time financial world.

There are also other wider trends that are impacting the industry. Regulation is a major theme and financial institutions have become more heavily regulated, especially since the global financial crisis. This has included the introduction of accountability regimes that map out which senior leaders are responsible (and accountable) for what in the event something goes wrong. This has had a number of implications for HR, such as a shift in the type of leaders that are appointed to these positions.

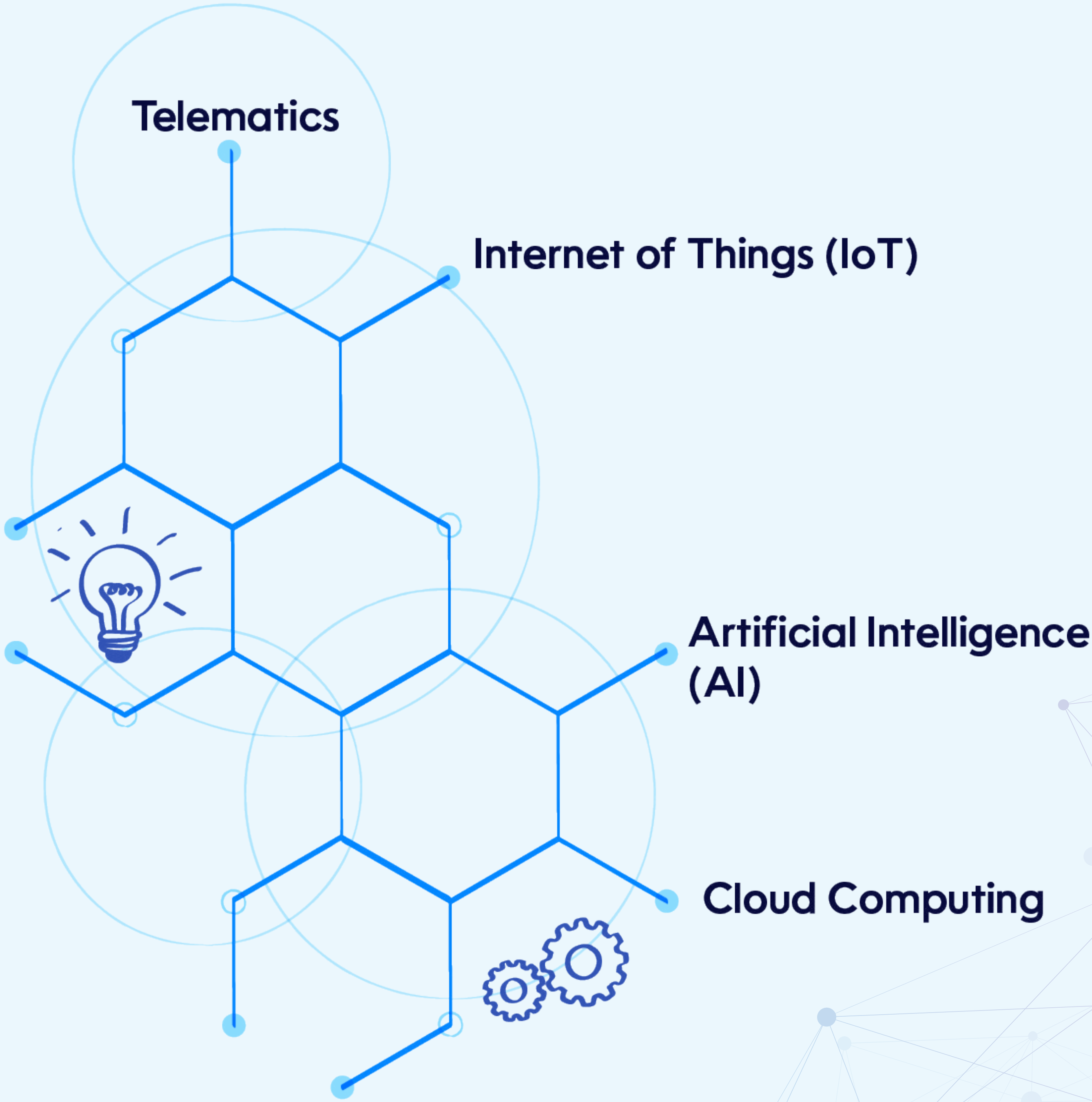
Also, financial institutions need to ensure their staff are up to date with their mandatory compliance training and they need to monitor employee behavior that could signal financial, operational or conduct risk. In addition, financial institutions are increasingly subject to environmental, social and governance (ESG) rules that include how they market and report on certain products, for example. And many organizations have also prioritized diversity and inclusion goals, and there is a move to standardize how they report their data so investors can compare like with like when understanding their progress, they have made with representation in their workforce, for example.

Technology trends that are disrupting the financial services industry

Rapid digitalization has been enabled by numerous technologies, including cloud computing, artificial intelligence and processing of big data. Also, telematics and the internet of things mean that insurance companies can get data on vehicles in real-time (in the case of an accident) or finance can be provided for vehicles on a per-use basis and a device can automatically detect when it is being used.

Artificial intelligence is also a major feature of the work of financial institutions and is used for many purposes, such as high-frequency trading, credit risk assessment, insurance underwriting, fraud detection, or robo financial advice. And with the rise of natural language processing and chatbot tools - including ChatGPT - the need to speak to someone in person, or on the phone, will be reduced in the future.

The implications of these technology trends, among many others, will result in the workforce of financial institutions requiring remarkably different types of people and skills in the future. A massive mindset shift is also required; staff need to shift from how things were done in the past to how they will be done in the future. The workforce of financial institutions is becoming more like a technology company that happens to be in the business of financial solutions.



The issues that are facing HR in financial services

This transformation is bringing a number of challenges to HR professionals, who need to support their business leaders in reshaping their companies so they will continue to be relevant in the future. In the face of many other start-ups and technology companies, there is competition for talent, and many financial institutions struggle to find the right expertise - such as developers who are experienced in cloud technology, for example - especially when they are competing with the likes of Google, Amazon, and Meta to hire them. HR teams face a choice of whether to pay over the odds to acquire talent or to upskill the staff they already have.

Also, this new environment requires a different mindset and people who will have to work in new ways, whether it is applying agile methodology, or being more open-minded about what financial services will look like in the future. The pace of change is rapid, and the workforce needs to adapt quickly so organizations can be nimble in this competitive environment.

Companies also need to hire people who understand regulation, care about compliance - as well as issues such as data, security and privacy - and also pay attention to ESG issues. Financial institutions have also put an emphasis on gender equity and ensuring they have women in senior roles, starting with an adequate hiring strategy, effective career development and succession planning.

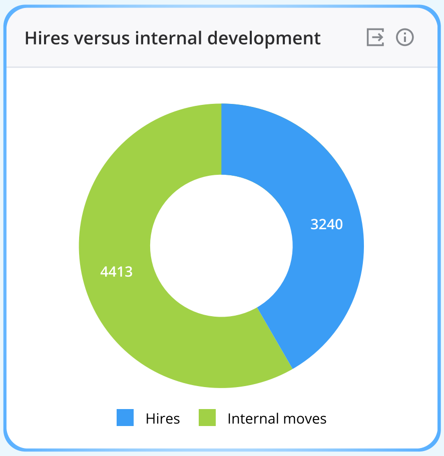
Applying people analytics to financial services

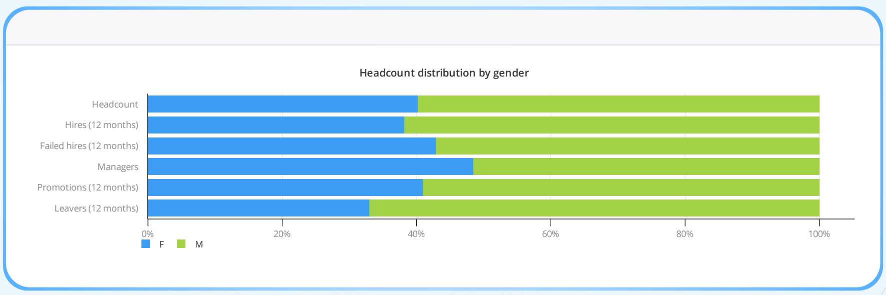
Human capital is one of the biggest operating expenses for financial institutions and, given the pace of change the industry faces, this is spending that needs to be based on informed decisions. Organizations need to ensure they are measuring the return on that investment effectively, which is where people analytics comes to the fore with its strategic role.

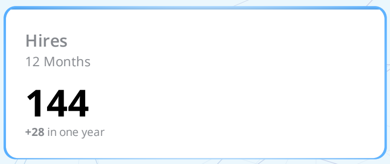
People analytics can guide decision-making when it comes to attracting, developing and retaining talent. For hiring, it is not only about recruitment efficiency (time to hire, time to fill) but also about hiring effectiveness. That means making the connection between selection and performance: what are the best performing channels when it comes to new hires and which backgrounds are most successful. One can, for example, connect new talent attributes (background, skills, hiring channels) to first-year performance scores. Furthermore, one can also look into the failed hire rate – where staff leaves within one year – and then analyze which staff are leaving so soon and why. As this can be extremely costly and negatively impact operations, addressing this issue is crucial.

Due to the digital transformation, banks and insurance companies require new roles and skills. Internal mobility should be top of mind – not only to give career opportunities to current staff for the sake of retention, but also to simply fill newly created positions. With people analytics, organizations can find the right internal talent by looking at performance, potential and competencies. Ideally, they take the thorough approach of mapping skills and seeing overlap, but otherwise a proxy is to see which job moves between department have been successful so far. In other words, which departments can be talent suppliers to other departments (talent consumers).

As automation is impacting customer service, it could be that customer service staff are well equipped to handle part of the administration in new compliance teams, for example.







As the war on talent is fierce within financial services, retaining talent is equally important as finding new employees. That said, the story is nuanced, as the retention problem differs across the business. Retaining new security talent is probably more important in this time of cyber security threats rather than retaining local branch employees in a time that many financial services companies are reducing the number of local branches. People analytics can help pinpoint where to make interventions and where not. It can also help make the connection to drivers of retention by taking account of engagement surveys, compensation trends and career opportunities.

Attracting, developing, and retaining talent are the classic examples in which people analytics can help. The realm of analysis can also go much broader. Financial institutions in recent years have also paid more attention to wellbeing and can use people analytics to assess whether employees are at risk of burnout, by assessing and analyzing absenteeism data, for example. Another key area of impact where people analytics can help financial services companies is improving the diversity of their talent pool by looking into hiring, promotions and pay equity. It can also connect this data to qualitative surveys, ensuring that organizations not only pay lip service to diversity but also foster a culture of inclusion and belonging.

Finally, a totally different example, people analytics can support financial services organizations with org design by looking at spans and layers. Typically, traditional financial services companies are trying to become leaner and as such need deep analyses of where there are cost saving opportunities by reducing the density of middle management.

With people analytics, it is important to start with a business question and be mindful of the intended impact; people analytics should always support the business in its strategic objectives. Let us close this overview with some questions that you might want to ask at your organization.

Here are some examples:

HR Domain	Questions
Recruitment	Are we meeting our hiring targets? What has been the cost of recruitment over time and which roles particularly stand out? Where do we experience a high hire failure rate and how can we address it?
Retention	How has turnover been developing since last year across geographies? What are the cost savings when we reduce turnover by 1 percentage point? What is the turnover of our high performers?
Rewards	Do we pay for performance? What is the gender pay gap? Are we closing it? Which employees seem to be underpaid and how do we address it?
Diversity and inclusion	What is the diversity rate across functional areas and job grades? Are we promoting equally? Are we getting closer to our diversity targets?
Internal mobility	What is our promotion rate across departments? To what extent do we fulfil leadership positions internally? To what extent do we offer our people international opportunities?
Absenteeism	How does our absenteeism frequency and duration develop? What are the costs of absenteeism? How is absenteeism connected to engagement?
Succession	Do we have available capable employees that can fill important leadership roles? Is the bench strength mitigating business continuity risk? Who are the listed successors for key positions?

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