Robert Half Financial Services Global Report:

Navigating Change in an Evolving Regulatory Landscape

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Financial Services

From the Global Practice Director

The global financial crisis of 2007-2009 marked the beginning of what has become an era of significant change for the financial services industry.

The crisis forced executives to refocus their energies on corporate restructuring, cutting costs and managing institutional risk, all under the watchful eye of regulatory bodies and general public scrutiny.

Since 2010, a number of factors have helped the industry get back on more even footing. While some of the turbulence affecting the markets immediately after the financial crisis has subsided, the changes prompted during that period are ongoing and have created additional challenges for the industry.

To provide insights on how financial institutions are responding to these changes and challenges, Robert Half surveyed a broad section of global financial leaders, gathering their views on the current environment. This report is based on responses from 1,100 chief financial officers (CFOs) and chief operations officers (COOs) from financial services, banking and insurance firms across the major financial markets in the United States, Canada, the United Kingdom, France, Germany, Singapore and Hong Kong, as well as interviews with senior executives in the industry.

It is our hope the report will give financial leaders a better understanding of where the industry stands today and how their colleagues are dealing with ongoing changes.

Regards,

Neil Owen,
Global Practice Director
Robert Half Financial Services

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Introduction

Financial firms historically have focused their attention almost exclusively on profit-making activities but are now attempting to balance this priority with another one: managing the tide of regulatory change. While the complexity of financial regulations has necessitated increased workloads and additional spending, integrated governance, risk and compliance programs generally have proven effective for firms in addressing industry changes.

Finding the skilled talent needed to conduct these programs remains a challenge for businesses, however. From a recruitment standpoint, the goal posts have moved since the onset of the recession. A growing portion of a company's workload is related to the new – and ever-changing – regulations affecting the financial services industry, and tasks are increasingly project-based. The complexity and evolving nature of the regulations have contributed to a shortage of professionals with the right hands-on experience and knowledge.

But hiring challenges are not confined to compliance. Talent shortages have emerged in a number of financial specialties, and the improved job market for these professionals has increased employee turnover.

Financial institutions in each area of the world are subject to their own unique sets of regulations and challenges. Though the issues affecting them are based largely on geography, the similarities stemming from an increasingly borderless world unite the industry. Firms, in general, remain optimistic, which is a welcome sign for an industry looking to shed past conceptions and move toward a new era of growth.

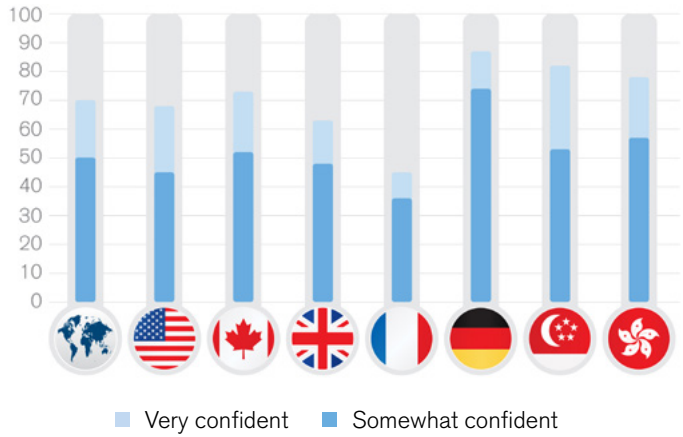
Economic Outlook

Confidence in domestic growth

Survey results suggest increased levels of regulation and concerns about local economies have affected financial organizations in Europe and North America more than in other parts of the world. However, despite ongoing regional challenges – in the eurozone, for example – executives across all financial centers are expressing greater confidence.

This is particularly apparent in Germany, where nearly nine in 10 (87 percent) respondents reported confidence in their national economy. Executives in Singapore and Hong Kong also are notably optimistic.

Compared to last year, how confident are you in your country's economic growth prospects in the forthcoming year?



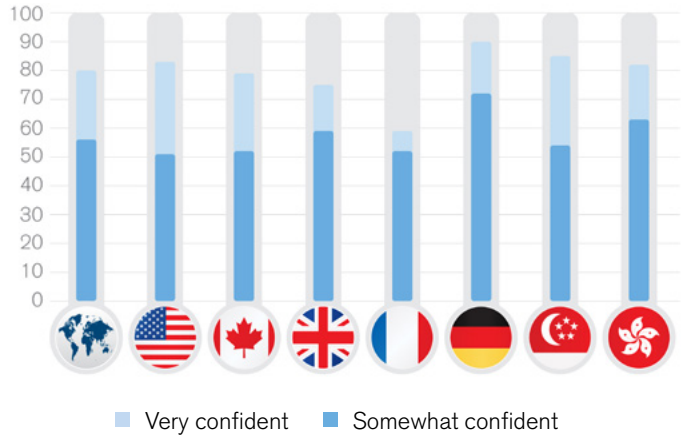
87% of German executives are confident in domestic growth

Company confidence levels

In some cases, executives' confidence in their firms' growth prospects is closely tied to their national economic optimism. Businesses in Singapore and Hong Kong, for instance, are bullish about the coming 12 months for both domestic and internal growth.

Overall, however, executives are more confident about the prospects for their own organizations than they are of their countries'. This may suggest a firm's own combination of strategies, leadership and procedures can offset some of the macroeconomic factors impacting the organization.

Compared to last year, how confident are you in your company's growth prospects in the forthcoming year?



SPOTLIGHT

U.S. Confidence

Executives in Canada, the United Kingdom and the United States expressed greater confidence in their organizations' growth prospects than the growth prospects for their national economies. This is most likely because executives have little control over broader economic trends.

In the United States, for instance, a relatively high 32 percent of executives surveyed said they are "very confident" about the current outlook for their businesses. Another 51 percent are "somewhat confident." Executives in the United States are more optimistic about their internal growth prospects than their peers in most other countries.

While the United States has been forced to confront significant issues such as the the fiscal cliff and austerity measures, it is still not subject to the same level of caution that continues to prevail on the other side of the Atlantic.

What's keeping executives up at night?

The global downturn has created a deluge of new concerns, both internal and external, for financial institutions.

The challenge for these organizations is to understand the intricacies of reforms and develop a logical, effective response. These efforts, however, are often complicated by the fact that multiple regulatory bodies hold influence, and, in some instances, there is an unwelcome amount of crossover of rules, leading to conflicting mandates.

Internal concerns

Business costs (41 percent), profitability (37 percent) and increasing regulatory issues (23 percent) were highlighted, globally, as the three biggest obstacles on the landscape, according to Robert Half research. Clearly, though, there is a discernible degree of overlap because business costs and profitability are affected by the introduction of – and reaction to – regulatory changes. To succeed in today's global economy, firms need to develop strategies for addressing these issues, including building and maintaining highly skilled teams.

External concerns

Chief among executives' external concerns, globally, are issues relating to the national (46 percent) and global (39 percent) economies, as well as the competitiveness of the business environment (30 percent) and the state of the eurozone economy (26 percent).

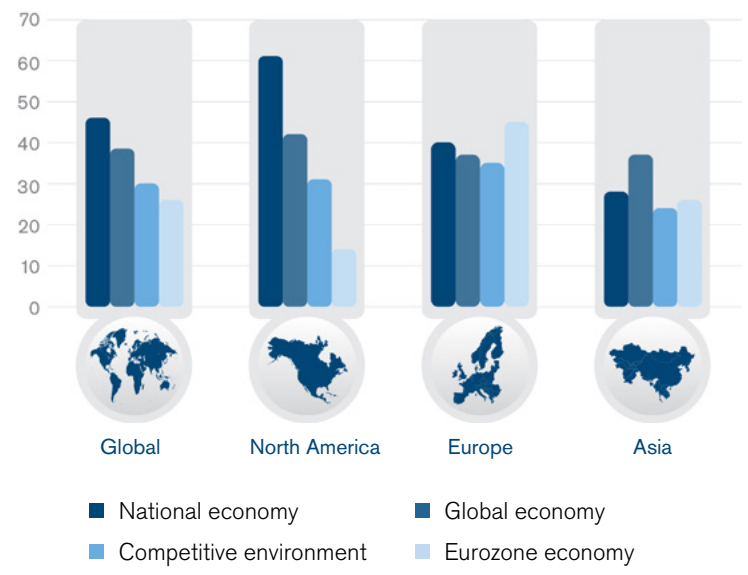
The research found that in North America, the national economies are the main source of unease. Indeed, more than six in 10 (61 percent) U.S. and Canadian respondents said the state of the domestic economy was their primary worry, as compared to Europe and Asia, where the figures were 40 percent and 28 percent, respectively.

61% of North American executives cite their domestic economy as a top concern

While internal economic issues occupy the thinking of executives in the United States and Canada, those in other regions are more worried about broader concerns. For example, the health of the eurozone economy was not cited as a chief concern by financial leaders in North America, while Europeans – understandably – as well as executives in Singapore and Hong Kong, were more mindful of the outlook.

In Germany, for instance, 52 percent of executives listed the state of the eurozone among their top three external worries, and 42 percent of respondents in France answered similarly. The research shows the strong link between the health of the eurozone and the strength of the individual countries and businesses that operate within it.

Top external concerns, by region



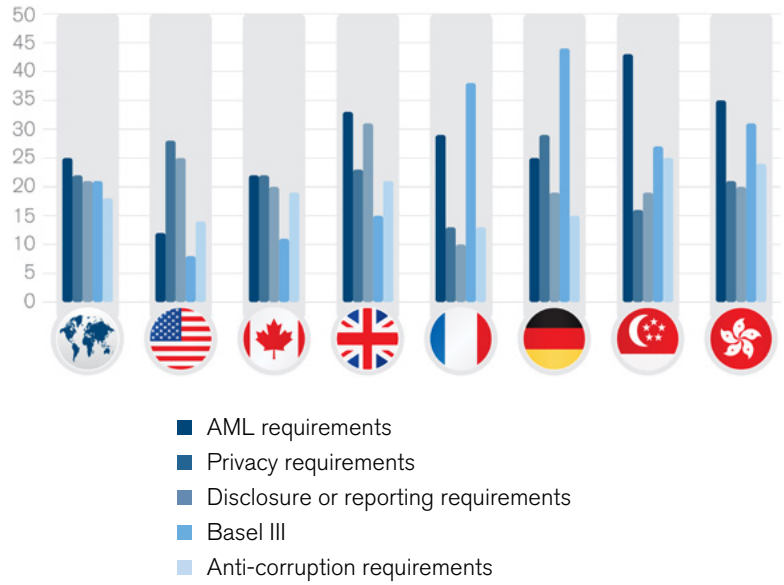
Regulatory Environment

Given the depth of the recent global economic downturn and the negative perceptions of financial institutions created in the mind of the wider public, increased levels of regulation and scrutiny became inevitable. From a purely business perspective, this has created a new list of challenges.

Specifically, business leaders in Germany (44 percent) and France (38 percent) say Basel III has had the most significant impact on their businesses. By comparison, anti-money laundering (AML) requirements rank high on the list of concerns in Singapore (43 percent), Hong Kong (35 percent) and the United Kingdom (33 percent).

North American leaders are particularly concerned about privacy requirements, with 28 percent of U.S. and 22 percent of Canadian respondents citing these mandates as having a significant impact on their business. Disclosure and reporting requirements and the Dodd-Frank Act are also presenting deep implications for American firms.

Which three of the following regulatory changes, if any, have had the most significant impact on your business?

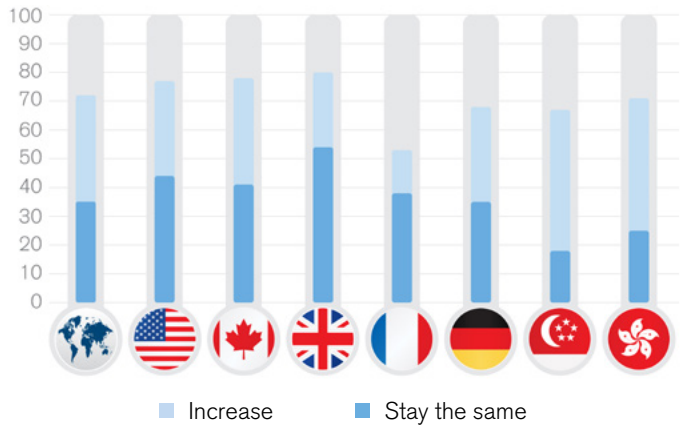


Costs of managing regulatory change

Inevitably, the evolution of the financial services industry since the start of the downturn has made a significant impact on companies' financial regulation budgets, including capital expenditure and labor costs.

Across all regions, more than one in three (35 percent) firms expect to see overall spending on initiatives related to financial regulations increase, by an average of 14 percent, with the U.K., Singapore and Germany anticipating the largest jumps. This is especially true in Singapore and Hong Kong, with 49 percent and 46 percent of industry leaders, respectively, expecting to see cost increases over the coming 12 months as the result of regulatory change. By way of comparison, only 15 percent of French and 26 percent of U.K. executives expect to see an increase.

Compared to 2012, does your company plan to increase or decrease your financial regulation budget, including capital expenditure and labor costs, in 2013?



Expected increase in global regulatory budgets **14%**[1]

[1] Executives were asked, "In the next 12 months, how much, on average, do you expect your company's financial regulation spend to increase?"

In Asia, many of the recent regulatory changes are reactions to reforms made in the United States and Europe. For the foreseeable future at least, these reforms are set to pose challenges, such as talent shortages, for financial firms in Singapore, Hong Kong and elsewhere on the continent.

In the United Kingdom, there is the perception among some that budgets will largely be unaffected by regulatory reforms, possibly due to the investment already made by the industry over the past few years. While some firms are still struggling to sort out the complexities of new regulations, substantial progress has been made, and the expectation is that costs may fall in the coming years.

SPOTLIGHT

Regulatory Change in London

Regardless of whether U.K.-based firms are in agreement with the need for many of the new regulations, they have responded well to the challenge, carefully devising an action plan to meet their new responsibilities while remaining focused on making a profit.

As a historic powerhouse of the financial services industry, London is an interesting study in the impact of increased regulation. The survey research shows executives in London spend as much as one full day every working week managing regulatory change, which six in 10 say is more than three years ago. The focus remains firmly on ensuring businesses comply with recent changes, especially because of the heavy penalties they could incur.

The most notable changes may be seen on the recruitment front, where the use of temporary, interim and project professionals has become increasingly prominent. London-based firms are more reliant than ever on experts capable of undertaking short-term projects as a means of addressing new regulations.

Regulatory challenges

Our survey shows nearly nine in 10 global executives (88 percent) are challenged in managing regulatory change. The situation is most notable in Asia, where many executives consider it "very challenging." This includes 45 percent of respondents in Singapore and 39 percent in Hong Kong. Despite this, executives are broadly optimistic about the next 12 months. This can, in part, be explained by the fact that the regulatory landscape has become more stable in the region, meaning firms can start to develop a more considered approach.

Speaking more specifically about the challenges associated with regulatory changes, business leaders across the globe cited managing external auditors (26 percent), managing costs (25 percent) and meeting deadlines (22 percent) as the most troublesome issues. Increased levels of regulation and scrutiny have created new pressures on financial systems and the generation of regulatory data in recent times.

"The regulations are tightening and unpredictable with no end in sight. It is harder to manage a business when your regulatory framework is not completely known. Canada managed through the crisis really well because it had a very stable framework, and now it is evolving. It is good to evolve, but it has got to be predictable."

Louis Marcotte
Senior Vice President of Strategic Distribution
Intact Financial

88% of global executives find the management of regulatory change challenging for their business

Recruitment implications

Finding the right people to help address new regulatory concerns and keep businesses profitable continues to be a key challenge, as reported by 89 percent of executives surveyed. And as the roles of financial professionals have broadened since 2007, the recruitment battle for in-demand talent should intensify.

While the relatively low unemployment rate in Asia is somewhat offset by expatriate talent from other financial markets, human resources challenges remain. Financial institutions in Hong Kong and Singapore, for example, are especially worried about their ability to retain their most capable staff: 93 percent of financial executives in Hong Kong and 92 percent of those in Singapore are concerned about losing top performers to other opportunities this year, compared to 83 percent globally. Outside of Asia, firms in Germany (87 percent) are most worried about retention.

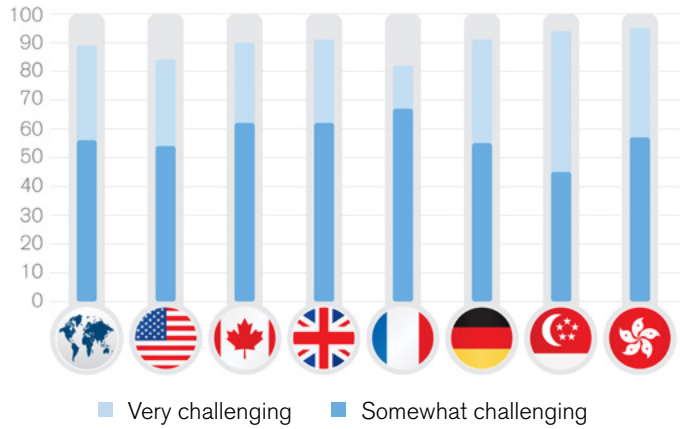
The shortage of skilled professionals has resulted in opportunities for mid-level professionals to assume roles of greater seniority, but at the same time, places increased pressure on labor costs and budgets.

New regulations also have prompted a rise in the use of interim workers within the financial services industry. An increasingly large proportion of work is project-based, meaning professionals are often brought in on a temporary basis to manage initiatives such as regulatory compliance. Interim and project professionals with the requisite expertise and knowledge are highly sought.

"In the (financial) sector, human resources is probably the most important cost. If you want to reduce cost and optimize your profitability while managing regulatory issues, human resources will be at the heart of your strategy."

Jean-François Bay
Director General
Morningstar France

How challenging is it for your company to find skilled financial services professionals today?



One in three (33 percent) respondents, globally, confirmed plans to increase their number of interim staff as a means of preparing for current and future regulatory changes, and one in four (23 percent) intend to hire additional full-time staff. In Hong Kong, where firms have found it more arduous to cope in the current business environment, 43 percent of firms plan to bring in interim staff and 23 percent expect to hire full-time staff members to help address regulatory issues.

All of these staffing efforts are an indication a firm's existing employees often are not equipped to manage the excessive workloads that come with such sweeping change.

Regulatory change is creating a much higher demand for compliance professionals, and there is a dearth of suitable candidates available. For professionals with expertise in this area, these trends are leading to higher compensation and an attractive number of career opportunities.

"Everyone is competing for the same talent pool, and the talent pool is not infinite. When you are looking for compliance or risk management professionals, there is a limited pool of resources that exist, and those functions have been growing significantly across every institution over the last several years."

Cory Gunderson
Managing Director
Protiviti

To manage regulatory change:

33% of global executives will hire interim/contract staff

23% of global executives will hire full-time staff

Rising workloads

As well as influencing hiring patterns within the industry, the recent changes will inevitably have an impact on workloads. In Germany, for example, eight in 10 executives expressed fears that regulatory reforms will lead to higher workloads, a sentiment echoed by 72 percent of respondents in Hong Kong. Globally, two-thirds (66 percent) of executives anticipate rising workloads as a result of regulatory change.

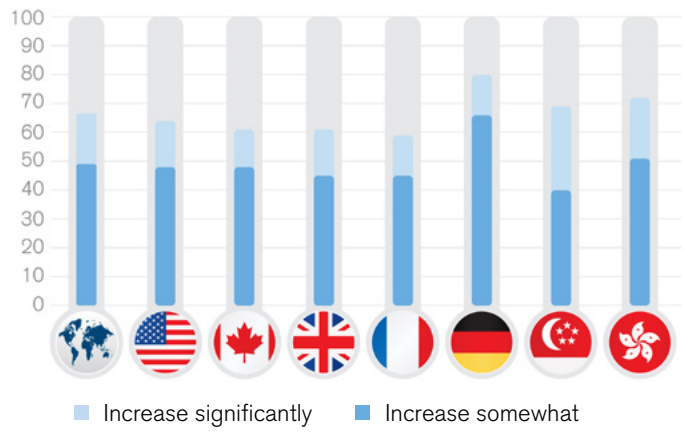
Governance, risk and compliance

Survey respondents indicated the introduction of new regulations has prompted the need for a more holistic approach across the governance, risk and compliance (GRC) functions. With the growing prominence of the chief risk officer role, these functions are now increasingly part of a systemic enterprisewide approach. More than two-thirds (68 percent) of global executives cited the effectiveness of an integrated governance, risk and compliance program, rising to as high as 81 percent in Germany.

Institutions are more closely scrutinizing how they manage risk, and a lack of controls around market and credit risk is increasingly under the microscope. There is a push to incorporate these controls into the audit and compliance functions as firms look to mitigate risk. Asked to consider the main advantages of adopting an integrated GRC program, 39 percent of respondents cited reduced compliance costs, closely followed by improved business performance (38 percent) and optimized risk-return outcomes (38 percent).

Technology is also helping. Companies are using big data to provide the necessary information for management to make decisions effectively and in a timely manner, further alleviating risk across the organization.

In the next 12 months, do you think that the financial workload resulting from regulatory changes will ...



"The holy grail of risk management is to have compliance, risk and internal audits seamlessly aligned and integrated. It is something that remains fairly aspirational to most organizations."

Cory Gunderson
Managing Director
Protiviti

Looking Forward

Clearly, the global financial crisis and ensuing recovery have resulted in dramatic cultural and structural shifts within many of the world's financial markets. Increased regulation and an unprecedented level of public scrutiny on the financial industry have led firms to make significant changes in their approach to their operations and to business in general.

Executives remain optimistic about the prospects facing their national economies and their companies, though they are keeping a close watch on developments. Increased workloads, more complex processes and greater regulatory spend are part and parcel of today's businesses. Though revenue generation remains a primary objective for firms, many other concerns are competing for executives' attention in an industry that is today focused mainly on recovery and growth. The rigors placed on the sector and its professionals have never been so intense.

Much of the responsibility for these efforts falls to company leaders in charge of managing regulatory processes. To succeed, they must be able to improve profits and comply with an expanding array of regulations, but they also need to effectively hire and retain financial services professionals with in-demand skills. Without experienced staff on board, the other objectives will be nearly impossible to achieve.

Acknowledgments

Robert Half would like to thank the executives who participated in the survey and follow-up interviews. Their firsthand experiences and comments gave us a deeper understanding of the opportunities and challenges that lie ahead for the financial services industry.

Robert Half Financial Services

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