Willis Towers Watson

# Brexit and implications for job movement in the Financial Services sector

**Brexit is a catalyst for change for organisations in the UK and across Europe. Will job roles move out of the UK and if so where are they likely to go?**

**Which destination countries are businesses and employees likely to favour and what criteria might these decisions be based on? Will it be the need to attract the right talent to a particular place or the level of pay, terms and conditions that businesses will be most focussed on? The answers to these questions will become visible over the next few years, however, organisations want to be clear as soon as they can on their next strategic move in light of Brexit in order to be forward looking in their actions as opposed to suddenly having to respond to changing business dynamics around them.**

As the UK begins the two-year process of leaving the EU, the financial services sector is already seeing an impact. HR issues such as workforce planning, talent retention, organisation change, total rewards and engagement and communications, are all of particular concern. As companies start moving people and operations, there is no question that for financial services, the human capital impact of Brexit is likely to be significant. Financial services companies must be prepared to respond quickly and with agility.

Banks must assume that passporting across the EU from London will cease, quite possibly as soon as the spring of 2019. UK banks will therefore need to establish or increase their presence within the EU-27 in order to continue serving clients and transacting with counterparts. This may require a degree of group restructuring. In addition, banks will need to navigate existing regulatory hurdles such as important authorisation and approval processes and resolution planning implications, as well as understand the prudential and supervisory implications of their proposed new structure. All this will depend upon the UK's relationship with the EU, post-Brexit, which Article 50 of the Lisbon Treaty should clarify. The intriguing question remains: which European destinations might now start to look more attractive and what key criteria are likely to form the basis of companies' relocation or expansion decisions?

## The potential impact of Article 50 on financial services jobs

There are 2.2 million financial services jobs in the UK currently (*source: TheCityUK Report, February 2017*). Following Brexit, a significant portion of these jobs will probably move as companies seek to meet regulations and individuals re-assess where perceived opportunities lie and where their location preferences take them. If a given company doesn't develop a clear strategy for determining both their future locations and the workforce needed to staff them, it could begin to lose staff as employees make their own location decisions.

## Evolving business attitudes about Brexit – a strong focus on talent issues has been a consistent theme

In July 2016, immediately after the Brexit vote, Willis Towers Watson conducted a cross-industry compass survey to assess the initial impact of Brexit on financial services and general industry companies with businesses in Europe. We received 185 responses.

Among the key results:

- 60% of financial services respondents believe that Brexit will have an impact on their business in the UK and in the EU.
- 60% also believe that it will impact their UK workforce, while only 29% believe their workforce in the EU will be impacted.
- 1/2 of the financial services respondents in the EU see Brexit as a threat to their business.
- However, more than 1/3 of the non-UK based firms see it as an opportunity, against 14% of the UK-based firms.

Overiding themes from respondents as follows:

- 55% felt that mobility is now a priority
- 42% felt that critical skills acquisition is the key concern
- 42% highlighted the potential impact on employee engagement

## Financial Services specific results:

**Workforce planning and talent retention have become much more important**


Source: WTW Brexit Compass Survey (July 2016) – FS specific results

In the latest Willis Towers Watson survey, conducted in February 2017, 51% of respondent companies said they are reviewing or will review talent resourcing and pipeline in the EU member states, and 65% said they are or will do so in the UK. The survey also shows that 26% of respondents view Brexit as a fundamental challenge for their business, with FS companies making up the majority of this figure (39% of this 26%).

In addition, many organisations tell us that they are still assessing the impact of Brexit on business direction before moving into specific talent planning activities. This may imply that the 39% of financial services companies that view Brexit as a "fundamental challenge" may increase once companies better understand its impact.

## Moving jobs: understanding the issues

**The scene is set for job movement:**

There has been a lot of speculation about major financial services companies planning to shift significant numbers of staff out of London in response to Brexit.

**Push factors:** Passporting laws are uncertain, as is the future of the city of London as the banking capital of the world. Consequently, some organisations will spread their risk by decreasing their presence in the London market and increasing it in the EU.

**Pull factors**: In a world where companies need to continue as multinationals, even in an environment of increased nationalism, decisions on where to have a presence must come back to straightforward economics. Where will legislation and regulation be most favourable for business activity? Where is the right talent likely to be available? Where will employees have a good standard of living and sufficient local infrastructure? Where will employers feel confident they can trade easily with the rest of the world, in the right environment for continued business growth?

**Where Next?** Companies will have to strike the right balance between relocating staff and simply assigning future jobs and roles to offices outside the UK. Employees in front office and senior roles may need to be relocated, while more junior or back office roles may be easier to rethink or restructure in the UK while new hires are made in other locations. In short, the highest calibre talent and those in roles that are difficult to fill will likely account for the majority of relocations.

If London loses its place as the European financial centre of choice, the pendulum is likely to shift towards several cities. We don't yet know how significant this labour flow will be, but organisations need to start to consider the implications.

### Future of work Brexit implications

There is another dimension in terms of job movement to consider. Looking ahead it is likely that automation of certain roles, or job tasks, could help organisations minimise the amount of job/role movement they need to consider. Current predictions state that 60% plus jobs in the UK and US could be affected by automation by 2030. Also, organisations may be able to use online talent platforms to quickly get themselves the capability they need to grow using talent on-demand from across the world, while at the same time reducing the risk of skills obsolescence as well as their fixed labour costs.

**Where might financial services firms relocate people to?**

When it comes to FS talent movement out of the United Kingdom (and in particular away from London), where will the most attractive places in Europe be for doing business and attracting top talent? The data below is of interest from both an employee and employer perspective.

**a) Locations:**

| | Advantages | Disadvantages |
|---|---|---|
| **London** | ▪ Tried and tested formula as a financial center and powerhouse for global industries<br>▪ Extensive infrastructure to cater to all lifestyle needs | ▪ High cost of living<br>▪ Future potential issues with ease of mobility across the EU |
| **Frankfurt** | ▪ Largest economy in Europe<br>▪ Strong heritage in financial services and strong infrastructure<br>▪ Strong existing presence of global banks (more than 200 firms)<br>▪ Home to European Central Bank and the central Bank of Germany, with among world's largest stock exchange<br>▪ Payment hub for Chinese currency renminbi | ▪ Difficult hiring market due to low unemployment and demographics |
| **Paris** | ▪ History of financial services hub and HQ of several major global banks<br>▪ Proximity to London<br>▪ Strong talent pool (high number of French nationals in banking industry)<br>▪ Strong transport connectivity, including international airport Charles de Gaulle | ▪ Difficult economic environment<br>▪ High costs<br>▪ High taxes and strict labour laws |
| **Dublin** | ▪ English language<br>▪ Highly educated workforce with English as a first language<br>▪ Existing strong financial centre<br>▪ Liberal employment laws<br>▪ Aggressive low-tax regime | ▪ Not in central Europe (geographically and politically)<br>▪ Small country with limited talent pool<br>▪ Limited transport links to the rest of the world, although good connections to Europe |
| **Amsterdam** | ▪ Good supply of office space<br>▪ An emerging tech hub that has attracted the likes of Netflix, Tesla and Uber<br>▪ Well-connected transport links | ▪ Cap on bankers' bonuses (20% of annual salary) and pay<br>▪ Shortage of experienced finance professionals |

### b) Labour Regulations

| | Co-determination and employment regulation |
|---|---|
| **Germany** | ▪ Co-determination rights of the works council are far reaching, e.g., salary structures (base pay, collective pay increases, etc.), variable pay (system to be used, metrics, payout curve, etc.)<br>▪ BaFin decided to apply the principle of proportionality. i.e., a general set of rules applies to all banks in Germany |
| **France** | ▪ Significant union legislation for companies with over 50 staff<br>▪ Tightly regulated "social plan" required if laying off more than 10 workers |
| **Ireland** | ▪ Beyond certain state bodies, no general provision for employee representation on the boards of Irish companies<br>▪ Central Bank of Ireland has decided to adopt EBA principles on proportionality (Jan 2017), allowing disapplication of some remuneration rules |
| **Netherlands** | ▪ Rigorous pay legislation<br>▪ Identified risk-taking staff in banks subject to qualitative measures for more than half of variable pay targets<br>▪ No staff representatives on boards, works councils are granted advisory votes and, on a limited number of issues, binding votes |

### c) Workforce planning

Some banks have indicated they will establish new, more flexible operating models designed to minimize disruption caused by Brexit and enable them to adapt to a variety of scenarios. By emphasizing flexibility, they can start the process without waiting for absolute clarity from the Brexit negotiations. It also means that workforce planning can be more fluid and can evolve as negotiations play out. Some banks may also look to increase their use of technology in workforce planning activity to aid in evaluating the various scenarios that need to be considered. Given the complexity of the alternatives that organisations are considering, utilizing a tool that can analyse data from multiple sources becomes almost imperative. Resource planning under the Brexit scenarios must first confirm what and where internal talent and skills exist in the pipeline. This data can then be used to evaluate the gaps that must be closed to meet changing business demands, which likely trigger differences in skills needed and the availability of those skills in the specific markets in which the organisation decides to operate.

### d) Compensation, benefits and total employer costs

Rewards and benefits run second to workforce planning matters when it comes to the implications of Brexit. Our February, 2017 survey showed that more than 68% of companies are currently not planning any resultant rewards activity, nor are they concerned about the impact of rewards and terms changes to their business.

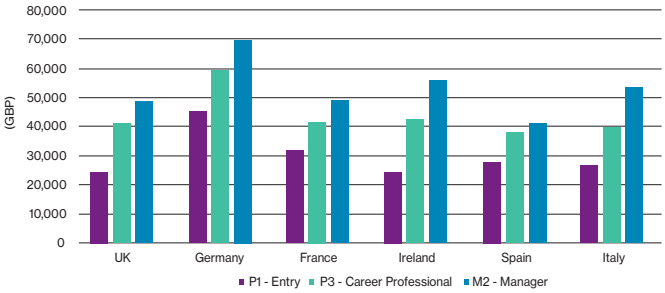
In addition to base pay variations between countries there are also different levels of social charges for employers to consider, which need to be looked at on a country by country basis.

Also worth bearing in mind is that the cost of talent may go up significantly in destinations that become more popular (where talent is moved to and new teams established). This trend of increasing costs of labour in certain parts of Europe is likely to continue and gradually increase over time.

From a retirement and social insurance perspective there are implications when employees move from one country to another to take on a new role there. There are a number of outstanding questions for example, will reciprocal recognition of social security contributions continue to apply after Brexit? Will simplified procedures for expatriates continue? What steps, if any, will companies want to take to inform/ support such transferring employees on the different legal, tax and social security structures in the new countries? To what extent will companies look to compensate employees for any adverse changes to their employment terms and conditions, versus employees experiencing a direct impact themselves?

## Brexit

**Median Base Salary in the Financial Sector per Career Level**




Source: 2016 Financial Services Compensation Surveys

The key priority is being able to have the right people in place to do the jobs required; after establishing this, companies can think about the pay implications. The table below shows that, with the exception of Germany, there is not a significant variation in pay rates across different European countries.

**e) Managing change and communications**

Clearly, Brexit poses organisational change implications. Transformation programmes can take time to implement due to the often complex technology, processes and levels of risk involved. Change programmes also need to manage the myriad and often interconnected activities that will occur if a bank chooses to move into another country or expand its operations there. This can range from legal restructuring to physical office relocation considerations.

Companies will need to be agile in their thinking and open to new ways of doing business. As team members relocate, there will likely be cultural changes and challenges to sustaining successful team dynamics around key business processes. People and organisation change may grow in significance, especially in the short-medium term, as financial institutions make certain adjustments to their business models and operations. Any organisations embarking on change need to ensure they put in place an adequate programme of employee/stakeholder communications. Countless change programmes fail due to people impacts not being focused on enough. It usually pays dividends to establish a thorough schedule of employee communications, right through from carrying out a change readiness assessment; liaising with all stakeholders impacted by changes being made, through to regular updates and involvement of team members in the set up and design of new processes or changes to ways of working.

## Conclusions

Change is afoot and we await the full extent to which Brexit may cause movement of financial services talent across the EU. Rather than clear favourites it may be that the financial services market becomes more fragmented but with no leading contender dominating in the short term. We are starting to see some activity, and at the very least this topic now seems to be on company agendas for consideration. Any action a company takes will need to reflect regulatory and legal implications, and reliable data will play a significant role in determining how talent management and rewards strategies will play out in new locations. The nature of a given financial services company will also have some bearing on its decisions. A company with a strong investment focus may make quite different decisions than one centred on retail. Ultimately each business will consider its own business model and strategy and make decisions around business structure and geographical presence accordingly. And while there are a number of location options open to companies, it's fair to say no single city stands out. Finally, many organisations will find they can deal with people movement through their existing subsidiary structure, making key decisions easier.

It might be easy to assume the impact of these changing flows of labour may be a positive thing for Europe, however we should also consider the disruption likely to take place in Europe and the questions around the currency, capital investments, political instability and HR-related issues which are all themes which continue to evolve.

Ultimately, companies impacted by Brexit need to be ready to act in order to maintain their competitive advantage, especially if they move or expand into a city with low unemployment. It will be interesting to see which European cities experience the greatest growth as a result of this change, and whether London will retain its status as one of the great financial centres of the world.

## How Willis Towers Watson supports our clients facing decisions around relocation following Brexit

| Questions | **Willis Towers Watson response** |
|---|---|
| **What talent will we need and can we move or source it to ensure operational continuity?** | ▪ WTW use a range of proprietorial and third party data sources to assess the strength of talent pools in different locations |
| **How much will it cost?** | ▪ WTW use our market leading financial services compensation databases to identify compensation costs in different locations |
| **Will our staff want to live there?** | ▪ WTW have tools to help evaluate the range of factors that combine to determine the relative attractiveness of different locations for different employee groups |
| **How easy is it for us to employ and manage our workforce there?** | ▪ WTW have "off the shelf market reports" on employment environment and compensation arrangements |
| **Can we make it happen within the required time period?** | ▪ WTW provide for change management support |

**Willis Towers Watson contacts:**

**Martin Emmerich**
**Director – Talent & Rewards**
D: +49 89 51657 4830
martin.emmerich@willistowerswatson.com

**Angel Hoover**
**Talent Line of Business Leader Western Europe**
**Talent & Rewards**
D: +31 88 543 3017
angel.hoover@willistowerswatson.com

## About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 40,000 employees serving more than 140 countries. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.



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