INDUSTRY UPDATE: Financial Services

Financial Services Market Outlook

As we define it, this market comprises banking, investment advice and management, investment banking, insurance, accounting, and associated financial services. One source says this about the industry's prospects:

"The global financial services market is expected to grow from $23,319.52 billion in 2021 to $25,839.35 billion in 2022 at a compound annual growth rate (CAGR) of 10.8%. The market is expected to grow to $37,343.95 billion in 2026 at a compound annual growth rate (CAGR) of 9.6%." [See Source] The same source explains that Western Europe is the largest single market, followed by North America and highlights some of the key trends facing this industry:

- digitization of commercial lending,
- continuing expansion of electronic payments, and
- utilization of big data analytics.

Of course, the abrupt changes in interest rates implemented by the US Federal Reserve and other central banks to curb rising inflation will certainly also impact the industry's outlook:

"Generally, high interest rates are good news for the future of the banking industry and financial services companies as they improve investment yields. In the longer term, digitisation and a DIY approach to financial activity will have a transformative impact on businesses in the financial sector. This banking industry trend will improve financial inclusion and the availability of financial products and allow for cost-cutting. On the whole, this is excellent news for the industry, but slow-to-act and high-cost providers will suffer." [See Source]

On the other hand, stock markets have contracted sharply in recent weeks, with short term impacts particularly on investment advice, investment management, and investment banking. This will likely affect staffing as evidenced by this recent announcement:

"Goldman Sachs to kick off Wall Street layoff season with hundreds of job cuts this month"

At the rational level, it is understandable that when deal-making drops off, a company like Goldman Sachs does not need so many deal-makers or support people. Well-run companies are constantly reviewing their human capital and evaluating this against the expected demand, shuffling specific specializations as they do to make sure that the demand and capacity remain relatively balanced over time. In fact, even during a restructuring, new positions may be created that require particular skills and experience.

For example, another stalwart in the industry, Ernst & Young, is potentially planning to split to take better advantage of market conditions:

"Ahead of a plan to split its auditing and management-consulting businesses, **Ernst & Young** revealed that revenues grew by 16.4% in the year to June 30th, the best growth rate in 20 years. Sales from its consulting services grew at a faster pace than those from accounting, although accounting still brought it more money. [E&Y] thinks a break-up will allow the consultancy side to thrive, freeing it from conflict-of-interest rules that stop it working with firms that [E&Y] also audits. Its 13,000 partners will start voting on the spin-off in November." [*The Economist*, weekly September 24, 2022]

One of the enduring changes we can expect in the future, especially in Europe is more attention to the composition of companies' boards. Here is how one source rates the overall board situation in Europe:

- "European financial services firms meet shareholder expectations in traditional areas of boardroom experience, including politics, accountancy, legal and compliance.
- But directors with sustainability, FinTech and cybersecurity experience are underrepresented in the boardroom, according to investors.
- However, board appointments in sustainability and technology are accelerating, with almost half (45% and 46% respectively) of directors with experience in these areas recruited in the last three years.
- And, while gender diversity remains below investor expectations, the data shows more female than male board appointees have been made over the last three years." [See Source]

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Outside the boardroom, other pockets of opportunity in this industry revolve around the reimagination of the energy business, both due to a new emphasis on environmental sustainability and trailing impacts from Russia's invasion of the Ukraine. These investments will buoy the Middle East as Europe pivots away from Russia, and stimulate electric vehicle manufacturing and charging infrastructure, gas terminals and transportation, and create demand for executive talent not only in engineering but in financial service disciplines as well. [Read New Energy for Your Life, Your Career, and the World for more information.]

Another major segment, the insurance sector, has showed incredible agility in managing the recent string of crises. One source forecasts this segment's immediate future as follows:

> "The road ahead is dotted with multiple hurdles—rising inflation, interest rates, and loss costs; the looming threats of recession, climate change, and geopolitical upheaval; and competition from InsurTechs and even noninsurance entities such as e-tailers and manufacturers, to name a few. This is no time for carriers to be satisfied with the adaptations they've had to make."

Editor's Note:

In this particular Update "executives" will generally refer to the Vice President, Senior Vice President, Chief Operating Officer, Chief Financial Officer, Managing Director, Chief Executive Officer, Chief Human Resources Officer, Chief Marketing Officer, Chief Information Officer, Managing Partner, General Counsel, Head, and President titles. Unless otherwise noted, the data in this Update will largely come from LinkedIn and represents a snapshot of the market as it was at the time of the research. Is LinkedIn truly representative? Here's a little data: LinkedIn has approximately 850 million users. (See Source) It is by far the largest and most robust business database in the world, now in its 19th year. LinkedIn defines the year over year change (YOY Change) as the change in the number of professionals divided by the count as of last year and "attrition" as the departures in the last 12 months divided by the average headcount over the last year.

> "Instead, they should be building upon the momentum they've achieved to maintain an ongoing culture of innovation while making customer-centricity the focal point of the industry's standard operating model." [See Source]

The same source goes on to highlight the relative risks and opportunities in multiple subsegments of the insurance market, illustrating as it does so the overall theme for the financial services industry: ***expect significant changes and, while staying put becomes ever riskier, keep your eyes open and take educated risks going forward that can potentially pay big dividends.***

Executive Employment

[See the Editor's Note for more details and definitions.]

Some 900,000 executives work in this industry, a population that grew by about 1% in the last year and shows a persistently low female executive share of just 25%. Industry players in the EU, UK, and Middle East employ some 256,000 execs, a group that expanded by 2% in the past year but is even less gender balanced at just 18% female, while the US cohort comprises some 648,000, having grown by 1%, and boasts a higher though modest female executive share of 27%. Median tenure runs 3.8 years in the EU, UK and Middle East group and 4.7 years in the US.

Not surprisingly, LinkedIn identifies the most executives in four major sectors (Chart 1) including banking, insurance, investment management, and accounting, which collectively employ approximately 660,000 execs—73% of the total industry's executive population.

These largest segments are not the fastest growing, though. That accolade goes to VC & PE (+7.3%), Non-profit Organization Management (+6.7%), Biotechnology (+6.2%) and Research (+6.1%). Other sectors have in fact contracted over the last year, including Oil & Energy, Medical Practice, Transportation, and Restaurants.

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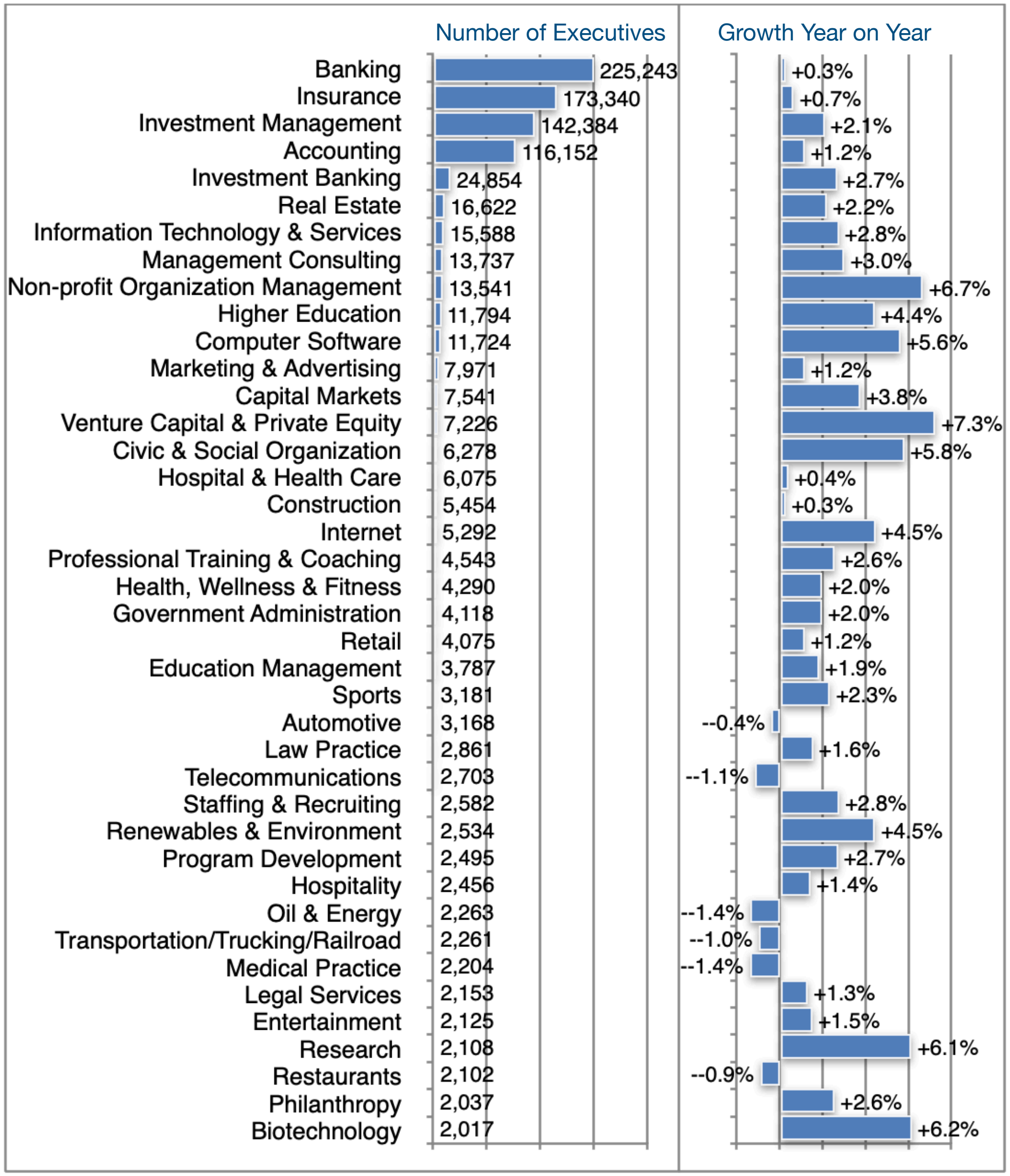
Chart 1: Executives Employed by Segment



The Upside of Downsizing [Read More]

In keeping with the size of the segments noted above, Chart 2 (see following page) lists mainly banks as the largest employers of executives, with two notable exceptions: Goldman Sachs and Marsh, a diversified financial services firm and an insurance specialist. Overall, it seems that the fastest growing subsegment in the past year has been consulting specialists such as EY (+15.8%), KPMG (+14.6%), PwC (+12.2%), but Goldman Sachs (+12%) and Blackstone (+18.2%) also grew strongly.

As mentioned in the introduction, Goldman Sachs may be reversing some of that growth later this year. Bear in mind that this company has about 8,300 vice presidents and almost 190 C-level officers collectively having an average tenure of 7.3 years if LinkedIn's data is correct, and that this group has actually grown over the past year by a net 115 positions. Most of the talent flow has been an exchange with Morgan Stanley (-26 departures /+28 hires), JP Morgan Chase & Co. (-14/+26), Next Capital (+36), Citi ((-10/+17), and Wells Fargo (-12/+11). *(Note, Barrett Group clients have access to incredibly detailed data on millions of companies via our research arm.)*

Interestingly, Blackstone added a net 1,279 employees (not just execs) and has hired significantly from Goldman Sachs over the past year (-16/+72), Morgan Stanley (-13/+47), PwC (-4/+46), EY (-2/+40) not to mention a long list of additional donor companies. Peak hiring occurred in June 2022 so far.

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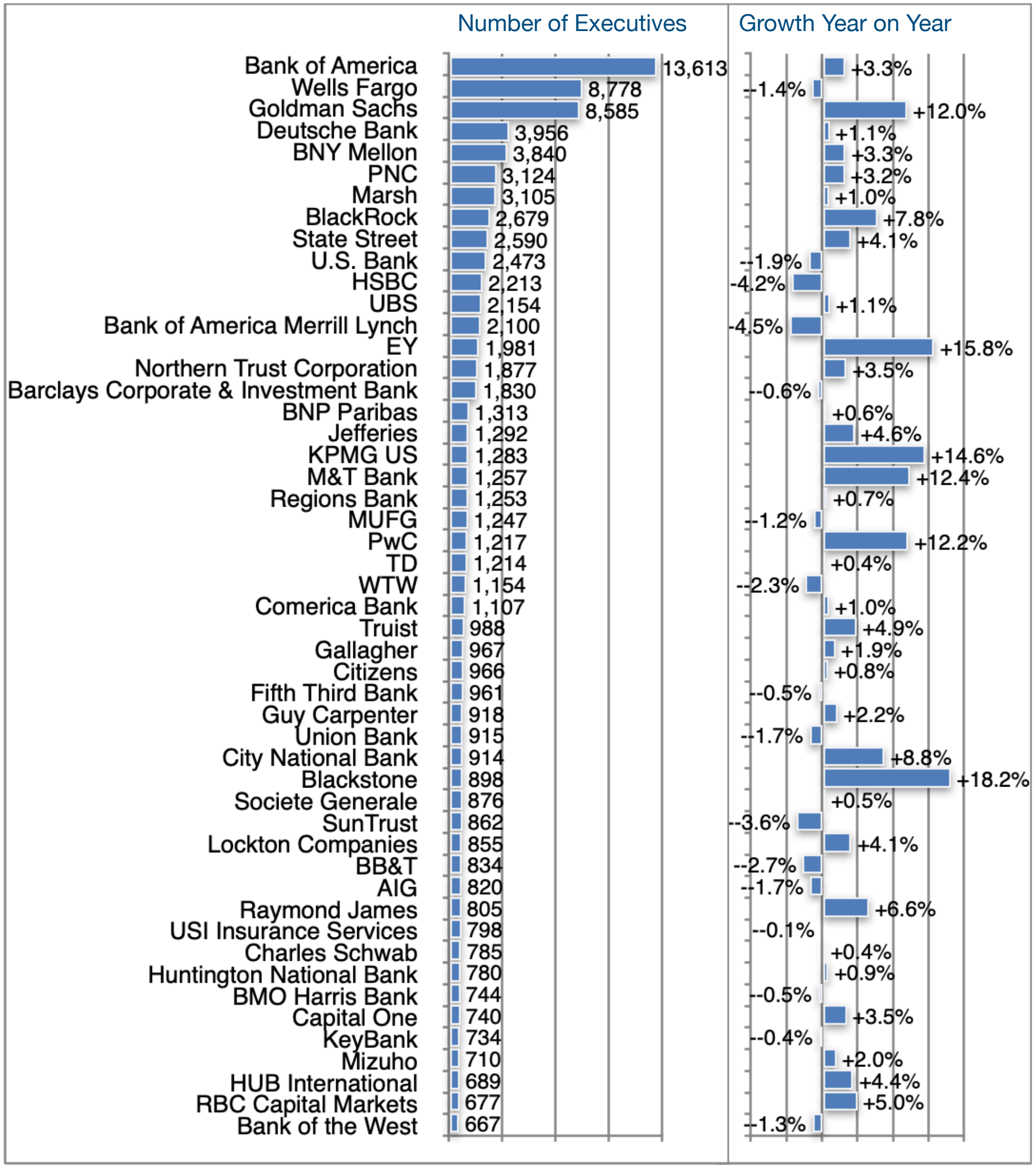
Chart 2: Companies Employing Executives



In relatively unconcentrated industries we often see more CEOs than Vice Presidents because every small company must have a head honcho, however, this industry is obviously much more concentrated based on the title demography (Chart 3) that shows relatively more Vice Presidents. The preponderance of Presidents is an interesting point—quite different from most industries possibly because of the strong banking component. Female executive shares peak in the Chief Operating Officer (32%), Vice President role (36%) and Chief Marketing Officer (40%) and achieve their nadir in the Chief Information Officer and Managing Partner positions (each at 15% female).

Chart 3: Executive Titles

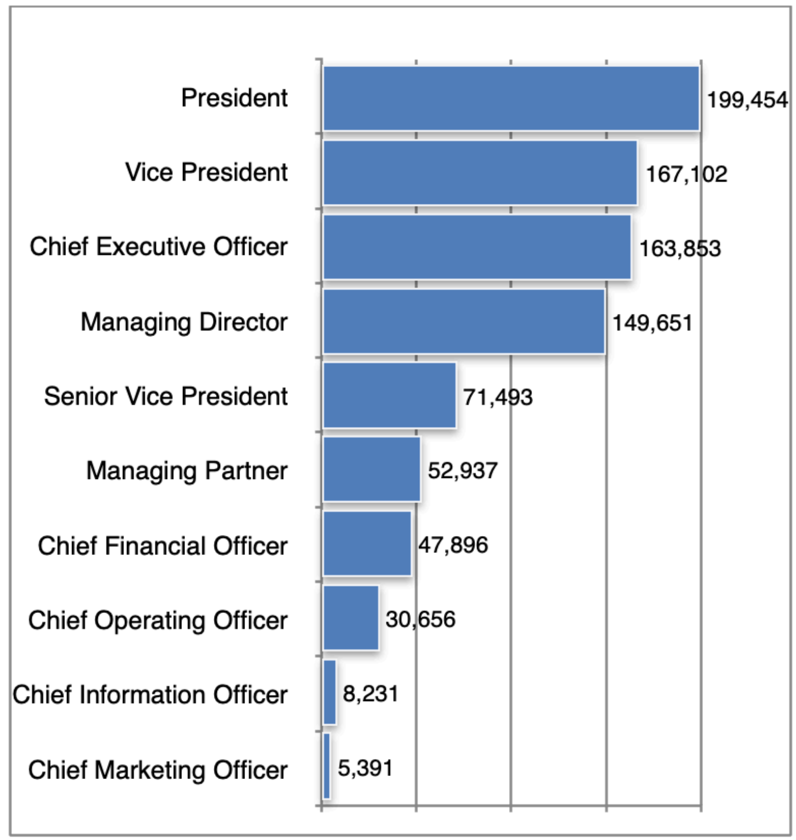


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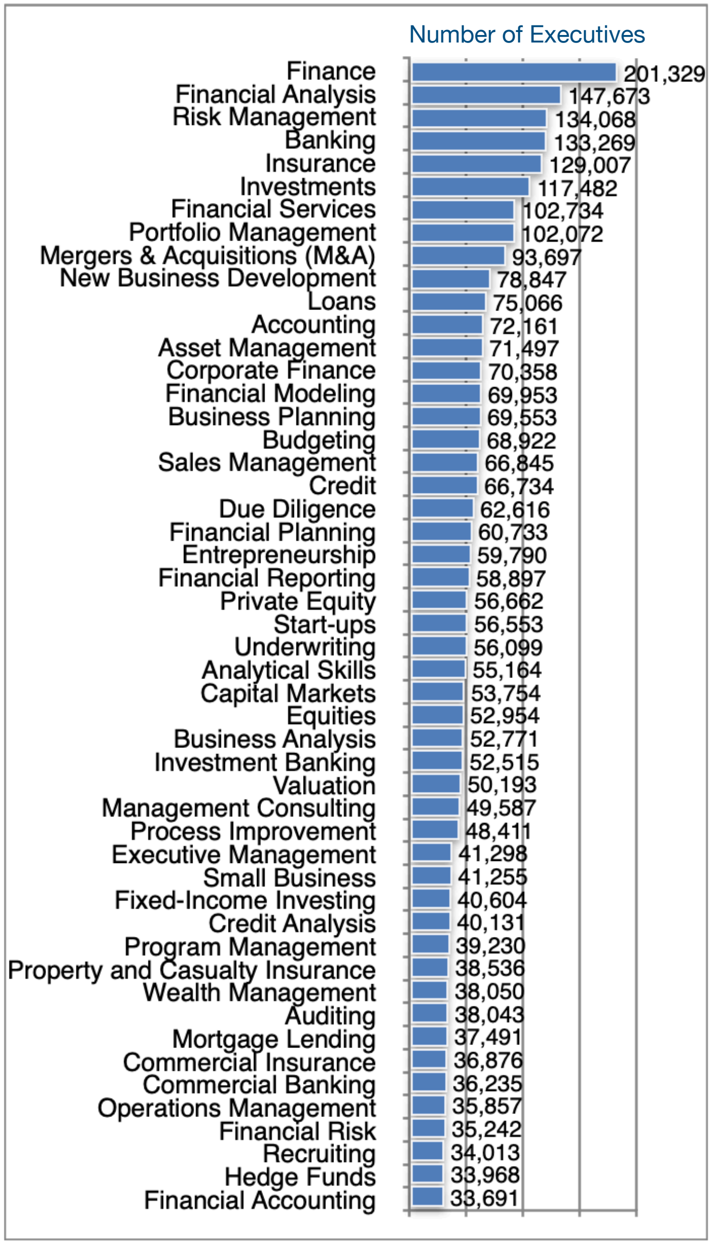
Chart 4: Specializations



As usual, we are interested to know a little more about what these executives actually do, and Chart 4 sheds some light on this point by enumerating the specializations that executives have cited in their LinkedIn profiles. Normally Sales and /or Business Development top these charts but not in this industry. Here the specific skills of Finance, Financial Analysis, Risk Management, Banking, Insurance, and Investments come out on top ahead of more generic skills. If readers are considering transferring into or out of this industry, the relative frequency of the more generic and transferable skills can be seen in this report: Do You Have Tremendous Transferability? A number of the financial service's most common skills appear to be highly transferable from industry to industry including Finance, Budgeting, Business Planning, Mergers & Acquisitions (M&A), Financial Analysis and Risk Management.

New Energy for Your Life, Your Career, and the World [Read More]

Have you noticed the volume of news about energy and the climate lately? Clearly, we are at a watershed moment in history. The constrained gas supply for Europe provides one explanation as is the crescendo of floods, drought, wildfires, and dramatic weather events—mounting evidence that the environment is changing rapidly. Ice is melting on glaciers and both poles and sea levels are rising.

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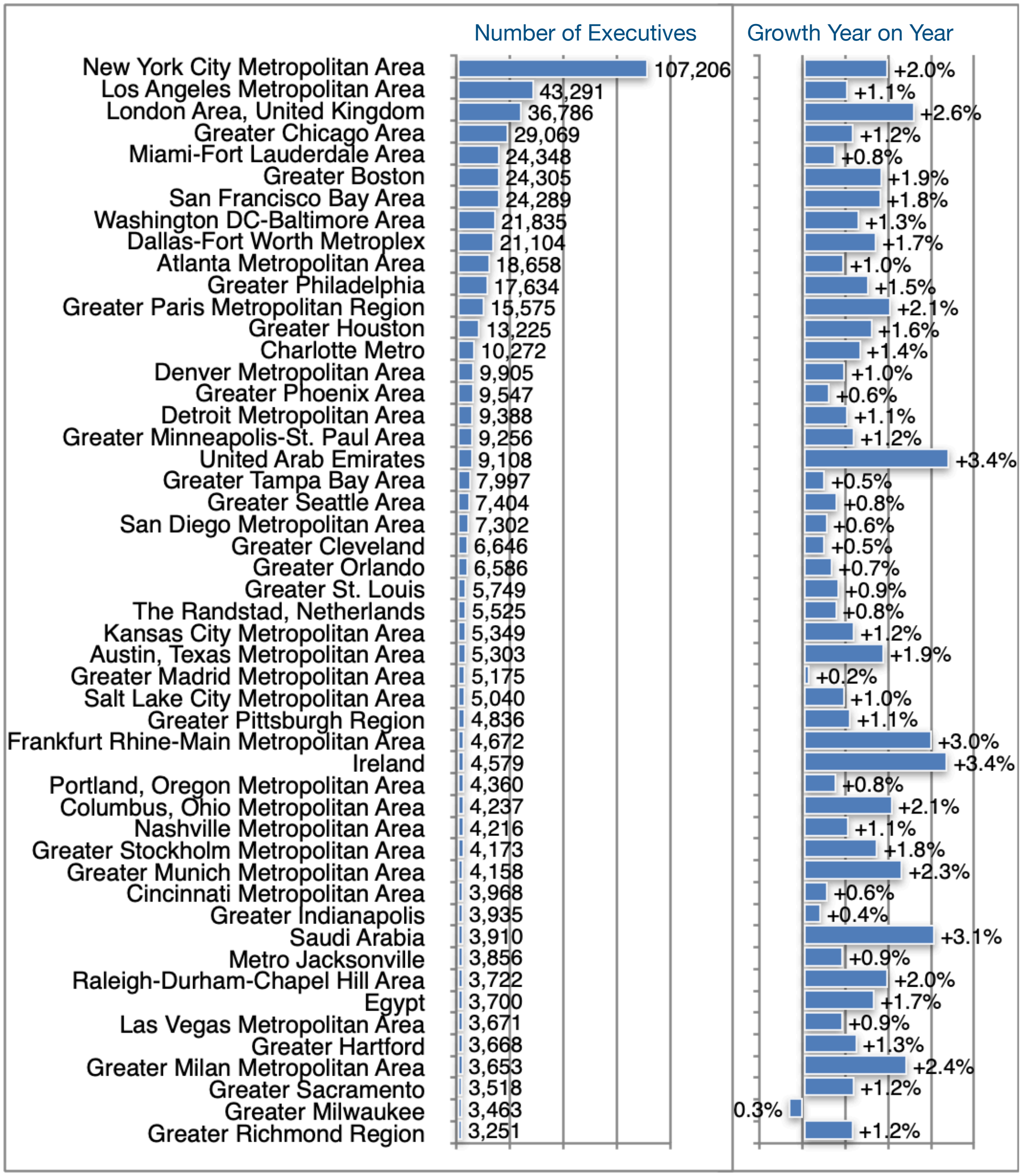
Chart 5: Executive Locations



As far as location is concerned, Chart 5 provides an overview of where the biggest populations of industry executives work. New York stands head and shoulders above the others in the ranking but also boasts a higher than average +2% growth rate, which nonetheless pales compared to the heady +3% or more visible in the UAE, Frankfurt, Ireland, and Saudi Arabia. Nevertheless, numerous cities in the US and Europe also exceed the industry's overall growth rate, including London (+2.6%), Paris (2.1+), Columbus/OH (+2.1%), Munich (+2.3%), Raleigh/NC (+2.0%), and Milan (+2.4%).

There is an interesting variation in the executive gender mix based on location that is probably also related to the industry mix there, too, with the high end in Seattle and Portland (30% female), followed by San Francisco, Washington, DC, Charlotte, and Atlanta (29%), Houston and Detroit (28%), and Boston (27%).

LinkedIn also offers an assessment of the relative hiring demand in each location whereby the following markets are all cited as having a "very high" hiring demand: New York, London, Chicago, Boston, San Francisco, Dallas-Fort Worth, Paris, Charlotte, Austin, Nashville, Raleigh-Durham.