The Future of Banking Jobs

A Sector in Transformation

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Forward

One of the key debates over economic changes and the related impact of digitalisation centers on the substitution of “old” jobs by “new” jobs and to what extent this may cause social disruption. The banking industry has traditionally seen technology changes as an opportunity rather than a threat. Current disruptive challenges are no exception. However, a first necessary condition to understand digital disruption in banking is that it does not operate in a vacuum – it coincides with other extraordinary factors and exogenous challenges, including extraordinary monetary conditions, new sources of competition that affect all distribution channels, increased regulatory scrutiny that has put substantial pressure on the industry and long-term demographic changes, such as an ageing population. The future of banking jobs is closely related to all of these transformations, but each of these factors bring with them their own unique effects. One of the most daunting analytical challenges is identifying which ones will dominate and what the long-term net effects will be.

The Future of Banking Jobs analyzes a wide range of perspectives on the likely evolution of banking sector employment. While it assumes that every industrial revolution comes at a cost and introduces a number of uncertainties, it also points out a larger number of advantages and opportunities. The advent of the COVID-19 pandemic has somehow overlapped with changes that the sector was undergoing in the aftermath of the financial crisis, some of which had already been present for decades. Firstly, consolidation has been intermittent, but persistent. The number of financial institutions has markedly declined over the last 40 years, while the average size has substantially increased. However, particularly in retail services, we are observing how bank branches have modified their structure and services year after year. Information and delivery channels are now more varied than ever before. Additionally, we have also witnessed a relative democratization of services that were once exclusive to a limited number of clients and distributed by very specific personnel, including investment and other private banking services. After the financial crisis, some of these transformations had accelerated, in part due to the need for restructuring balance sheets and improving efficiency. Nevertheless, the COVID-19 pandemic has accelerated these changes even further. Banking jobs are evolving in a similar manner to those related to some hospitality services, or to the automobile industry. Demand is increasingly technology-driven and supply should be as well.

Despite the dramatic interpretation of industrial disruptions that we have witnessed during other historical episodes, banks are finding ways of retraining existing employees and onboarding new employees with new and highly demanded skill sets. Those employees leaving banks are also finding new opportunities due to increasing competition from other players. There is a new competitive structure where platforms, remote working and flexibility are key drivers. COVID-19 has provided a natural experiment to explore some of these changes, as well as having served to accelerate others. The labor environment in banking will continue to change and emerging challengers from the fintech and BigTech world will provide new competition, but also some fresh ideas on how learning capacities and skills may be developed for the benefit of banks, their workers and the services they offer to society.

Santiago Carbó Valverde

Executive Summary

In the years following the financial crisis, banking sector employment has undergone profound transformation. A wealth of new positions have been created in response to the several main drivers of change. Among the most significant – technology and regulatory compliance as a reaction to the crisis. Logically, with the advancement of these changes, there have been redundancies across some of the more traditional segments of banking jobs. However, this should be seen as a natural process of change – as some employees exit the banking jobs market, new employees will enter and existing employees will be retrained, presenting the industry with opportunities for employment growth and evolution.

As mentioned, prior to the COVID-19 pandemic, digitalisation had already created opportunities to reinvigorate the sector through the recruitment of new talent with new capabilities to support banks' digital transformation as well as the retraining of existing staff. The proliferation of new regulation in the wake of the Great Recession, as well as several high-profile Anti-Money Laundering (AML) cases, too were largely a boom for compliance roles. Moreover, the growth in cyber security incidents at banks has increased demand for IT security roles. As well, demographic changes led to the demand for new products and services related to Environmental, Social, and Corporate Governance (ESG) and age friendly banking, with beneficial effects for banking sector employment.

The macroeconomic backdrop has put considerable pressure on banking sector employment since the Global Financial Crisis. Legacy nonperforming loans (NPLs), lackluster growth and the subsequent prolongation of low interest rates exacerbated ongoing challenges such as low profitability. These dynamics have encouraged rationalisation measures with a particular focus on increasing banks' payroll efficiency. The resulting drive towards restructuring business lines and banking consolidation could entail some job losses as part of a natural transformation in the industry; however, these internal reorganization processes too allow for a chance at relocation and reskilling of existing staff.

It is important to underline that while many of these dynamics were present on either side of the Atlantic, they differed in intensity, resulting in somewhat divergent employment trends. Among the top ten European banks based on market capitalization, employment fell by 20% between 2008 and December 2019. Conversely, the number of staff declined by just 7% for the top ten US banks.

COVID-19's impact on the banking sector has been asymmetrical both in terms of geography and specific banking groups. Despite some banks adopting temporary firing freezes and, in some cases, even hiring during the crisis, banking sector employment did experience a significant shift in Q12020. Notably, in investment banking, most job losses were located in Europe. Early signs indicate that banking sector employment is bouncing back earlier in Asia and the US compared with Europe.

There are several technological, regulatory, social and financial factors that could influence banking sector employment going forward. As investment in banks' digitalisation intensifies, heightened competition for tech savvy workers means banks will not only hire new IT staff but consider retraining existing employees to fill the talent gap, even if digitalisation may naturally challenge the outlook for some traditional banking jobs as part of the sector's transformation. It will also be important to consider shifts in employment within the financial sector, from traditional banks to BigTech and fintech firms. Regulation and compliance roles too will help underpin banking sector employment growth, including regtech, which is not expected to undermine employment. In parallel, the spotlight shined on banks' social role by COVID-19 could lead banks to prioritize the wellbeing of their employees, shift their approach to employee segmentation, and re-prioritize leadership traits, with potentially beneficial effects on employment trends.

Going forward, consolidations in efforts to increase profitability and any changes to, or phasing out of, EU State Aid will too serve as a test for the future of banking sector employment. Finally, the evolution of NPLs could have important implications for banking jobs. While demand for the more traditional segments of the banking industry may be changing, there are numerous, new opportunities for innovative employment. On an optimistic note, those institutions that embrace change could have a transformational impact on the industry's employment trends.

Importantly, while BigTech and fintech are not part of the traditional banking sector, they are now a key part of the broader financial services industry, with certain tech jobs thus falling into the banking jobs category. Moreover, it is important to consider that there may be a noteworthy portion of banking employment that, rather than lost, may shift from traditional banks towards BigTech and fintech firms. In light of this, we provide a brief analysis of the general employment trends within the BigTech and fintech sectors as an Appendix at the end of this report.

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Section I: A Quantitative Assessment of Banking Employment Trends

1.1. Introduction – Banking Jobs in Transformation

In the years following the financial crisis, banking sector employment has undergone a profound transformation. While some traditional branch-based jobs have been cut since 2008, there have also been new positions generated to face the two main drivers of change – technology and regulatory compliance as a response to the crisis.[1]

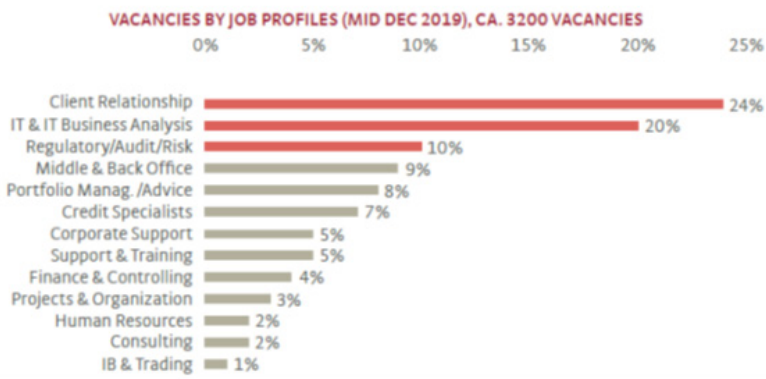
Digitalisation is the method of storing, converting, and transferring information into a format recognized by the computer. Digitalisation has been on the rise over the last decade, but with the onset of COVID-19, it has accelerated over the past year. According to a recent whitepaper report on information and communication, globally there are nearly 4 billion people using a smart phone. In 2021, consumers are projected to download 196 billion mobile apps from the Google Play Store. In short, the internet has enabled the banking sector to increase the diversity of touch points from which customers can connect, allowing them to access to banking services whenever and wherever they want.

Over the years, banks have been increasingly responding to this digitalisation of society, adding innovative services such as ATMs, credit cards, debit cards, online payment services, online investment services, electronic fund transfers, telephone banking, mobile banking, mobile applications, digital wallets, and internet banking, among others. Banks were also among the first service providers to digitalise their functions.

Logically, these changes will make some banking jobs redundant, as automation represents an opportunity to reduce the administrative burden of some traditional activities. However, new technologies and the vast amounts of data managed by the banks will create a number of opportunities for reskilling of existing employees and new jobs within the banking sector.

According to a recent analysis based on swiss market data, while client relationship roles (including relationship managers in private banking as well as client advisors in retail banking and corporate banking) are still the most searched profiles, with 24% of all job vacancies advertised, IT and IT business analysis roles are in second place with 20% of all vacancies. If the large number of outsourced IT activities in the banking sector is added to this, IT and IT business analysis already occupy the top position in terms of vacancies.

EXHIBIT 1: BANKING JOBS VACANCIES BY JOB PROFILE

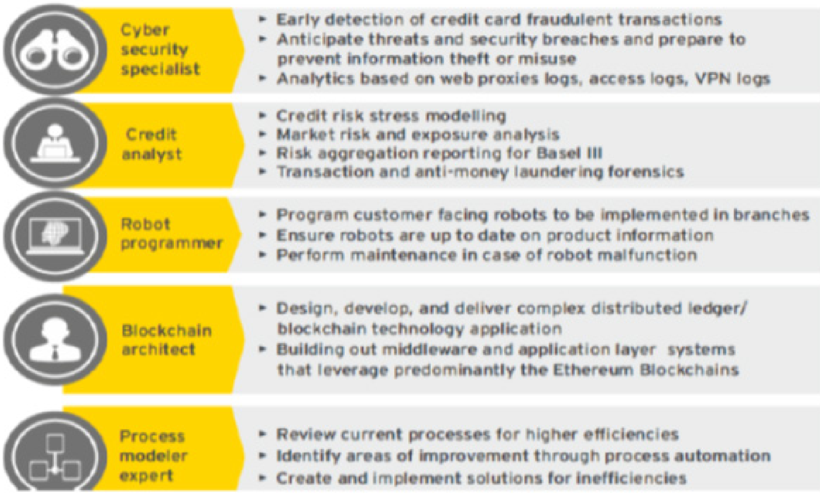


Source: Impact of Digitalisation on the Employment Market in Banking. Von Rundstedt and Arbeitgeber Banken. May 2020.

Specifically, as regards the transformation of jobs in response to increased technological demands, estimates suggest that it is natural to expect that some jobs will be shed as a natural process of technological progress. Indeed using data from Reuters, the total headcount of jobs at banks on the STOXX Europe 600 Banks Index was 2,022,610 at the end of 2019, down 13.5% from 2,338,527 in 2007. Moreover, traditional, more routine jobs related to data entry and data verification, as well as jobs of tellers and cashiers may suffer redundancies. However, on the whole, estimates point to nearly 15% to 20% of new employment roles created as a result of digitalisation, with 55-60% of jobs suffering no change in their existing roles.[2]

Indeed, the technology-related changes to the job scenarios mean that as these employees exit the banking jobs market, new employees in the areas of cyber security, credit analysts, robot programming specialist, blockchain architect, and data scientist, among others, will represent opportunities for reskilling and new entrants into the job market.

EXHIBIT 2: BANKING JOBS OF THE FUTURE



Sources: Rathi Meena, M. and G. Parimalarani. Impact of digital transformation on employment in banking sector. January 2020.

As well, in the aftermath of the financial crisis, massive amounts of regulation has spurred the growth of compliance jobs. As shown in the Swiss markets survey referenced previously, in third place are the roles related to regulatory issues, such as legal, compliance, audit and risk management.[3]

Other factors too will also shape banking industry jobs' markets, such as increased demand for cyber security support, demographics and increased focus on ESG trends. As well, there will be an impact on banking employment related to the overall economic environment, which at present is increasing pressures on banks' profitability and driving the need for consolidations as well as a potential pick up in NPLs. In the majority of cases, COVID-19 has accelerated many of these existing trends and structural changes.

However, the new jobs created and the redundancies that may be experienced as part of these trends will fit naturally into the process of renewal related to the transformational factors listed above.

Within this context, the following sections aim to describe in greater detail some of the trends and factors at play that characterize the recent evolution and expected performance of the banking jobs market.

1.2. Contextualising the Changes in Banking Sector Employment

Like banking, the manufacturing sector, and in particular, the automobile industry, is an integral part of the economies of European countries, such as Spain and Germany. Interestingly, it is an industry in which one would expect to see employment levels having fallen given the increased adoption of sophisticated technology, such as robotics. And yet, direct employment in the automotive sector rose from 2.4 million in 2014 to 2.7 million 2018.[4] However, the demand for labor in this industry has changed over this period, with changes in demand for administrative positions, assembly line jobs, and managerial positions often times compensated for with increased need for AI and machine learning specialists, process automation specialists and product managers.

Similarly, the tourism sector has changed considerably over the last few years due to the widespread adoption of technology. For example, many hotels now have automated concierge services that allow guests to check-in and out on their own, reducing the need for front desk workers. As well, platforms such as Expedia, Kayak, and Priceline enable holiday-bound individuals to book their own transport and accommodation. While digitalisation has displaced some jobs, numerous new opportunities have opened up in areas, such as data analytics and programming.[5]

1.3. The Weight of the Banking Sector in the Economy and Employment

The financial sector fulfils an essential role in the economy. By collecting deposits and reallocating them as credit to individuals and businesses, financial institutions help manage risk and support productivity growth. Although the importance of the financial sector has not waned, its weight in the overall economy and in terms of total employment has declined somewhat in recent years. As of 2017, the weight of financial services in terms of the economy's overall GVA had fallen to 3.2% in the EU and 3.0% in the eurozone. Similarly, the share of total employment claimed by the industry fell from 1.9% in 1995 to 1.4% for the eurozone countries.[6]

Spain's financial sector has charted a particularly interesting course. The weight of the country's financial services in the economy's overall GVA was actually higher than the European average until 2009. It has since fallen below both the eurozone and EU average, to 2.7% in 2017. In terms of employment, Spain's financial services industry accounts for just 1.1% of the country's total employment, 0.3 percentage points below that of the eurozone.[7]

These statistics indicate that the financial services sector has become much leaner and more efficient. While the future of banking sector employment still faces numerous challenges, such as low profitability and growing competition, there are opportunities such as digitalisation and regulatory trends, among others, that could both transform and expand banking sector employment.

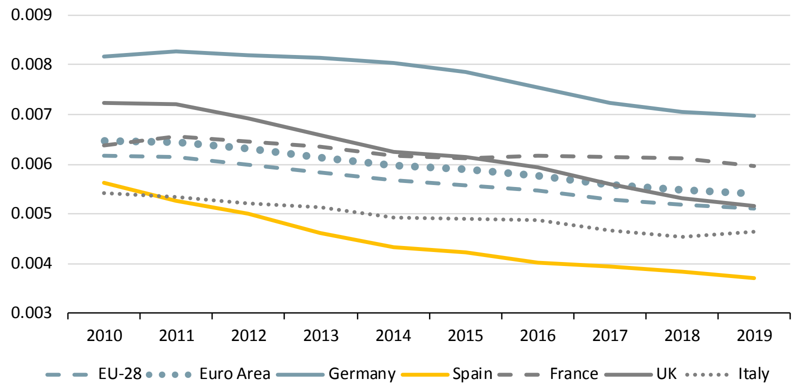
1.4. How Has Banking Employment Evolved in Recent Years?

General hiring trends in developed markets had, until COVID-19, exhibited varying degrees of strength, depending on the particular region.[8] The most robust labour market was in North America, where the unemployment rate had fallen from an already historic low of 4.1% in 2018 to 3.9% in 2019. Despite a tightening of the labour market, employment growth stood at 1.3% in 2018 and 0.6% in 2019. In Europe, the picture diverged somewhat, with the catch-up effects of the post-financial crisis period starting to weaken. Across Northern, Southern, and Western Europe, unemployment fell to 6.9% in 2019 from 7.6% in 2018. However, at 1.5% in 2018 and 0.7% in 2019, employment growth was only slightly higher than in North America.

As of 2019, there were more than 2.6 million individuals across the EU-28 employed by the banking sector. At over 1.8 million, the majority of these workers were located in the eurozone.[9] Although some banking segments saw an uptick in employment, the trend prior to COVID-19 was that of widespread staff reductions, with banking sector employment on a downward trajectory since 2010. Based on employee/inhabitant data, the EU-28, eurozone, France, Germany, Italy, Spain and the UK have all seen the proportion of total employment provided by the banking sector decrease.[10]

Here, Spain stands out, having seen a decline in the number of employees per inhabitants of 34% between 2010 and 2019. This is considerably higher than the EU-28 and eurozone declines of 17% and 16%. Conversely, Germany and France saw declines in banking sector employees per inhabitants of just under 15% and 7%, respectively, during the same period. One explanation for dramatic decline of this ratio in Spain is the considerable amount of consolidation in the banking industry that occurred as a result of the financial crisis. According to a senior EU banking specialist at one of the major credit rating agencies, *the Spanish banking industry has experienced 40% job reduction annually since 2011.* Moreover, according to internal estimates by a financial analyst focused on Spain at a global consulting firm, *the country loses around 1,600 banking offices per year, which translates into job cuts of around 5,000-6,000 every year since 2014* (EXHIBIT 3).

EXHIBIT 3: BANKING SECTOR EMPLOYEES PER INHABITANTS

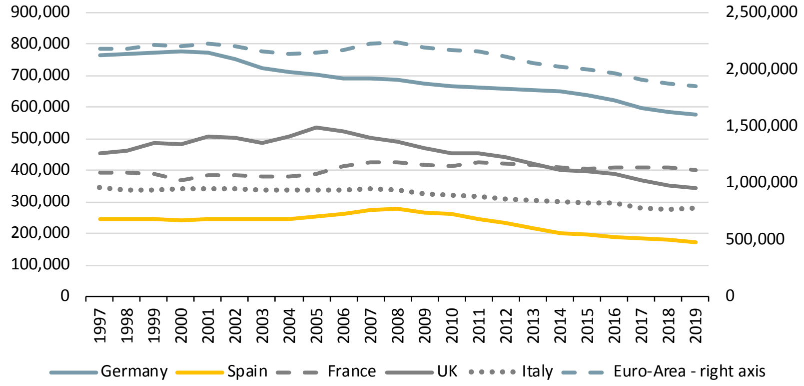


Sources: ECB and Eurostat.

It is also useful to consider the changing trend in employees per bank branch.[11] From 2010 to 2019, employment across the EU and eurozone banks dropped by 15.5% and 14.7%, respectively, with countries like Spain exhibiting a 33.6% decline, significantly above the regional figures and in particular above those of countries like France, which saw a fall of only 3.3% in banking jobs.

Notably, the decline in the number of employees goes back even further. If we look at the change in this metric from 1999 through to 2019, it becomes clear that this downward trend in banking sector employment predates the adoption of alternative digital services to branch-based banking, like Internet banking and online money transfers. Specifically, the euro-area and the EU region saw the number of employees fall by 6.42% and 16.61%. Of the individual member states, both Spain and the UK saw a reduction of around 29%, while France saw a slight uptick of 2.34%. This range of reductions coupled with the long-term nature of this trend indicate that a multitude of factors are likely contributing to lower employment in the banking sector (EXHIBIT 4).

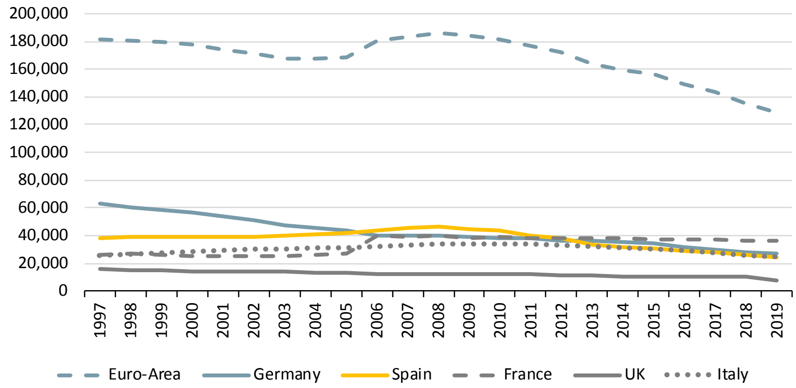
EXHIBIT 4: BANKING SECTOR EMPLOYEES



Source: ECB.

Nevertheless, the fall in bank branches over the period significantly outstripped the decline in employment, resulting in the overall ratio of employees per bank branch exhibiting an upward trend. For both the EU-28 and euroarea, bank branches declined 29% over the period from 2010-2019. The most pronounced fall took place in Spain, down 44.4%, followed by the UK (-34.9%), Germany (-30.2%), Italy (-27.6%), and finally France (-7.6%) (EXHIBIT 5). Indeed, the trend for this ratio shows a steady increase of employees per branch across the eurozone as well as within each of its major countries, with the largest expansion in employees per branch observable over the period in Germany. On an average basis, the country with the highest number of employees per branch over the period 2010-2019 was the UK, with an average ratio of employees per branch at 39.18, much higher than that of Spain, which had an average of 6.46 or the eurozone average of 12.92. Looking at the data from 1999 to 2019, a slight divergence in the upward trend emerged. Italy and France are the only countries over this period to have seen a decrease in this metric of around 7% and 25%, respectively. Conversely, Germany's ratio jumped by almost 65%, while Spain saw an increase of nearly 17%. Overall, there was a 14% and 16% increase in the EU-28 and euroarea (EXHIBIT 6).

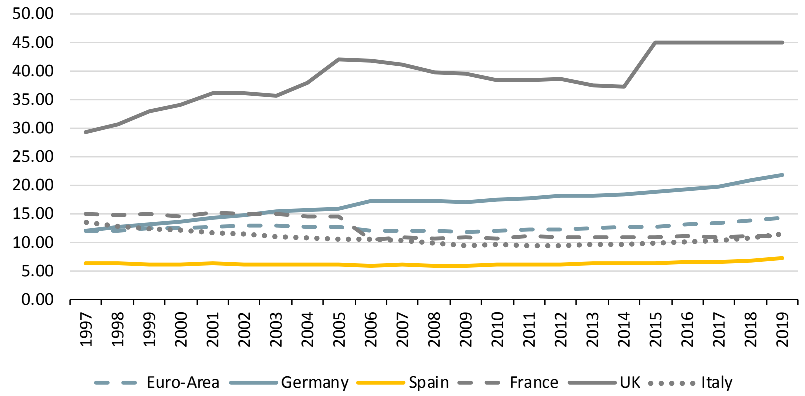
EXHIBIT 5: BANK BRANCHES



Note: For the years 2015-2018, the ECB does not publish bank branch statistics for the UK. The data has been smoothed for better graphical representation.

Sources: ECB and Eurostat.

EXHIBIT 6: BANKING SECTOR EMPLOYEES/BRANCH



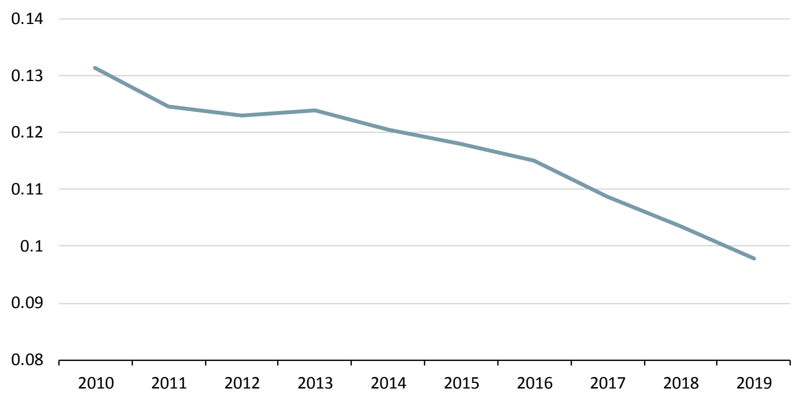
Note: For the years 2015-2018, the ECB does not publish bank branch statistics for the UK. The data has been smoothed for better graphical representation.

Source: ECB.

Given these trends, it is not a surprise that the ratio of employees per deposits has trended strongly downwards between 2010 and 2019.[12] In theory this should mean that falling banking sector employment rates have helped improve the banking sector's productivity and profit levels. However, as will be discussed later in this report, profitability has remained an ongoing challenge for banks despite the reduction in employees (EXHIBIT 7).

The banking sector announced significant job cuts across various countries in 2019.[13] As of December of that year, job cuts announced as a percentage of total employment amounted to: 19.6% at Deutsche Bank; 8.6% UniCredit; 2.3% at Santander; 8.7% at Commerzbank; 3.6% at Barclays; 1.4% at Société General; 5.3% at CaixaBank; 3.7% at KBC; and 0.3% at BNP Paribas and UBS.

EXHIBIT 7: BANKING SECTOR EMPLOYEES/DEPOSITS



Source: ECB.

Importantly, employment trends in 2019 highlighted a growing divergence between the European and American banking sectors.[14] Among the top ten European banks based on market capitalization, employment fell by 20% between 2008 and December 2019. Conversely, the number of staff declined by just 7% for the top ten US banks. Furthermore, according to the US Bureau of Labour Statistics, average quarterly gross job gains in 2019 were the highest they have been over the last decade.[15]

That said, it is important to highlight that the fall in employment the United States has been smaller but this is also in part due to the fact that the US has a different banking model. As for Europe, in Spain in particular, the banking sector has suffered a more severe downward adjustment as a part of the conditionality required in the MoU with the EU and, in part, also because in Spain the sector has adapted more to demand. In other words, in other countries, even more consolidation is needed and it is noticeable in their lower levels of efficiency compared to Spain.

1.4.1. Banking Sector Jobs Remained in Key Financial Centres

Over the last few years, many banks have started to explore the possibility of relocating mid and back office staff from high cost locations (*e.g.* London, New York) to low cost locations (*e.g.* Birmingham, Montreal). However, employment figures show that traditional financial centres remain home to the bulk of financial sector employees.[16] As for February 2020, the financial services sector directly employed 250,000 people in London, 180,000 in Paris, and 70,000 in Frankfurt. In the US, the number of financial sector employees in New York actually rose from 740,000 in 2013 to 790,000 in 2019.

1.4.2. The Split Between Employment Segments Has Been Shifting

Historically, staff employed by banks have fallen into one of three categories: front office, middle office, or back office.[17] The front office covers those jobs that entail direct interaction with clients, be they individuals or companies. These staff are also responsible for growing revenue for the bank. For this reason, M&A roles, traders and research analysts would still fall under the 'front office' category even if their interaction with clients is minimal.[18] The middle office provides direct support to the front office in areas such as risk management, compliance and accounting. Lastly, administrative and technical support fall on back office staff, who may work on tasks such as settlements, clearances, IT or human resources.

Increasing automation means the number of front office staff has been consistently declining. This is due to a variety of innovations from ATMs, which reduced the number of customer service workers at branches or, more recently, electronic trading which has decreased the number of traders. Goldman Sachs, for example, replaced the 600 equities traders it had in the year 2000 with electronic trading systems.[19] According to the bank, it only has two actual human traders left.

Interestingly, Marty Chavez, the former Chief Financial Officer and Chief Information Officer at Goldman Sachs, has stated that the divisions between front, middle, and back office staff have become irrelevant.[20] Specifically, growing technology adoption means that front office performance is increasingly more and more reliant on middle and back office functions, undermining the usefulness of such categorization.

While this may not be entirely true, trends do indicate a growing importance and size of banks' back offices relative to front office staff. For example, from 2011 to 2016 the number of front office staff at Deutsche Bank fell from 10,085 to 7,895, with the ratio of infrastructure staff to front office headcount rising from 1.7 to 2.4.[21] Additionally, around one third of Goldman Sachs' staff are software engineers.[22] Interestingly, however, the banks that are hiring the most engineers, such as Goldman Sachs, are also the ones that are forging the most alliances with BigTechs.

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Section II: Key Drivers and Their Impact on Banking Jobs

Although globally banks were severely hit in the Great Recession, the speed and nature of their recoveries differed considerably. Looking more closely, it is possible to identify several key drivers in the banking sector that influenced employment rates across regions in the lead up to the COVID-19 crisis. In many instances, the drivers prior to the outbreak of COVID-19 were not markedly different from those of today, apart from the fact that COVID-19 has in many instances accelerated the move towards digitalisation. While the magnitude of the impact on banking jobs of some of these drivers varies, we have attempted to identify the key ones affecting the jobs outlook in the banking sector in the run up to the COVID-19 crisis. Essentially, here we will discuss digitalisation, regulatory changes, including compliance demands, and demographic shifts, which have largely underpinned the transformation in banking sector employment and created opportunities for employment growth. Naturally, even if there will be new opportunities for existing and new employees, some of these changes, when coupled with the complex operating climate, will lead to some redundancies in the traditional segments of banking employment.

2.1. Technology Adoption Changes the Nature of Work

There is a common but sometimes inaccurate narrative that the adoption of automated processes and tasks has been reducing the need for banking staff for more than two decades. This includes the use of ATMs as well as other technologies such as electronic scanners and improved bookkeeping programs. Yet, data from the US shows that the introduction of these technologies did not lead to a reduction in bank tellers.[23] In fact, the number of tellers grew a bit faster in the 2000s than the US labour market.

However, the nature of a teller's job did change as a result of new technology. Their interpersonal skills and tasks became more important, with tellers focused more on cultivating customer relationships. Furthermore, tellers had to become more skilled at using and adapting to new technology. As such, banks began to demand higher levels of education for teller positions, increasingly recruiting college graduates for the role.

In recent years, banks have been increasing their IT spend to support the growing digitalisation of banking services and workflows.[24] For example, JP Morgan's technology budget increased 5.6% between 2018 and 2019 to $11.4 billion. Bank of America, Wells Fargo and Citigroup also had substantial technology budgets in 2019 of $10 billion, $9 billion and $8 billion, respectively.

Naturally, the digitization push has led to some job losses and job changes across traditional roles in the banking sector. In the case of the former, digitalisation has had a more comprehensive impact on typical banking jobs than previous disruptive technology like ATMs, which altered single tasks such as cash withdrawals without undermining the ongoing need for bank tellers. Indeed, the adoption of new technology at Bank of America reduced its workforce by 100,000 employees in less than a decade.[25] At the same time, banks such as Citibank and Goldman Sachs are also investing in upskilling existing workers and in some cases changing the nature of their roles rather than undertaking mass layoffs. In many instances, commercial banks also want to reallocate their employees from offices towards active sales roles or make them part of their online and telephone sales networks.

Conversely, digitalisation has also required new recruits to power this operational shift. As of this spring, around one-third of all jobs advertised by UK banks were for technology-related roles.[26] This represents a 46% increase from three years ago. This hiring trend is typical across regions and is illustrated by the breakdown in the types of roles held by employees at banks. For instance, over one-third of Goldman Sachs' employees are software engineers.[27]

2.2. Growth in Financial Sector Regulation Has Been a Boom for Compliance Jobs

In the aftermath of the financial crisis, numerous countries enacted new and more rigorous regulations. In fact, by the end of 2020, there will be more than 300 million pages worth of regulatory documents that cover financial services.[28] For global banks in particular, the proliferation of divergent regulations has further complicated their compliance operations. Some of the most prominent examples of new regulation include the Dodd Frank Act, GDPR, MAS Reporting, MiFID II, and Basel III and IV, among others.

An increasingly complicated regulatory landscape has required an expansion of many banks' compliance department. According to a high-level *executive at a large Spanish financial institutions, compliance and risk is one of the areas where Spanish banks are increasing headcount the most.* As well, a 2018 survey published by Deloitte found that across 7 EU countries, 47% of financial institutions had increased their GDPR headcount between 2016 and 2018.[29] Consequently, compliance has become one of the few banking departments to experience consistent growth across regions and financial intuitions.

2.3. Reputational Protection Spurs Hiring

As part of the legacy of the previous crisis, banks are still working to improve their reputations. Moreover, to a lesser extent, over the past few years, several banks have also been linked to money laundering cases. Indeed, between 2008 and 2019, regulators issued more than $28 billion in fines against financial institutions for AML and sanctions violations.[30] These legacy reputational challenges as well as some more recent AML cases have forced a revamp of banks' compliance departments and processes.

As a result, compliance staff have increased significantly at many global banks.[31] For example, BNP Paribas has almost doubled its AML-related staff to around 13,000 employees. In the wake of its involvement in a Baltic reputational issues, Danske Bank committed in 2019 to hiring 600 new compliance staff.

That said, reputational harm can also contribute to job losses in other departments. As banks attempt to recover from significant fines, loss of business, and declining stock prices, reputational challenges may force them to lay-off staff. This situation occurred with Danske, which despite increasing its compliance department, announced it would cut 7% of its staff in part due to cost pressure from its AML issues.

The adoption of data breach regulations in the United States as well as GDPR mean banks on both sides of the Atlantic have had to upgrade their cyber security systems. Given the increasing digitalisation of banking services, banks' compliance with these regulations occur on multiple fronts including online portals, mobile apps, and banks' own internal systems. The investment in staff to support banks' cyber security is more essential than in other industries, with Deloitte estimating that the number of cyber breaches against financial institutions is nearly four times that experienced by other industries. That said, many banks have also controlled cybersecurity better than other companies, such as BigTech, which have seen several scandals in recent years.

Clients and analysts have also become increasingly attuned to cyber security risks at banks. This is in part due to the increasing digitalisation of banking services, with more and more information available online for hackers, as well as high profile security breaches such as Equifax in 2017.

As a result, there has been growing demand for IT security specialists who can protect data from inside the bank as well as protecting it from external breaches. However, the increasing digitisation of the broader economy means that banks have found it difficult to recruit the necessary IT talent. For this reason, some banks have chosen to retrain existing staff to cover the hiring gap.

2.4. Demographic Changes Drive Demand for New Products and Services

Millennials are a client segment banks cannot afford to ignore. They are already the largest generation in the US workforce[32] and as of 2020 will have entered their peak earning years.[33] In addition, they are beginning to benefit from the largest ever intergenerational wealth transfer. Thus, they should represent a lucrative source of revenue growth for banks.

However, millennials have distinct preferences when it comes to how they manage their finances. Specifically, they take a more cautious approach to credit, have lower home ownership rates, and tend to prefer DIY investing. Especially problematic for banks is the tendency of millennials to avoid more sophisticated banking services altogether. According to UBS, 52% of Americans between the ages of 21 and 36 keep their savings in cash, nearly double the rate for other age groups.[34] As a result, banks have had to re-think their value proposition, with mixed consequences for staffing in certain business lines.

Perhaps the most obvious influence millennials have had on banks is the digitalisation of a wide array of banking services. While they are by no means the only demographic that has embraced robo-advising or DIY trading platforms, these services have proven particularly popular with this demographic. Additionally, online communication including the use of chatbots are disproportionately used by the millennial client segment. The implication for banking sector employment jobs could be a reduction in the demand for traditional front-office roles.

In parallel, one positive development for banking sector employment has been the push for ESG services among millennials. The 2018 US Trust Wealth and Worth Survey showed that around 80% of millennials were either interested in or already owned ESG funds.[35] Millennials' enthusiasm for ESG has contributed to a substantial increase in ESG-related hiring at banks. However, actually filling these vacant positions has proved a challenge for banks given the increased competition for a small pool of appropriately skilled candidates with knowledge in both ESG and finance. Consequently, ESG hiring has become more expensive for financial institutions, with remuneration packages among asset managers in particular rising between by as much as 50% between 2016 and 2018.[36]

Importantly, millennials are not the only demographic that are shaping banking sector employment trends. As advanced economies greyed, financial institutions have had to adopt an 'age friendly' banking approach.[37] Unlike millennials, this older demographic is much less comfortable using technology, with many older clients still leery of ATMs. This means investing in personalized banking experiences that are led by human beings rather than algorithms. Some examples of age friendly products and services include long-term care insurance, reverse mortgages, mobile branches, and cash delivery.

Given the specific needs and concerns of this client segment, banks have had to invest in staff trained to support older customers. Training might include interacting with caregivers, fraud detection, responding to customer vulnerability, and familiarity with targeted product and services for this client segment. While this retaining and training staff at branches to serve older clients may appear as highly costly, the so-called Silver Economy, which includes individuals over the age of 50, was worth an estimated 3.7 trillion euros in 2019, and is forecast to grow to 5.7 trillion euros by 2025.[38] Thus, many banks have determined that shrinking staff and leaving this client segment in the lurch would be a costly mistake.

2.5. Low Profitability Has Constrained Employment Growth

The banking sector's employment levels have been weighed down by low profits.[39] Despite improvements since the Great Recession, the industry's return on equity was still below the 12% mark associated with the cost of capital prior to COVID-19. From a regional perspective, the US banking industry was in a slightly stronger position, with return on capital (ROC) at 18% (nearly 5 percentage points higher than the global average) and profit growth supported by tax cuts and higher interest rates. Conversely, ROC among European financial institutions was just 10.2% in 2018.

In Europe, the legacy of non-performing loans had a particularly deleterious effect on banks' profitability.[40] While countries such as France, Germany and the Netherlands did not see a significant uptick in NPLs in the decade prior to COVID-19, other countries like Greece, Italy, and Ireland did. Interestingly, Spanish banks did see an increase in NPLs, however, the ratio was lower than peer countries. For example, as of the end of 2017, Italy's NPL ratio was

11.1% while Spain's was 4.5%, compared with the eurozone average of 4.1%. These ratios subsequently fell as banks sold their distressed debt.

NPLs impact employment in a couple of ways. First, a high NPL ratio restricts banks' lending capacity, thereby reducing the amount of staff that support its lending services. Secondly, banks may reduce headcount in an effort to cut costs and offset the drag on profitability due to NPLs. Additionally, high NPL ratios can make banks vulnerable to a public bailout that requires more aggressive cost cutting. For example, Italy's Monte dei Peschi di Sienna bank received a public bailout due to a high NPL ratio with the condition that it cut 20% of its staff.[41]

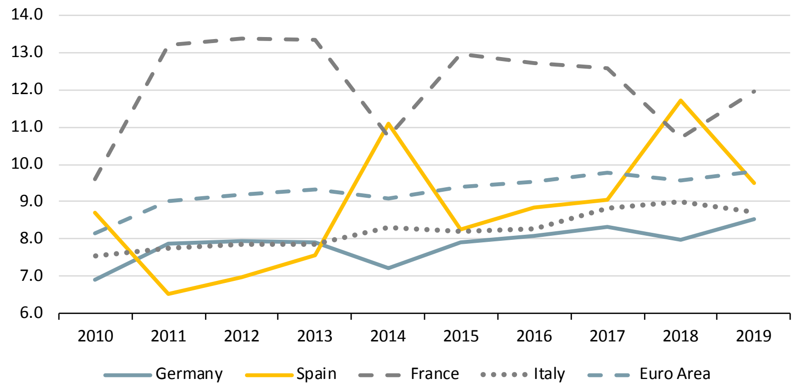
However, a reduction in NPLs can lead to job cuts, too. For example, at its peak in 2008, the number of employees in the Greek banking sector exceeded 66,000.[42] In 2018, this figure dropped by more than 40%. A significant reason for this is that Greek banks reduced their NPLs and by extension the staff that manage them.

2.6. Falling Demand for Credit Dampens Employment Growth

Another key challenge for banks that has had a negative knock-on effect for banking sector employment is the falling demand for credit. In the aftermath of the financial crisis, consumers and businesses have shown a more cautious approach to taking on additional credit, thereby reducing the associated revenue generated from these services, as well as the need for staff to issue and manage these loans.

Exhibit 8 shows the trend in credit/employee ratios in the euroarea as well as the 5 largest economies from 2010 to 2019. This metric shows that in recent years, there has been little growth in credit/employee within the euro area. At the country level, the indicator has been relatively stagnant in Germany as well. That said, there has been a notable fall in Spain and a slight fall in Italy in 2019. Lastly, while credit/employee levels rose over parts of the observation period in France, they have since declined to below peak levels (EXHIBIT 8).

EXHIBIT 8: CREDIT/EMPLOYEE. RATIO OF STOCK OF LOANS AT END OF PERIOD (EUR MILLIONS) TO EMPLOYEES



Source: ECB.

2.7. Efficiency Drives Do Not Always Lead to Widespread Job Losses…

According to Luis de Guindos, Vice-President of the ECB, *the euro area has too many banks, too many branches and too many bankers*.[43] He has specifically cited the fact that the aggregate cost-to-income ratio of euro area banks rose to 66% in 2018, from 62% in 2010, as banks failed to offset a decline in revenues by cutting costs. He noted that this ratio is higher than in both the US and Nordic region, underlining the need for European banks to rationalize their costs.

In an effort to contain costs and bolster profitability, many financial institutions have undergone efficiency drives that result in significant organisational restructuring.[44] Measures that reduce headcount include merging divisions, consolidating duplicated functions, rationalizing middle management, and implementing hiring freezes. For example, several investment banks have combined the traditionally separate equity and fixed income departments to achieve cost synergies and offer more integrated client propositions.

Branch closures can have a negative impact on banking jobs. Over the last decade, approximately 25% of Europe's bank branches have closed.[45] Nevertheless, as Luis de Guindos notes, Europe remains over banked. As a result, banks have continued to rationalize costs by closing branches. For example, in 2019 Santander announced plans to close 140 branches that employed 1,200 employees across the UK.[46] CaixaBank also disclosed plans last year to cut 7.3% of its total staff, alongside the closure of 800 bank branches by 2021.[47]

However, the prospect for job losses associated with branch closures may be less grim than anticipated. According to a high-level executive at a global financial consulting firm based in Spain, *typically, when Spanish banks close bank branches, they will reduce staff by 50%, moving the remaining employees to either another retail branch or retraining them to work in the banks' central offices.* Thus, depending on the bank's particular approach, job losses may be more limited.

Another tactic banks have explored to reduce costs is relocating jobs from high cost cities, such as London or New York to lower cost locations like Glasgow or Montreal.[48] These relocations tend to disproportionately impact middle and back office positions, with front office staff remaining close to the banks' key clients. For example, as of 2016, JP Morgan had 4,000 of its UK technology and operations staff in Bournemouth, while Deutsche Bank had moved a quarter of its employees to Birmingham.[49] Thus, certain regions might see an uptick in banking jobs while others experience a decline or slower growth rate in new hires.

Some observers expected an uptick in the relocation of jobs outside of the UK in light of Brexit. However, so far, the announcements suggest only a modest proportion of banks' workforce has been relocated. For instance, Société General disclosed in February 2019 it would transfer or create 300 jobs in Paris as a result of Brexit, just a small proportion of its 2,000 investment banking staff in London.[50] Likewise, Frankfurt, the most popular relocation sight for banks, only gained an additional 1,500 banking jobs between 2016 and 2019.[51] It is also important to note that any cost savings from these job relocations would be limited given that other financial centres such as Dublin and Paris are only marginally less expensive than London.

2.8. …Although the Search for Scale Can Often Lead to Staff Reductions

Europe's challenging business environment has encouraged greater consolidation both within and between banks. In the case of the latter, the lack of progress on the EU Banking Union means mergers and acquisitions had primarily occurred within national borders prior to COVID-19.[52] In Spain, the number of banks has fallen by 36% since the 2008 financial crisis. *Cajas* make up a dominant proportion of the financial institutions lost during this period, with just 2 of the 45 savings banks in existence in 2008 having maintained their legal status.[53]

As in the case of internal restructuring, often times banks attempt to minimize costly layoffs as a result of a merger. That said, the merger of two firms inevitably leads to some job losses as duplicate positions are axed and efficiencies of scale are sought. In June 2019, Spain's largest bank, Banco Santander, reached an agreement with unions to dismiss 3,233 employees as it integrated its operations with Banco Popular's 1,600 branches across Spain.[54] Of note is the fact that any reduction of staff due to a merger or acquisition impacts both lower level positions as well as middle management and executives, too.

Consolidation can also occur within a bank. Recently, this has been driven by the increasing digitalisation of all banking services. In order to facilitate a more streamlined and consistent digital transformation, some banks have combined previously separate departments into a single team. For instance, JP Morgan Chase merged its corporate banking team with its middle-market technology division.

2.9. Economic and Financial Conditions Underpinned the Divergence in Banking Sector Performance

The US economy exhibited a strong recovery after the Great Recession. Between 2017 and 2019, the country experienced average growth of 2.5%, which in turn contributed to a tightening of the US labour market.[55] This, combined with an uptick in business, meant there was considerably less pressure on banks to reduce staff numbers, and in some segments, actually led to an increase in hires.

One banking segment in the US that stands out during this period is commercial banking. Importantly, lending is a key part of commercial banking activity, making it more sensitive to macroeconomic conditions than other banking segments. Thus, the fact that interest rates were rising comparatively faster than in Europe alongside more robust economic growth, meant commercial banking in the US expanded considerably.

Specifically, commercial banking registered around a 10% compound annual growth rate (CAGR) over the past three years, making it the largest growth segment in North American banking.[56] By way of comparison, large corporate and investment banking experienced CAGR of just 2% during the same period. This, by extension, had a positive effect on commercial banking jobs rates across employment segments. While relationship managers are a key part of commercial banking's business model, McKinsey has shown that 'enabling' roles such as those that support the digitalisation of client journeys account for two-thirds of a commercial banking unit's value.

Europe's economic performance in the few years before COVID-19 tells a somewhat different story from that of the US.[57] From 2017 to 2019, average GDP growth in Western Europe was 1.9%, 0.6 percentage points lower than that of the US. Looking at specific countries, Italy was already in recession prior to COVID-19, while by 2019 growth had stalled in Germany.

While German and Italian banking markets contracted in parallel with slower growth, this trend did not extend to all EU countries. For example, Spain saw average GDP growth of 2.4% between 2017 and 2019, 0.5 percentage points higher than for all of Western Europe. At the same time, profitability concerns and structural factors resulted in decreased commercial banking growth. Consequently, employment trends are not wholly reliant on economic growth, but are also exposed to structural factors as well.

Interest rates have also played a key role in the regional divergence across banking sectors. Interest rates have remained low and even negative in some European countries (*e.g.* Switzerland, eurozone). However, prior to COVID-19, the US Fed had begun to increase rates, with its benchmark fed funds rate reaching a post-recession high of a range of 2.25% and 2.5%. This divergence in interest rate policy further contributed to the disparate trends in banking sector performance and employment between the two markets.

There are numerous examples of the adverse impact of interest rates on banking sector employment in Europe. In 2016, Danske Bank offered about

40% of its 19,400 employees voluntary redundancy as part of efforts to cut costs against the backdrop of low interest rates.[58] More recently, in August 2019, the FT reported that interest rates were one of the factors behind job losses at global investment banks. It noted that almost 30,000 lay-offs had been announced since April at banks including HSBC, Barclays, Société Générale, Citigroup and Deutsche Bank, with the majority of cuts located in Europe.[59]

In theory, lower interest rates could have offset losses in some business segments by stimulating demand for loans from European lenders. However, in the few months prior to COVID-19, evidence emerged that the demand for loans had slowed among some client segments. An ECB survey of 144 banks showed that demand for loans among eurozone companies of all sizes fell for the first time in six years in the fourth quarter of 2019, with the biggest contraction located in Spain.[60] Conversely, 25% more banks experienced higher net demand for mortgages than those that reported a fall in demand. Thus, any positive impact on employment from low interest rates would have been limited to specific lending departments.

Section III: Implications of COVID-19 on Banking Sector Employment

Although tempting to view COVID-19 as a black swan event, the risk of a global pandemic has been repeatedly flagged by international organizations such as the World Economic Forum.[61] In fact, the Forum's annual Global Risks Report highlighted pandemics as one of the top five global risks in terms of impacts as far back as 2007. Most recently, its 2020 edition argued that no country was fully prepared to handle an epidemic or pandemic and that our collective vulnerability to the societal and economic impacts of infectious disease crises was increasing.

Despite these warnings, as was the case with most non-financial corporates, financial institutions failed to adequately account for the risk of a pandemic in their overall risk modelling. As a result, it was not just health authorities that were caught unprepared by this crisis, but banks, too. Much of the response to this pandemic has been ad hoc, with subsequent outbreaks illustrating the difficulty of containing the crisis. This makes it all the more challenging to predict the pandemic's full impact on the banking sector.

The evidence to date continues to point to asymmetric employment trends in the global banking sector. COVID-related job cuts have occurred on both sides of the Atlantic but have been deeper in Europe. Similarly, banks have taken different approaches to firing freezes, with some abandoning them early in the crisis and others extending them to the end of the year. Surprisingly, there were even a few cases of banks expanding their workforce during the crisis.

3.1. Why This Recession May Be Different For Banking Sector Employment

In previous recessions, banking sector employment was somewhat insulated from the broader economic downturn.[62] For example, during the recession in the early 1990s, US finance related jobs fell by 0.3%, a full percentage point less than the total drop in employment. Looking at the most recent financial crisis, as of 2009, banking and insurance sector employment in the US fell by 5% from 2007. Nevertheless, this figure is still 0.4 percentage points lower than the 5.4% drop in nongovernmental employment over the same period.

In contrast to the reputational damage suffered by banks in the wake of the previous financial crisis, during the pandemic, banks have had the opportunity to rebuild their image by providing critical support to the economy, and in particular to the badly hit SME sector. However, there are signs that this recession may have a much more pronounced effect on banking sector employment. The intensity of the economic contraction, historic unemployment levels, the potential for double dip recessions, phasing out of government support, and concerns over asset quality all suggest adverse consequences for financial sector employment. At the same time, the growing specter of stakeholder capitalism and reputational sensitivity may hold banks back from dramatic cost-saving measures like mass lay-offs.

3.1.1. Q120 Saw Large Front Office Rationalisation

Data from Coalition highlights the rationalisation measures initially made during the early days of the COVID-19 crisis. They show that COVID-19 resulted in investment banks' implementing empolyment rationalisation measures at the fastest pace in the first quarter of 2020 relative to the last six years. This is somewhat surprising given that the industry benefited from a pandemic-induced surge in volatility and revenue. More generally, front office jobs experienced their most severe contraction since 2014.

Of note is the fact that the majority of these job cuts occurred in Europe. This is evidenced by job seeking data from the UK. Specifically, the number of finance professionals seeking new jobs rose by more than 40% in the first quarter compared to 4Q 2019.[63]

3.1.2. Some Banks Adopt Temporary Firing Freezes, Boosting Reputation

While many banks ultimately had to move forward on redundancies, some banks were aware of the reputational harm that mass lay-offs would entail, and instead opted for temporary firing freezes. For example, Deutsche Bank introduced a 6-week firing hiatus in March, Barclays said it would delay any redundancies until September, and HSBC paused its plan to let go of 35,000 employees.[64] Especially striking was the collective decision made by each of Canada's largest banks, who together employ around 300, 000 workers. They announced a firing freeze for the entirety of 2020 as part of their commitment to support employees and families during the crisis.

These firing freezes were, however, quite costly for banks. According to Noel Quinn, Chief Executive of HSBC, the bank's firing freeze delayed cost savings of nearly $380 million.[65] Consequently, HSBC re-started its redundancy program, with 3,000 employees let go by the end of the first half of the year. Similarly, Deutsche Bank explained it was necessary to continue with its redundancy program despite the ongoing crisis in order to achieve its cost-cutting targets. For these reasons, it is expected that H220 may be among the worst period for banking jobs in recent times.

3.1.3. In Some Cases, Banks Actually Increased or Maintained Their Staff Levels

COVID-19 changed rather than paralyzed banking services. Financial institutions had to quickly adapt by setting up remote working arrangements for employees and supporting clients through digital portals and tools. Moreover, the demand for loans buoyed by government guarantees kept front and middle office staff occupied. In order to support these activities, it is estimated that the biggest US and European banks added 19,000 people to their payrolls in the first half of the year.

There are multiple examples of banks hiring throughout the crisis. During the first half of the year, Barclay's added 7,000 new jobs.[66] In the US, Bank of America hired 2,000 workers in March and confirmed its commitment to take on 1,000 campus hires in 2020.[67] There has been a particular focus on hiring for tech jobs to support remote working and digital banking services during the crisis. Citibank announced it would hire 2,500 coders last year while 40% of jobs listed by Goldman Sachs in March were for technology related roles.[68]

Section IV: Future Banking Employment Outlook in the Wake of COVID-19

The outlook for future banking sector employment in the wake of COVID-19 is influenced by myriad factors. The broader economic forecasts will inevitably play a role, with the pace and intensity of the recovery determining the demand for banking services, and relatedly, banking staff. However, COVID-19's impact goes beyond the immediate and obvious economic effects. Instead, it is necessary to consider both the acceleration of established trends as well as the emergence of new initiatives. In the following section, we discuss factors that we believe will have a significant impact on the future outlook for banking sector employment. Clearly among the most significant are digitalisation and regulatory changes. Social factors too will play a role. As will economic and financial factors, where the external environment will underpin the acceleration of the natural process of transformation underway within the industry.

4.1. Digital Adoption Will Gain Pace

In the context of COVID-19, no bank can afford to drag its feet on digitalisation. Digital appetites among clients have grown, as necessity has given way to widespread adoption. With this in mind, Deutsche Bank CEO Christian Sewing told investors recently: *Technology is more important than ever – a fact that the coronavirus crisis is serving to highlight very well. Digital business models are the big winners, and this trend won't suddenly reverse once the pandemic subsides*.[69]

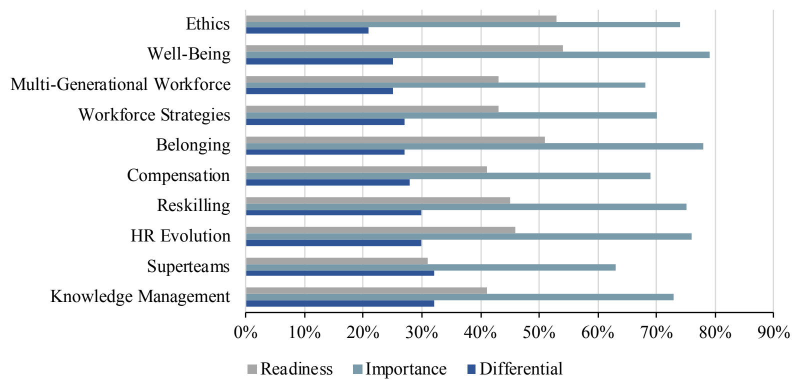
In order to remain competitive, banks are likely to accelerate their investment in digitalisation to improve the client experience and productivity levels. Areas ripe for greater digitalisation include digital marketing, upgrading client portals, communication tools and data analytics. The implications for banking sector employment are not necessarily negative. While the need to fund this capital expenditure may necessitate job cuts, banks will still require human expertise to implement, maintain and use these new digital tools. By investing in digitalisation, banks may actually generate greater returns from their existing staff by allocating mundane, repetitive tasks to machines, thereby freeing up workers to focus more on high-value activities.

4.1.1. New Digital Tools Alone Will Not Guarantee Higher Productivity

Banks will need to consider how they integrate technology into existing teams if they are to maximize their investment in digitalisation. Deloitte noted in its 2020 Global Human Capital Trends report that technology integration is an area of potential weakness for many financial institutions.[70] They specifically highlight that financial institutions should focus on leveraging technology such as AI to complement employees' skills rather than as a means of replacing their tasks or even entire roles. If done successfully, this level of integration will enable banks to achieve higher quality of work from their labour force, thereby increasing their employees' value to cost ratio.

Investment in reskilling will also become necessary to reap the benefits of a streamlined workforce and greater digitalisation. The deployment of new technology means workers will need to become more tech savvy and possibly take on new tasks or responsibilities. In its survey of 1,157 financial institutions in the 2020 Global Human Capital Trends report, Deloitte found

EXHIBIT 9: 2020 TOP 10 HUMAN CAPITAL TRENDS IN FINANCIAL SEVICES



Source: Deloitte Development LLC.

that 75% of respondents agreed that reskilling their workforce is important to their organization's success over the next 12 – 18 months.[71] Yet, only 45% of financial institutions feel prepared to adequately reskill their workforce. (EXHIBIT 9).

One financial institution that has tackled this challenge is Banco Santander.[72] The bank's strategy focused on transitioning workers from critical roles that could be completed through automated processes or AI to pivotal roles that create a higher quality customer experience. As part of the process, Banco Santander examined growth trends in their digital business and the impact of AI to pinpoint the most relevant skills needed for its workforce by 2025. With this information at hand, the bank designed an upskilling and reskilling plan with the goal of closing any gaps in its employees' critical capabilities and required skills.

4.1.2. Remote Working Will Necessitate Investment in Human Capital

While initially remote working arrangements seemed more like a short-term fix, increasingly banks are realizing the potential cost savings associated with remote working like reduced office space and infrastructure spend. In fact, during the pandemic, many banks have sent people home with terminals in record time. That gives them more flexibility going forward. In fact, 74% of CFOs surveyed by Deloitte say they plan to shift previously on-premise workers to remote positions.[73] The types of employees expected to permanently adopt remote working arrangements will be varied, including IT support staff as well as managers.

Under these circumstances, investing in and cultivating the right leadership traits will be key for banks to get the most out of their workforce. This will require banks providing leaders with the necessary tools and support to create a focused, energized team. In particular, increased digitisation and the adoption of new technology such as AI means leaders will need to become adept at managing ethical issues around the intersection of humans and technology. Unfortunately, these are not topics that have been part of earlier business school curricula, and may therefore require either investment in leadership education or new recruitment strategies to ensure effective leadership.

4.1.3. Employment Shifts from Traditional Banking Towards BigTech/Fintech

It is also possible that the expansion of BigTech and fintech will lead to a shift in financial sector employment from traditional banking towards BigTech and fintech firms which require similar skill sets. As BigTech and fintech enter into new markets and provide additional services, they could end up attracting employees that fill traditional roles at banks, such as in customer service or financial advising. This would keep the level of employment in the overall financial sector relatively steady but could initiate upward pressure on wages within the sector.

4.1.4. Regtech Will Not Lead to Significant Reductions in Compliance Staff

According to HTF, a market-research firm, global regtech market revenue is expected to reach $6.4 billion by 2025.[74] There are several reasons regtech has proved attractive for banks. Firstly, regtech tools improve the accuracy of compliance tasks, reducing the probability of a possible regulatory violation. Additionally, many tools include a digital record system that make regulatory audits less painful. Lastly, regtech can improve the client experience by streamlining KYC processes. The ongoing development of powerful AI tools promises further advancements in the near future, with significant benefits for banking sector productivity.

Although regtech might reduce some of the menial tasks of compliance officers, there are no signs yet that it has encouraged banks to reduce the size of their compliance workforce. In fact, headhunters in Asia told Reuters in September that demand for compliance staff had risen by as much as a third from a few months before.[75] Regtech tools are increasingly sophisticated, but they are not fool proof substitutes for roles such as KYC analysts. Instead, the increasing deployment of regtech will be used to augment and support the tasks of compliance staff.

4.2. Banks' New Role Goes Beyond Generating Shareholder Value

COVID-19 has heightened the role of banks beyond that of just generating shareholder returns. Prior to the crisis, the notion of stakeholder capitalism was already gaining ground, with JP Morgan's Jamie Dimon along with 180 other CEOs signing a letter arguing that companies existed to support not just shareholders, but their workers, customers, and the environment.[76] As a result, banks can expect greater scrutiny of their response to COVID-19. It is with this in mind that Canadian banks jointly determined that any lay-offs would be delayed until 2021.[77] As stated previously, several other large banks have also halted plans for employee rationalisation.

The role of banks has also been augmented by their partnerships with governments during this crisis. Banks have acted as a key mechanism for providing credit guaranteed by governments to both individuals and companies. Going forward, it is possible that banks' social objectives will be expanded, with a deeper focus on health, safety and purpose. For example, in Deloitte's 2020 Global Human Capital Trends report, 79% of financial institutions indicated that well-being is important to their organization's success over the next 12 – 18 months but only 54% indicated that they are prepared to address this issue.[78] Banks that find ways to generate positive effects for their employees and the broader community in which they operate will benefit from enhanced customer loyalty rates, which will bolster both revenues and banking sector employment in the future. (EXHIBIT 9.)

4.3. New Approaches to Employee Segmentation Will Emerge

Traditionally, the banking sector has segmented its workforce based on employees' function. However, Deloitte's 2020 Global Human Capital Trends showed that 46% of financial institutions believe behavioural traits such as whether an employee is introverted or extroverted, and the extent to which they prefer working as an individual contributor or team player will inform segmentation strategies in the next five years.[79] That said, only 18% of respondents to Deloitte's survey currently use these metrics.

Metlife is one of a few financial institutions that utilises behavioural traits to segment its work-force.[80] It relies on holistic metrics such as mindsets and attitudes to create a "personalized, customized and authentic" mapping of its workforce. This approach tends to lead to banks doing a better job at meeting employees needs and the more efficient design of the organization. Given the competition for certain types of labour, these tweaks could make it easier for banks to hire and retain the right talent. (EXHIBIT 9.)

4.4. Broader Economic Outlook

While sentiment over the summer improved, business leaders have remained concerned about the solidity of the recovery. A weakening in demand remains one of the top three concerns in two-thirds of countries surveyed. Consequently, it seems wise to assume that the second and third waves of the virus in Europe and North America have further dented corporate leaders' optimism regarding a swift recovery.

In August, a survey of CFOs showed a slight improvement in outlook since March, with regional splits remaining.[81] When asked how they felt about the prospects of their companies compared with three months earlier, 23% of Spanish CFOs, 37% of Italian CFOs and 65% of German CFOs said they were more optimistic. These data mirror the stronger initial recovery in Germany compared with Spain and Italy. Indeed, 48% of Spanish CFOs and 41% of Italian CFOs were actually less optimistic compared with just 11% of CFO respondents in Germany.

A resurgence in infections forcing new local restrictions could lead to more layoffs and thus a drop in domestic demand. This, by extension, would reduce demand for some key banking services such as mortgages or consumer loans. Interestingly, when surveyed in August, most CFO respondents in Spain, Italy and Germany indicated that they expected their hiring outlook to remain stable. However, it is uncertain the extent to which these sentiments might change over the winter if the virus continues to surge across Europe.

4.5. There Will be an Increased Drive for Consolidation

In the face of lower profitability, consolidation of the banking sector is anticipated. This trend will be supported by the ECB's enhanced flexibility regarding capital requirements. Already mergers have been announced in Spain, such as that of CaixaBank and Bankia, creating Spain's largest domestic lender.[82] Additionally, Unicaja and Liberbank will also merge, creating Spain's fifth biggest lender.[83]

Outside Spain there is significant scope for increased consolidation. Italy has seen some movement in this direction, evidenced by the purchase of Unione di Banche Italiane by Intesa Sanpaolo.[84] However, Germany remains a key banking market where M&A activity has lagged. One complicating factor for Germany is the fact that many foreign banks have chosen Frankfurt as their post-Brexit headquarters, further expanding the size of the country's banking industry.

The picture in the US is somewhat different. During the previous crisis, there was a wave of consolidations among the country's largest financial institutions. Consequently, M&A activity during this recession is likely to focus on smaller community banks.

Job cuts from greater consolidation will not, however, automatically improve banks' profitability levels. There are notable costs associated with mergers, such as the issuance of severance and early retirement packages. Thus, in some cases, banks may decide that it is more profitable to retrain employees and then either not replace workers when they retire or hire more highly skilled workers in their place.

It is also important to underline regulators may not take a permissive approach to consolidation across all parts of the banking sector. For example, the proposed merger between Credit Suisse and UBS could garner greater scrutiny from Swiss regulators keen to avoid creating another "too big to fail" financial institution. Moreover, private banking is one of the few business lines to have done well throughout the crisis, further weakening the case for consolidation in that particular banking segment.

4.6. Banks Will Continue to Restructure Business Lines

With cost pressures rising and the demand for banking services and products changing, financial institutions will have to prioritize those business lines that post COVID-19 will be more most profitable. This will involve differentiating between those segments that are thriving, will thrive but are on hold, and those that will continue to weaken, resulting in a mixed outlook for banking sector employment.

Already there are some clear leaders when it comes to specific banking segments. SME lending has proved profitable throughout the crisis, with banks unlikely to make significant job cuts in this segment. Another sector that has done well throughout the crisis is private banking and wealth management. Unfortunately, this is a business line to which Spain's banking industry is considerably less exposed to in comparison to Switzerland or the US. As a result, growth in private banking will have a muted impact on Spanish banking sector employment.

In terms of the laggards, some business lines may prove more resilient than others. Real estate is an example of a banking segment that has underperformed recently. However, analysts expect it will recover over the near-term, encouraging banks to hold off any firing in related segments. On the other hand, high level executives at European banks may face a challenging employment outlook, particularly should their entities undergo consolidation. That said, there is some evidence that banks are reallocating existing staff from business lines that are less profitable to more resilient ones.

4.7. Relocation Trends Are Unlikely to Accelerate

As previously discussed, one-way banks have sought to economize is by relocating jobs from high cost cities like London or New York, to low cost locations such as Glasgow or Montreal. However, observers believe it is unlikely that this trend will gain pace. As Samir Assaf, HSBC's global and markets chief explains about London, *It's not about cheap and expensive, it's about where you can find the right people to do the right job…There's an ecosystem here*.[85] Even taking into consideration remote working arrangement, the talent banks are seeking are disproportionately located in big cities like London and New York.

In terms of Brexit related relocations, there are already notable effects. Frankfurt, which is the most popular post-Brexit location for banks, may not see as big an increase in jobs as initially expected. In total, the city expects to gain around 3,5000 jobs from Brexit by the end of 2021.[86] However, many of these positions have already been relocated to Frankfurt. That said, the full effects of Brexit remain to be seen, given that discussions over the EU passport, which British financial institutions may lose, are still underway.

4.8. EU State Aid Impact

One factor that could significantly impact banking sector employment is EU state aid. In March, the European Commission adopted a Temporary Framework that allows Member States to use the full flexibility foreseen under State aid rules to support the economy in the context of the COVID-19 outbreak.[87] The Framework's goal is to ensure that sufficient liquidity remains available to businesses of all types and to preserve the continuity of economic activity during and after the COVID-19 outbreak.

There are two specific parts of the Framework that could prove vital for the European banking sector. Firstly, it allows for state guarantees for loans taken by companies from banks. Secondly, it allows for safeguards for banks that channel state aid to the real economy. Specifically, it permits member states to build on banks' existing lending capacities so as to extend support for businesses, with a particular focus on SMEs.

Already, several Member States have issued substantial loan guarantees, however, it is not yet certain whether and for how long such policies will be extended. Until now, it has helped buoy demand for credit, ensuring ample work for those banking sector staff working in commercial or personal loan departments. If these guarantees are not extended, there could be a significant decrease in the supply of credit, encouraging potential layoffs in the retail and commercial banking segments.

4.9. NPLs Will be a Big Driver in Banking Employment Trends

The economic toll of COVID-19 has been considerable. Higher unemployment, social distancing, and the reinstatement of partial lockdown rules bode negatively for the performance of loans. However, determining the extent to which NPLs will be affected is a challenging exercise. There is little visibility surrounding banks' NPLs due to IFRS changes and discretionary provisioning. This effectively means that banks are accounting for NPLs differently, making it difficult to forecast the future impact of NPLs on the banking sector.

Despite these difficulties, Allianz Research has attempted to simulate NPL ratios for the banking sector in 2021.[88] Its simulation includes upper and lower bonds, with the later referring to the EBA 2018 stress test elasticities while the former takes into consideration COVID-19 shocks. Overall, eurozone NPLs could rise from 3.1% in December 2019, to between 4.7% and 5.4%. From a country perspective, Italy appears especially vulnerable, with an upper and lower bound of 13.9% and 17.4%. Spain could see NPLs rise from 3.2% in December 2019 to between 6.6% and 8.2%. Conversely, Germany would see only a slight uptick in NPLs between 2% and 2.3%, up from 1.3% last December.

According to a banking specialist from one of the major credit rating agencies, *NPLs are unlikely to have a one-off effect. Instead, analysts expect the impact of NPLs to drag out for around two years. This suggest a negative outlook for jobs over that same period.* Given that higher NPLs will mean more loan loss provisioning, analysts expect job losses could rise above their historic average.

4.10. Households Will Become More Cautious About Financial Risk

Evidence from previous recessions show that they have a long-lasting effect on consumer behaviour. For example, after the Great Recession, consumers allocated more money to real assets and high-value categories such as housing and healthcare at the expense of retail shopping.[89] Given the unprecedented nature of this crisis, the uncertainty attached to it, and the wide effect it has had on employment levels across regions, there is good reason to assume consumer behaviour will be even more significantly impacted by this recession.

There are already signs that savings rates have spiked in response to COVID-19. This will likely translate into household deleveraging, with the associated effects of lower demand for credit and major asset purchases. As such, banking services such as high-interest savings accounts and term deposits may prove more attractive among risk adverse consumers.[90] This attitude will extend to entrepreneurial activity. With fewer individuals willing to take the risk of launching a new business, banks may need to focus on services that assist existing SMEs with cashflow rather than issuing new credit.[91] That said, corporate debt is expected to rise.

4.11. Regional Divergences Will Intensify

The post-COVID recovery will differ depending on the region in which a bank is operating. Already, the US, Asia and Europe have begun to diverge in terms the speed and resilience of their economic recoveries. This means employment outcomes in the sector may depend more on where those jobs are located, rather than the institution itself.

In Asia, the economic recovery is centred around China, which grew by 4.9% in the third quarter.[92] Of particular note is the 3.3% rise in retail sales in September compared with August as well as a 6.9% increase in industrial production over the same period. These data have led analysts to predict China will be the only major economy to have experienced positive growth in 2020.

In parallel, hiring in the banking sector has also expanded. For instance, there are reports of active hiring by China on-shore headquartered banks in Hong Kong. However, most of the hiring activity has centred on compliance and back office positions.[93] Despite the promising IPO pipeline in Hong Kong, Chinese banks have preferred to transfer analysts and associates from other teams to fill this gap. However, one segment where there has been front-office hiring among Chinese banks is in institutional investments. Of note also is the fact that the Chinese banking market has experienced a degree of leapfrogging, common to many emerging markets, where clients access banking services directly through their mobiles, rather than through offices.

While overall economic activity in the US is still below pre-COVID levels, there are some initial signs of an ongoing recovery.[94] The economy grew by more than 30% on an annualised basis in the third quarter, a record for the US. Additionally, retail sales are above pre-COVID levels with car sales exhibiting a strong recovery. Also noteworthy is the fact that housing transactions, based on some metrics, have now risen above highs last seen in the mid-2000s boom.

These economic data are good news for banking sector employment in the US. According to ThinkIQ, New York, the country's financial centre, is forecast to see a fast bounce back in financial jobs, followed by a slower recovery over the medium-term.[95] Specifically, ThinkIQ calculates more than 34,000 finance-related jobs could be added in 2021, 13,000 jobs in 2022, and 8,000 in 2023.

The outlook for European growth, and by extension, banking sector employment is less optimistic. The ECB expects the eurozone to contract by 8% in 2020, with unemployment rising to 9.5% compared with 7.3% in the first quarter of 2020.[96] These data indicate a weaker backdrop for banking services and employment trends compared with Asia and the US, where profitability levels were stronger prior to the crisis. According to a European banking sector analyst, *one reason for the divergence is that US banks can price mortgages more advantageously than their EU retail banking peers.*

In Spain, several banks have already announced plans to reduce their workforce.[97] Reports suggest Banco Sabadell will offer early retirement to between 1,500 and 2,000 workers (10-15% of its workforce), though negotiations with union representatives have yet to occur.[98] As well, Banco Santander indicated in a call discussing the bank's third quarter results, that it plans to reduce its workforce by 3,000 employees.[99]

4.12. Cyclical Hiring Phenomenon

It is worth considering how cyclical hiring patterns, separate from the crisis, could impact the outlook for banking sector employment. Data from Burning Glass, a data analytics firm that specialises in the labour market, tracks the number of US jobs advertised by major banks' websites every July since 2010.[100] Their analysis shows that sell-side hiring tends to go in cycles.

Unfortunately, it is unclear from the data whether these cycles occur over a three- or five-year period. In the case of the former, hiring would be expected to have picked up in July. Indeed, there was a slight uptick in advertisements that month. However, if the cycle is longer, using 2017 as the previous hiring peak, hiring may remain restrained regardless of how COVID-19 plays out. One caveat with this analysis is the fact that the data do not include the period immediately before and after the financial crisis, which could provide more insight into cyclical hiring trends through crisis periods.

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Section V: Reflections and Key Challenges

5.1 The Battle for Market Share

Banks have seen their market share in financial services eroded by both fintech firms and BigTech. Initially, much of the competition was centred around payments, with Accenture warning in 2014 that competition from non-bank entities could result in traditional banks losing one-third of their revenue by 2020.[101] More recently BigTech has entered the market with Apple Pay and Google Pay in North America and Europe, while Ali Pay and WeChat Pay dominate in China.

Additionally, banks now face direct competition from so-called ‘neo-banks’. These are banks that operate solely online or via a mobile app. In Europe, ‘neo-banks’ such as Revolut,[102] Mozo[103] and N26[104] have garnered around 17 million customers between them. The growing popularity of these alternative banking models put a strain on traditional financial institutions to redouble their digitalisation efforts, with negative consequences for front office employees who are tied to a business model under increasing pressure to move online. The need for a level playing field in terms of the regulatory front is also impacting the battle for market share, with current conditions in favor fintechs and BigTechs relative to traditional banks.

At the same time, fintech and even some BigTech firms are partnering with traditional banks to provide more and more services. For example, in 2019, Apple launched a credit card with Goldman Sachs.[105] Google too plans to offer consumer bank accounts in partnership with Citibank.[106] These partnerships take advantage of banks' middle and back office infrastructure, bolstering demand for staff in these key departments.

5.2. The Battle for Talent

As already discussed, one area in which banks are hiring is for roles that support their ongoing digital transformation. Examples include data scientists, developers, IT personnel and digital marketers. Unfortunately for banks, other industries have jumped on the digital bandwagon, resulting in intense competition for top talent.

Despite progress, banks are still often times perceived as having a 'culture challenge'. Many talented candidates prefer to work in innovative environments organized around flat hierarchies, flexible work arrangements, and without dress codes. Consequently, established banks are adapting fast to attract the necessary talent to support their digital transformations.

There are two ways banks can address this competitiveness issue. According to the banking specialist at one of the major credit rating agencies, *banks may have to significantly augment the value of their hiring packages to compete with fintech or BigTech firms. Alternatively, it may mean that instead of job cuts, banks invest in retraining existing staff to cover their digital gaps.*

Recruiting the right leadership at a bank is also crucial to support the digitalisation push. A survey published by Deloitte showed that more than 80% of financial institutions believe their organization is effective or only somewhat effective at developing leaders that can keep up with the rapid pace of change. This means that banks are increasingly having to prioritize non-traditional skills when recruiting managers, including tech fluency and the capacity to inspire a diverse and inclusive workforce across office and virtual environments.

5.3. The Battle for Efficiency

Banks have to weigh the cost of reducing staff in order to bolster profits against keeping staff to support areas of revenue growth. How to strike this balance is not always obvious. One option is to move the bulk of banking services online in order to reduce front-office staff. As already discussed, this strategy is not always effective at reducing employment costs as it may necessitate the hiring of more highly skilled IT staff who command higher salaries than those jobs made redundant by new technology.

It is also important to underline that the adoption of new technology does not automatically signal a client's indifference to a human touchpoint. Indeed, numerous studies show that most clients prefer a hybrid approach to their banking experience, relying on technology for everyday tasks while still valuing human advice and assistance for more sophisticated or sensitive money matters.[107] In such situations, banks need to be careful about ensuring that they utilise technology that enables staff to focus on high-value tasks in order to maximize efficiency.

Lastly, indemnisation costs may make it difficult for banks to realize efficiency gains from employee rationalisation. One reason for this is the redundancy costs associated with firing staff, which can be considerable in some jurisdictions. As well, the competitive labour market may make hiring employees for other understaffed departments expensive. For this reason, some banks have found it more cost effective to invest in retraining and reskilling existing employees. Although not specifically focused on the banking sector, according to McKinsey, fully 94 percent of those surveyed in Europe insisted the answer would either be an equal mix of hiring and retraining or mainly retraining versus a strong but less resounding 62 percent in this camp in the United States (surveyed company executives asking about how they would address the skills gap related to automation/digitalisation over the next 5 years).[108] As well, a World Economic Forum (WEF) cost-benefit analysis concludes it is in the financial interest of US employers to upskill at least 25% of employees at risk of losing their jobs. This estimate could rise to 45% if businesses work together to create economies of scale in upskilling employees, the World Bank argued recently.

Within the financial sector, WaFd Bank (formerly Washington Federal) partnered with MX to train their employees on becoming personal bankers who guide customers toward financial health. To do this, WaFd introduced the MX FinStrong program –which educates users about the essentials of financial wellness – to all 1,800+ of their employees. This not only trained bank employees on how to offer financial literacy to customers, but it also helped employees improve their own financial health. One more example worth noting, JPMorgan Chase has dedicated $350 million to job retraining and has started a program named "Skills Passport" to help team members map their skills to new job opportunities at the bank and then receive guided training to move into those new opportunities.[109] On the opposite side of the spectrum, Lloyds cut 6,000 jobs while simultaneously advertising for 8,000 new jobs but did allow axed employees to apply for these jobs.[110]

These battles are important, but not at the cost of social disruption, in particular at times of economic crises, as seen at present. Indeed, even in the face of additional profitability pressures, there have been several notable examples of banks opting to uphold their social responsibilities and maintain staff levels, rather than pursuing employee rationalisation.

Section VI: Conclusion

COVID-19 is accelerating the transformation already underway within the banking sector, primarily being driven by digitalisation and regulatory changes. These trends will pave the way for retraining existing employees and on-boarding new staff with new skills. Within the course of this process, some traditional banking jobs may face redundancies, but this should be viewed as part of the natural evolution of the sector. The crisis has also expanded the social role of banks, which could create new types of jobs to support this broader community focus. Additionally, employee segmentation may result in the reconstitution of teams and even departments, leading to an increased demand for staff with particular skills previously overlooked by the banking sector.

At the same time, the sector cannot ignore the significant economic effects of COVID-19, which could continue to weigh on banks over the medium- to long-term. The path of NPLs may means that banks may have to scrutinize even more intensely cost rationalization measures. As well, the psychological and economic consequences of this crisis may have a prolonged impact on demand for credit, particularly in the case of millennials, who have been impacted by this crisis as well as the Global Financial Crisis.

Going forward, banking sector employment will continue to face challenges, but within the overall context of significant opportunities for those banks that are willing to embrace change, supporting banking sector jobs in the near- to medium- term.

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Appendix: Employment Outlook for BigTech and Fintech

A.1. Fintech Hired Throughout the Crisis

Fintech employment has been more resilient than that of the general banking sector during COVID-19. Robert Walters, an international recruitment firm, calculated that just 2% of jobs across the fintech sector were immediately under threat due to the pandemic compared with 22% in the wider economy.[111] Likewise, data from Otta.com, a website that tracks employment trends at start-ups, found that between March and April, recruitment at fintech firms had fallen 47% compared with 53% among banks.[112] Notably, Revolut, one of the biggest neobanks, continued hiring throughout the crisis as they expanded into North America last spring.[113]

More recently, hiring trends have rebounded strongly in the fintech sector. Recruitment has tended to focus on areas such as automation, cyber security, app development and digital payments.[114] Importantly, these are many of the same areas where banks are also looking to hire, indicating increased competition that could result in wages rising for the most in-demand talent. Another area where jobs may be shifting to fintechs/BigTechs from traditional banks could also be within the compliance sector, where precisely the expertise of traditional banking sector employees may also be in high demand.

A.2. Reduced Funding Could Decrease Hiring Among Some Fintechs

While historically, the increased flexibility and flat hierarchies associated with fintech firms gave them a competitive edge, decreased funding in the start-up scene could mean younger firms are outbid by more mature fintech companies or even banks. Forrester, a market research group, calculates that the global fintech sector raised just $6.34 billion in the second quarter of 2020, less than half of what was raised in 2Q2018.[115] Venture capitalists have been funnelling most of these funds into late-stage start-ups in areas such as digital banking, lending, and payments.

There are two potential consequences of the contraction in VC funding that could impact banking sector employment trends. Firstly, while the competition for talent is expected to intensify, it may be increasingly concentrated among more mature fintechs and the traditional financial institutions. With fewer firms to compete with, banks may find they have a better chance of attracting the best candidates.

Secondly, reduced funding may create opportunities for consolidation, where more mature fintechs or even banks acquire cash-strapped fintechs. The extent to which this would impact job creation or job losses is uncertain. It is possible that mergers reinvigorate an acquired start-up, providing them with the necessary support to expand hiring. Alternatively, if the merging firms have considerable overlap in terms of their operations and types of services or products, consolidation may lead to job losses.

A.3. A Digital Edge Does Not Guarantee Employment Growth

Overall, the fintech sector is expected to benefit considerably from digitalisation trends accelerated by COVID-19.[116] Unlike banks, fintechs do not have to wrestle with multiple legacy systems but instead have invested widely in cloud-based systems, digital collaboration tools and automation. This is expected to give them a commercial advantage, which through increased revenue, would stimulate hiring.

That said, this digital edge may not be sufficient for certain fintech segments where their smaller size makes them more vulnerable to economic shocks than their peers in the established banking sector. Like banks, lending fintechs have seen a significant increase in requests for forbearance and relief.[117] In cases where these firms are highly reliant on transaction volumes for revenue and cash flows have shrunk, their long-term viability may become doubtful, leading to job losses over the near-term.

A.4. Fintech Bolstered Its Reputation Through Social Initiatives

Much like established financial institutions, fintech firms also acknowledged their wider social role during the pandemic.[118] For example, PayPal waived fees on chargebacks and instant funds transfers from PayPal business accounts to bank accounts. Additionally, Stripe's payments platform has fast-tracked support for telemedicine. Lastly, Revolut, along with some other fintechs, introduced a charitable-giving function on their apps to support those impacted by COVID-19. Such initiatives may help bolster their reputation with both existing and prospective users, providing a basis for future revenue and employment growth.

A.5. Mobile Payments Will Continue to be BigTech's Main Focus

In 2019, BigTech made several notable inroads into traditional financial services. For example, Facebook launched Facebook Pay while Apple introduced a credit card in partnership with Goldman Sachs.[119] These initiatives will have provided BigTech with an advantage going into COVID-19. Furthermore, their soaring market caps throughout the crisis will continue to support their financial edge over traditional banks when it comes to research and development, some of which may be deployed to deepen their presence in financial markets.[120]

Looking forward, it is highly probable that BigTech will seek to consolidate and expand its market share in mobile payments, with positive implications for employment in this segment. As contactless payments became the preferred payment mechanism during the crisis, BigTech benefited through their existing mobile payment apps such as Apple Pay and Google Pay in the West, or WeChat Pay and Ali Pay in China. For example, in the UK, as of August, 16% of adults were using mobile payment apps.[121]

There are three reasons why BigTech is likely to continue to focus on digital payments. The digital payments market is worth around $3.6 trillion, and BigTech's strength UX and UI design gives it a clear competitive advantage in this segment.[122] As well, in comparison with other banking segments, digital payments are more lightly regulated and do not require a banking license, which would subject BigTech firms to considerable regulatory oversight with negative consequences for their share prices. Importantly for BigTech, digital payments also provide them with a rich source of additional data, which is the backbone of many of their business models.

A.6. Trust Levels Remain a Hurdle for BigTech and Fintech

Despite BigTech and fintech's advantages, they could find it challenging overtaking traditional banks due to lower levels of public trust. In the UK, people are three times more likely to say they trust their bank than to say they trust BigTech.[123] Levels of trust in fintech have also been eroded by headline grabbing events involving discriminatory algorithms at Amazon or mass fraud at Wirecard. As a result, during the crisis, some customers may have actually been more comfortable relying on banks for contactless payments, borrowing and other services, with potential long-term gains for the traditional banking sector and their employees.

A.7. Partnerships with Establish Banks Are Expected to Grow

COVID-19 could encourage greater partnerships between BigTech, fintech firms and established banks. For fintech, large banks offer the benefits of capital, distribution access, and compliance infrastructure. On the flip side, fintech partnerships provide banks with digital solutions and services. Partnerships between BigTech and traditional banks are also mutually beneficial. The former is able to enter into banking segments like bank accounts and credit cards without subjecting themselves to more regulation while traditional banks benefit from the branding of BigTech. The increase in services, broader client reach, and uptick in revenue from these partnerships is expected to have a positive impact on financial services-related employment.

A.8. The Regulatory Outlook is the Biggest Risk for BigTech

Regulators on both sides of the Atlantic have become increasingly active in their oversight of tech firms. Most recently, the Department of Justice initiated a lawsuit against Google for purportedly illegally protecting its monopoly over search and search advertising.[124] This comes after years of crackdowns on anti-competitive behavior and data protection at BigTech firms in Europe. As well, EU regulators are in the midst of a legislative approval process to secure new rules on competition and content that BigTech firms operating in the block will have to adhere to.

As BigTech establishes a greater presence in financial services, it is probable that regulators will begin to turn their eye on any anti-competitive behavior that develops as a result of their growing market share. In particular, the data imbalance between BigTech and the traditional banking sector could pose an issue for regulators. While open banking regulations mean banks have to save data that can then be shared with competitors, no such requirements are imposed on BigTech. This issue has been flagged by the Financial Stability Board which is concerned that the regulatory asymmetry could result in greater concentration of market power among BigTech in those areas of financial services in which they operate.

The impact on financial services employment may not necessarily be negative. It is highly unlikely that BigTech would exit financial services altogether, especially given their success in mobile pay-ments. Instead, it may result in an increased demand for compliance staff at BigTech, mirroring the effects of the post-financial crisis regulation for big banks.

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