People + Technology: How skills can unlock value for Financial Services

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Financial Services Skills Commission

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Contents

About the Financial Services Skills Commission

The Financial Services Skills Commission (FSSC) is an independent, not for profit, member-led body, representing the UK's financial services sector on skills. The FSSC works directly with the sector to ensure that businesses have the talent and skills they need for the future.

FSSC members include 42 firms that collectively employ nearly a third of the industry's workforce.

Our overarching purpose is to increase the supply of talent and skills across the sector. We do this in two ways:

1. Supporting the development and updating of the skills of our workforce through reskilling and upskilling.
2. Broadening the pool of talent through improved attraction, retention and diversity & inclusion.

We also act as a collective voice and convenor of skills for our sector on skills matters, communicating the skills needs in our sector to government and education sector. We have created practical insights and actionable tools for FS firms to implement and adopt. These include:

- Our most recent **Future Skills Report – "Reskilling Everywhere All At Once"** explores the supply and demand for future skills in our sector.
- **Reskilling: A business case for financial services organisations** – highlights the return on investment financial services firms can benefit from when they reskill an employee versus hiring someone new with the relevant skills.
- **Skills Gap Analysis Toolkit** – designed to help Financial Services organisations identify the skills they will need for the future.
- **Future Skills Framework** – helps identify and define their future skills needs and prioritise investment in these areas for the long term.
- **Inclusion Measurement Guide** – enables organisations to measure inclusion support improving their culture and retain a skilled workforce.
- **Impact of the menopause on women's participation in work** – important research looking at the impact of menopause on women's experience of workplace and propensity to remain in work.

Our work is having an impact:

- The number of member firms adopting skills forecasting has grown by 36% since 2020, with 88% of firms using or building an approach to understand their skills needs.
- 75% of firms are using the **Future Skills Framework** to prioritise training investment and embed a skills-based approach to recruitment and promotion. 60% of members who are using the framework have reported a reduced need to recruit.

- Firms are working to deepen engagement with learning, and this is reflected in the increase in hours of non-mandatory learning across a number of member firms between 2020 and 2022.
- Our data indicates that member firms are successful in their efforts to attract and recruit females into roles, hiring females into 53% of experienced roles with a similar trend for graduate hires.
- Since our Inclusion Measurement Guide was launched 100% of members are now measuring inclusion. The Guide has been recognised by the FCA as a key tool to help more firms measure and improve inclusion amongst their workforce, helping to improve retention and attraction of talent.
- Our content is informing skills work at the World Economic Forum, the Institute for Apprenticeships and Technical Education, Mayoral Combined Authorities and Chartered Professional Bodies.

Executive summary

The UK's financial services sector has been transformed over the last twenty years by technology, globalisation, the global financial crisis, the pandemic, the race to net zero, and changing consumer and workforce demographics: many of which continue to influence the sector today. This transformation has impacted every aspect of businesses including physical footprint, products and services and its workforce. Skills needs have shifted too as firms adapt to changing expectations and seek to maintain growth and value.

Increasing recognition that skills are integral to business success is reflected in greater ownership of skills at board and ExCo level. Action is helping to tackle skill deficits: more firms are forecasting skills needs and putting skills frameworks in place; learning hours and development of personalised learning plans have grown; reskilling programmes have been implemented.

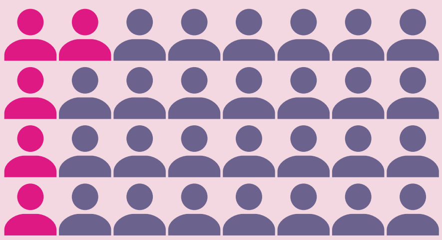
The sector has come together in the form of the Financial Services Skills Commission, a collaboration of 42 firms from across the sector to address skills gaps. Through the creation of practical, actionable content and data-led insights, we are broadening understanding of skills challenges and solutions.

While progress is being made, we should not underestimate the scale of the task that remains. Disruption continues to modify the skills and behaviours we need across our whole workforce and this challenge can't be solved by recruitment alone. Most of the people who will deliver a thriving Financial Services (FS) sector already work for us. We must grow and augment their skills, in technical areas such as AI and cyber, in sustainability and in inherently human skills such as empathy, creative thinking, and adaptability. We can build a workforce which is more flexible, adaptable, creative, and agile, with learning and upskilling as a routine part of the working environment.

This report, produced by the FSSC and supported by Ernst & Young LLP (EY) and PwC UK, is the result of forty-five interviews with sector leaders, senior stakeholders, and commentators. For the first time, we have been able to quantify skills proficiency gaps and produce new insights into how our workforce is changing. The result is a series of practical recommendations which will further intensify action, create skills-based organisations that can adapt to the tech-driven, people-centred future we see approaching over the next decade.

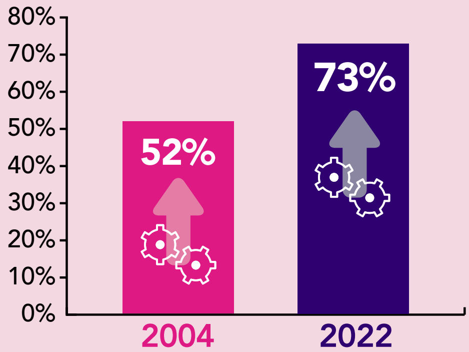
Key findings

1 **The sector already has a significant skills gap.** Investment in skills has not kept pace with changing skills needs – meaning we now have a skills and capability gap. Research by EY estimates that at least 16% of the UKFS workforce equivalent to 160,000 workers currently require upskilling, with an estimated 8% proficiency shortfall across all skills, including FSSC Future skills.

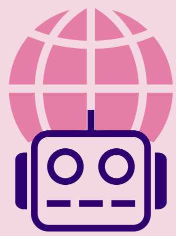


16%
currently require upskilling

2 **Demand for highly-skilled talent will continue to grow** – **73%** of roles in the sector are now highly-skilled compared with only **52%** almost 20 years ago. This trend is mirrored in other sectors, sharpening competition for highly-skilled talent.

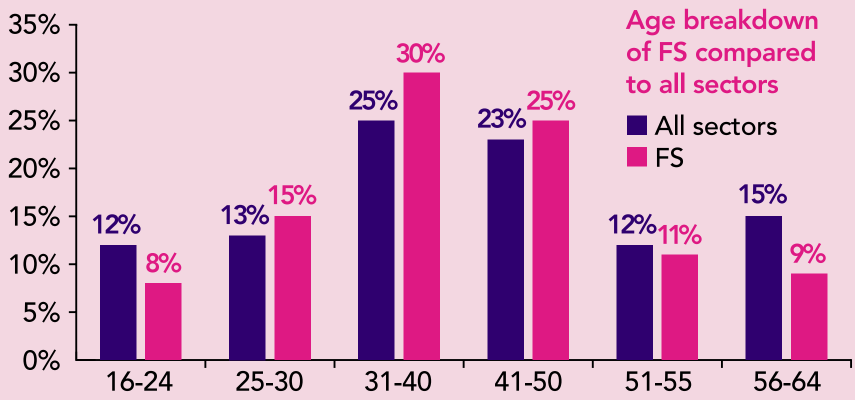


3 **Technology and AI are huge opportunities, but also disruptors.** Technology promises to remake our economy once again with FS at the leading edge of every opportunity and challenge. AI promises to change not just business models but every team, job, and the nature of many skills, the data we need, how we are regulated, financial crime and how we train and upskill people.



4 **Over the last 20 years, there has been a decline in the number and share of women employed in the industry: 51% in 2004 to 43% in 2022.** The overall decline can be attributed to both the reduction in medium - and lower-skilled roles - in which women were more highly represented – and the increase in tech roles, which data suggests are more typically held by men. While the increase of women in highly-skilled jobs is a positive trend, it isn't yet at a volume to counteract this historic trend.

5 **An aging society and workforce change means we will lose 260,000 highly-skilled people by 2035.** The FS workforce already struggles to attract younger workers and to retain older employees. 55% of our workforce is aged 31-50: we employ fewer people in the younger and older age groups than other sectors. By 2035, we will lose over 260,000 highly-skilled people through retirement and attrition.

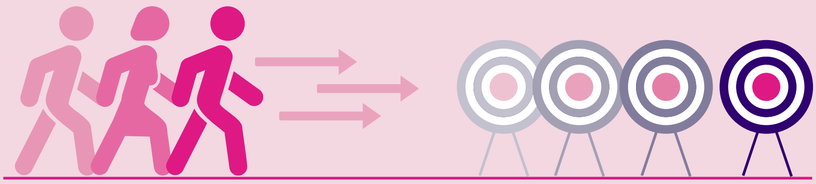


6 **Unpredictable geopolitical, economic, and social forces create shockwaves that ripple ever faster through economies.** A 'polycrisis' of recent conflicts, alongside climate change, Brexit, the pandemic, hybrid working, the cost-of-living crisis and unprecedented domestic political turmoil, have helped to undermine an established set of norms for the sector. A political retreat from globalisation and trends towards insularity threaten our ability to grow, compete and contend with the challenges to come.

7 **Customer expectations are changing meaning firms need to respond.** Changing habits and expectations of customers coupled with significant intergenerational wealth transfers creates opportunities but also requires firms to respond to changing customer needs as they manage their wealth. Protecting customers from crime and maintaining trust will remain high priorities as cybersecurity threats develop.

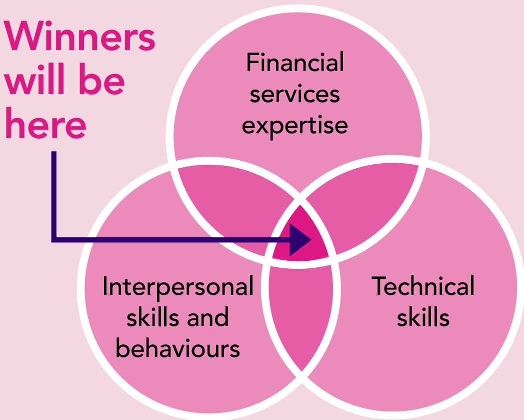
8

Current efforts to close skills gaps are not going far or fast enough. Firms are increasing efforts to address skills gaps through advancing skills forecasting, increasing non-mandatory learning and using common tools such as our **Future Skills Framework** to identify reskilling priorities. However, demand for skills is still outstripping supply so skills gaps are growing. Skills forecasting is often done with a short-term horizon and firms continue to struggle to fill business critical roles.



9

To succeed we need a fundamental shift in how we invest in our people and integrate human capabilities with tech opportunities. Tech skills will need to be combined with interpersonal skills and behaviours, as well as the need for continued expertise in the fundamentals of financial services. Customer expectations and the way we serve them will evolve. We will also need to attract those with new skills and reskill our current workforce to address a new world.



We now need action at pace and scale to reach our shared goals:

Recommendation 1: Skills are integral to business success and a driver of competitive advantage and growth.

Each firm in the sector should, by the end of 2024, ensure skills are integral to their business strategy, transformation plans and risk registers. Firms should move to become skills-based organisations over the long-term with clear leadership and accountability at the most senior level.

Recommendation 2: Clarity on skills needs through a robust data-led evidence base of existing capabilities and future skills needs that inform future business strategy.

Firms should build a robust data-led evidence base of existing capabilities and future skills needs, to inform business and skills strategies and monitor progress and impact, with robust three-year skills forecasts in place by the end of 2027.

Recommendation 3: Firms create and build the skills we need through deep reskilling, upskilling, increasing learning and building talent pipelines.

Offer deep upskilling to the 16% of colleagues with skills proficiency gaps by the end of 2025, creating a tailored skills development plan for every employee by 2026, fill more vacancies with internal candidates. By the end of 2025 grow non-mandatory learning hours from the 2022 employee average of 14.9 hours per year, alongside improving workforce inclusion and diversity and rebalancing workforce demographics, particularly around age and gender.

Recommendation 4: We collaborate to achieve transformational change.

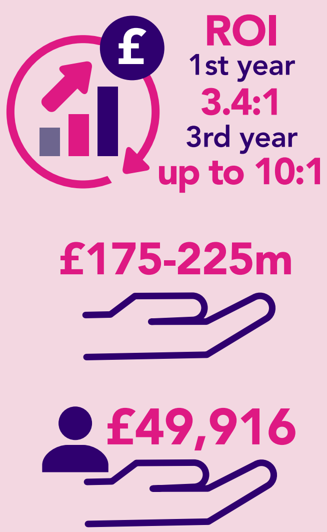
Continue to collaborate as a sector to reduce skills gaps for firms and the sector, establishing impactful relationships with education and training providers, and working collectively to engage government and others to drive a higher priority for skills in public policy.

The prizes for acting now are significant.

The sector could gain **£555.6 million** per year in additional output by closing its skills gaps, equating to **£3,339 p.a.** for each employee who has a skills proficiency gap: A return on investment of **3.4:1** in the first year, and up to **10:1** by the third year.

There is a potential cost saving of **£175-225 million** for our sector through improved retention following upskilling.

Our business case for reskilling has been updated with a saving for firms of **£49,916** for each employee reskilled in reduced recruitment, redundancy, and onboarding costs.

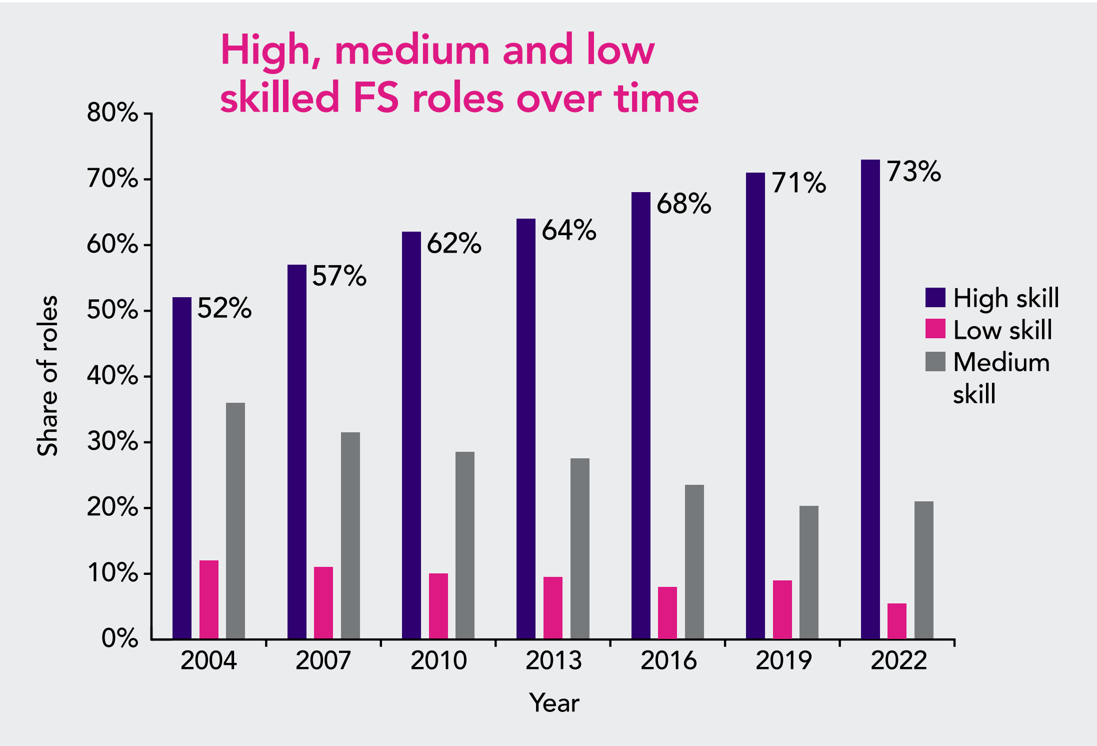


State of skills – where are we now?

The UK's financial services sector has undergone significant transformation over the last twenty years. The customer relationship with banks, insurers, building societies, and other institutions has been revolutionised by technology, changes in market structures and products and by external factors including political attitudes and regulation. The way people buy and use products is almost unrecognisable from the early 2000s, as apps replace branches and ATMs, phones replace bankcards, contactless replaces cash, and clicks replace forms. Defined by the exponential growth of available data, the sector's knowledge of customer behaviour and characteristics has been revolutionised, shifting how products are both built, marketed, and priced.

Our sector has become more highly skilled in the last 20 years

Marked by a technological shift in the last decade, jobs have become more highly skilled to take advantage of new possibilities. This growth has coincided with a reduction in medium and low skilled roles. 73% of roles in the sector are now highly skilled compared with 51% across the whole economy[1].

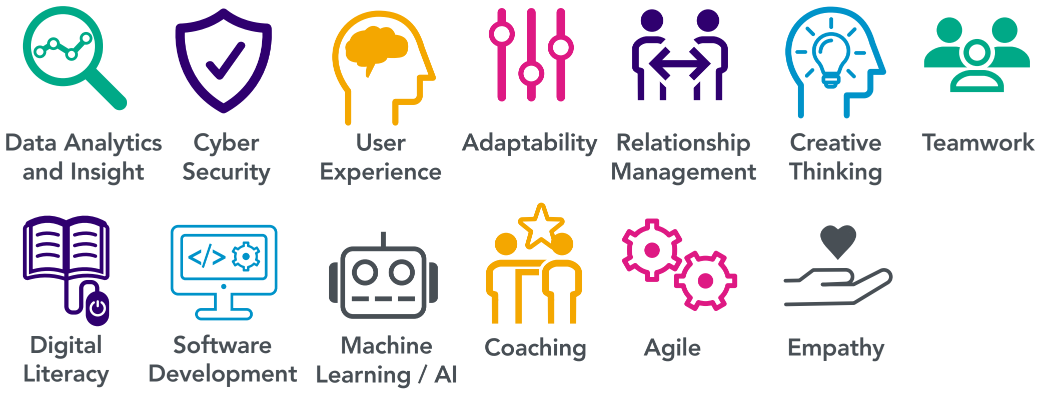


[1] Source: ONS, APS FS activities by Sex, Ethnicity & Occupation Data, Latest Data (December 2022) – user requested

The skills we need are also changing

Given this disruption it is inevitable that skills needs are changing fast. A key challenge for the sector is that, while skills become more complex, the rate at which they must evolve is increasing, the 'half-life' of a skill is now estimated to be five years[2]. The challenge for people and businesses is to identify and continually review the technical and human skills needed for now and the future.

The FSSCs Future Skills Framework contains thirteen Future Skills identified by firms as critical to business success. Vital technical skills such as Data Analysis, Digital Literacy, Software Development, Cyber Security, and Machine Learning, have emerged, but even as our lives become more digitised, core human skills such as Empathy, Adaptability, Creative Thinking and Coaching have become more important to driving growth.



Progress has been made in addressing skills shortages

Advances in skills forecasting, strategic workforce planning, increased reskilling and upskilling, the use of skills frameworks and more focus on regular periods of learning are helping the sector to shift focus onto skills as an integral part of business success. The proportion of firms forecasting their skills needs has risen from 50% in 2020 to over 80% in 2022, which is an encouraging trend given the importance of skills forecasting to a successful skills transformation.[3]

Total learning hours have increased from 20.8 hours to 23.6 hours per person between 2020/21 and 2021/22, and the proportion of hours noted as non-mandatory learning also increased to 63% from around 50% over the same period.[4]

These efforts contributed to our members reporting an increase in supply for each of the thirteen future skills in 2022.[5]

But demand is still outstripping supply

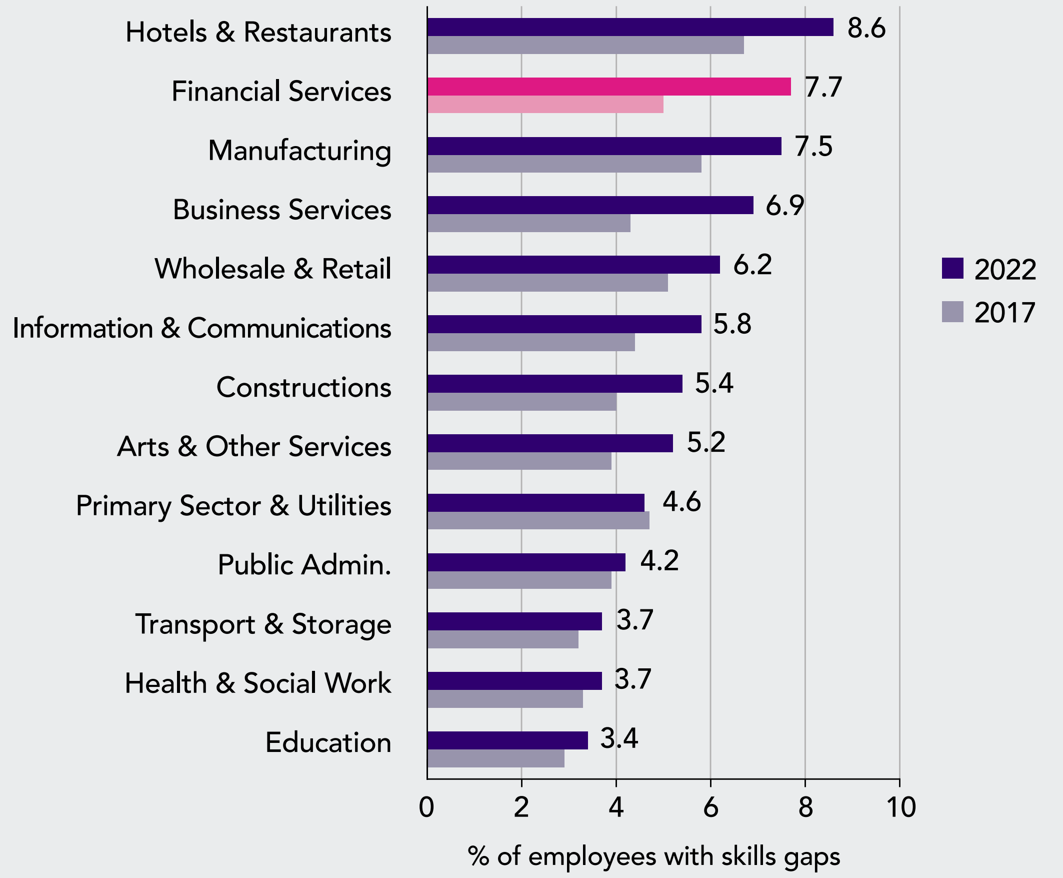
A step change is still needed to put the sector in the best possible position to face current and future challenges.

Despite efforts from the sector to tackle the challenges of changing skills demands, our data shows that the demand for skills is still outstripping the supply, particularly for technical skills, with data analysis and insights showing the greatest increase.[6]

2 Skill, re-skill and re-skill again. How to keep up with the future of work | World Economic Forum (weforum.org)
3 FSSC member data 2022
4 FSSC member data 2022, 2021 – note data isn't directly comparable due to change in sample and question wording
5 FSSC 2023, Reskilling Everywhere all at Once: skills for the future of financial services 2023
6 Ibid.

These findings are supported by recent government data. The proportion of the sector's employees with skills gaps in 2022 stood at 7.7%, up from 5% in 2017.[7] This is the second-largest skills gap in the UK economy, and the biggest among highly-skilled sectors.

Density of skills gaps by sector 2017-2022



Firms are still reporting high levels of hard-to-fill roles[8], centred mostly around our thirteen future skills. Almost half (47%) of our members found data roles hard to fill, with roles that require software development skills being hardest to retain. All FSSC members stated that they had hard-to-fill roles, an increase from 2021.

Although skills forecasting is improving, shorter-term forecasting is more prevalent – just over 30% of firms were forecasting over a three-year period, and only 20% looked ahead five or more years. To ensure the sector can respond to current and future market challenges, skills forecasting is essential: firms which forecast three years or more tend to have a much more effective learning offering.

"We're competing with multiple sectors. So if I think about technology, jobs and software engineers, we are competing with the retail sector, the technology sector and the life science sector for those types of skills."
Jen Tippin, Chief People and Transformation Officer, NatWest

7 Gov.UK, Employer Skills Survey, Calendar year 2022 (explore-education-statistics.service.gov.uk)
8 Roles taking more than twelve weeks to fill from role advertised to offer made.

New research indicates a skills proficiency shortfall

We can quantify the skills gaps that exist currently thanks to new research from EY who, utilising their Skills Foundry AI upskilling and reskilling platform and working together with Eightfold AI have analysed the supply, demand and relative proficiency[9] of skills across the FS sector. Using a sample of fifty companies across the sector, they targeted twelve talent groups, including 250 prominent roles. EY skills benchmarks and market demand analysis was used to identify in-demand skills and the required proficiency levels. Eightfold AI extracted skill prevalence and estimates of proficiency where data was available.

Using this methodology, they have investigated how different drivers of criticality apply across all the sector's skills. The resulting analysis reflects nuances of why certain skills are future critical.

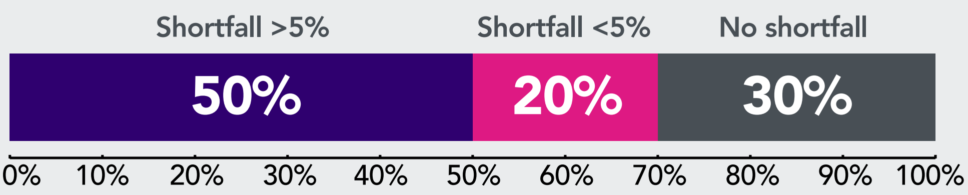
- **Supply Driven** - Skills such as cyber security which are in short supply and, even though only relevant to a relatively small number of roles, are 'critical' as they have a disproportionate impact on the sector
- **Demand Driven** - Skills such as data analysis which are increasingly relevant across a large number of roles. They are critical because of high demand across the sector
- **Proficiency driven** - Skills such as project management which, while existing in current workforces, suffer from lower than required proficiency levels. They are critical as higher proficiency levels are essential to driving sector transformation[10]

Most importantly, EY have produced a groundbreaking assessment of the overall proficiency shortfall in the sector. Based on the research by EY we can estimate the following key implications for skills in the UK FS sector:

- Assuming the skills gap is equal to the percentage of FTE employees who require upskilling in each talent group, at least 16% of people within the overall sample require upskilling of at least one skill to meet the proficiency demands of that skill for their role.
- Of the skills which have a shortfall, the average shortfall is 8% (9.5% for the FSSC Future skills and 10% for additional skills).
- The percentage of skills that have a shortfall is 70%, almost half have a shortfall greater than 5%.

At least 16% of FS workforce needs to be upskilled

Proportion of skills in FS with proficiency shortfalls

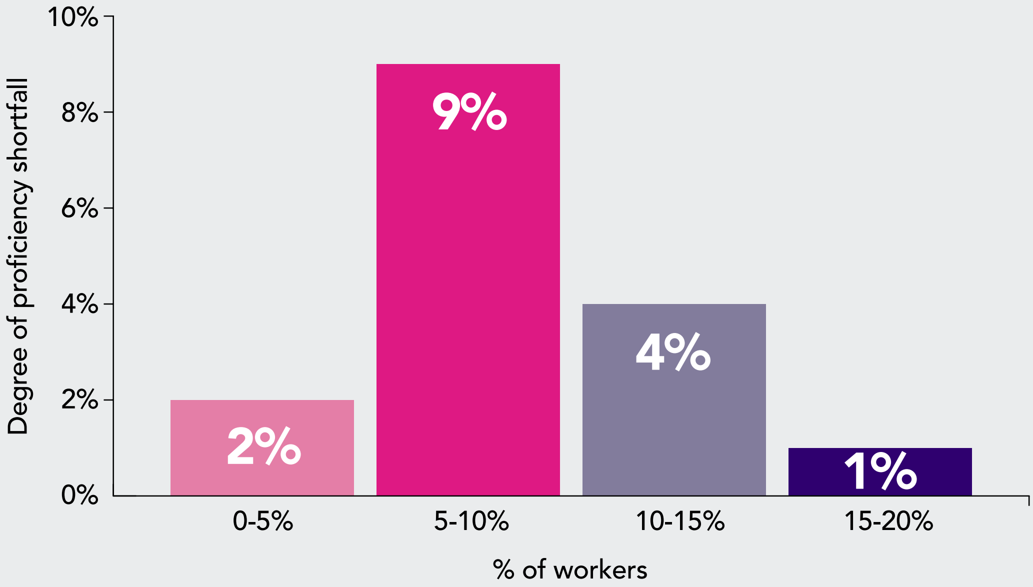


Source: EY Skills Foundry and Eightfold AI, based on a sample of 50 firms and current skills of 13,000 profiles

[9] Skill Proficiency shortfall is defined as the difference between actual vs targeted degree of competence (expertise and experience) for a skill, measured between 0 and 1.

[10] The FSSC will present more of the findings on supply and demand of skills in its 2024 Future Skills Report, along with the results of its 2023 member survey.

Share of workers with skills proficiency shortfalls by degree of shortfall



Source: EY Skills Foundry and Eightfold AI, based on a sample of 50 firms and current skills of 13,000 profiles

Although talent is available through the UK, leadership roles remain concentrated in London

Despite perceptions of the sector being London-centric, two thirds of jobs in financial services are distributed across the UK in cities including Edinburgh, Birmingham, Manchester, Cardiff, Belfast and Leeds. However, the occupations and roles located in each city and region are not evenly spread, with nearly half of the most senior roles located in London and the Southeast. This can draw talent to London, which impacts on regional talent pools.

The various national and regional financial centres across the country are vital to the overall success of financial services firms and the sector as a whole, and employers with multiple regional offices and London-based HQs face fewer challenges when it comes to recruitment.[11] Employers in the FS sector are increasing their regional presence to draw on highly skilled pools of talent, as well as align themselves with employee requests for geographic flexibility as new ways of working offer some solutions to skills gaps.

The Yorkshire and the Humber Financial and Professional Services Skills Commission

The Yorkshire and the Humber Financial and Professional Services Skills Commission was established in March 2023 with the aim of creating a shared understanding of what skills financial and professional services employers in Yorkshire and the Humber require; a vision for how businesses, education providers, local government and others can work together to develop them; and a plan for delivering this vision. Led by John Heaps, Chairman of Yorkshire Building Society, and supported by a range of Commissioners, including from the FSSC, the Commission expects to publish its report in early 2024.

11 FSSC & PBSC, 2021, Skills for Future Success: How financial, professional, and business services can address skills challenges to deliver recovery and growth in UK regions and nations.

"Financial and professional services have the potential to play an even more central role in Yorkshire – generating further growth and innovation for our region. Political leadership, investor confidence, and local infrastructure are essential ingredients to make this happen. But the most important factor is our people."
John Heaps, Chairman, Yorkshire Building Society

"Firms should recruit based on skills and capabilities needed for a role, not based on experience and job title. 75% of our people are in a role today that they didn't start in when they joined the company. It's imperative to build flexible skills and encourage internal mobility."
Nigel Terrington, CEO, Paragon Banking Group

The sector should look internally to source talent

The National Foundation for Education Research (NFER) predicts that the FS workforce will shrink slightly by 2035 because of the effects of automation,[12] and that this factor is expected to drive a change in the nature of roles in the sector. At the same time, the number of highly skilled roles in the sector is expected to continue growing by 3-6% by 2035.[13]

We will have to compete for tech talent with a range of other sectors going through similar transformations, tightening labour markets further to the extent that skilled people are so costly to employ that building and renewing our skills is a cost-effective option. Our previous research with PwC identified that reskilling staff can produce cost savings of up to £49,916 per employee compared to recruiting or making a role redundant[14]. Reskilling and upskilling our workforce will support a focus on retention and internal mobility.

Working practices have changed for good

The Covid pandemic rapidly advanced hybrid working in FS, which is now ingrained across all firms and the UK economy and workforce as a whole: 1.9million (6%) workers employed in the UK intend to work from abroad for at least part of this year.[15] Hybrid has become a key factor in attraction and retention for many employees who may be juggling caring responsibilities, cost pressures and seeking a better work-life balance.

The rapid shift to hybrid working exposed digital skills gaps[16] and required a new approach to leadership and management. Longer term impacts on learning and development, especially for those early in their careers are less well understood but the potential loss of high-quality collaboration time, of learning from and developing with colleagues and the value of forming personal relationships must be factored in.

This section has examined how FS adapted to the forces that have shaped the last two decades. We need to look ahead to the megatrends that will impact financial services over the next ten to twenty years and the changes they will bring, which are likely to be on a scale at least as massive as those that came before.

12 The Skills Imperative 2035: An analysis of the demand for skills in the labour market in 2035 - NFER
13 NFER, Skills Imperative 2035, UK Main Tables; PwC analysis 2023
14 FSSC 2022, Reskilling: A business case for financial services organisations.
15 https://www.cityoflondon.gov.uk/assets/Business/cross-border-remote-working.pdf
16 FSSC & KPMG 2020, The Future of Work: Lessons from a pandemic

Megatrends: shaping our sector's future

Our interviews with industry leaders have identified four megatrends that are driving the skills challenges we face now and in the coming years. The megatrends that are driving change in our sector are inter-connected and interacting: they do not operate in isolation.

- **Workforce demographics**
- **The changing customer**
- **Technology**
- **Global uncertainty**

Workforce Demographics

Building and maintaining a pipeline of talent to meet future skills needs and customer needs is critical to business success. Understanding the characteristics of our workforce is essential and enables purposeful activity to target skills gaps.

FS faces some specific and challenging workforce demographics within our workforce and the wider UK workforce, which will affect every aspect of businesses and their ability to attract and retain talent.

Although FS is one of the few sectors expected to shrink slightly (-1.2%)[17] over the next twelve years, employers will have to navigate a series of workforce pressures:

- Employment growth in other sectors will increase competition for talent.
- 1.4m more people will retire from the UK workforce over the next 17 years than will join, reducing availability of talent and experience[18]
- FS is set to lose over 260,000 highly skilled people by 2035 through retirement and attrition[19]
- While FS numbers as a whole are forecast to decrease, numbers in professional and managerial roles in FS will increase by between 22,000 and 46,000 by 2035[20]

Within FS specifically, the current and future demographics of our workforce will exacerbate talent shortages and restrict the supply of talent.

17 NFER, Skills Imperative 2035, UK Main Tables
18 Missing workers - Learning and Work Institute
19 FSSC analysis of ONS data (BRES, monthly employment data and APS user requested datasets on age, job movers by skill level and employee turnover)
20 NFER, Skills Imperative 2035, UK Main Tables; PwC analysis, ONS BRES 2022 data

Age – younger workers

Only 8% of the FS workforce is aged under 24, compared to 12% of the general workforce, and the sector's employment of younger workers has declined by 33% since 2008.[21]

Employment of graduates halved as a percentage of the total student population between 2000 and 2015, a period when total student numbers rose by 66%.[22] This reduction in graduate recruitment runs counter to the growing number of highly skilled roles in the sector.

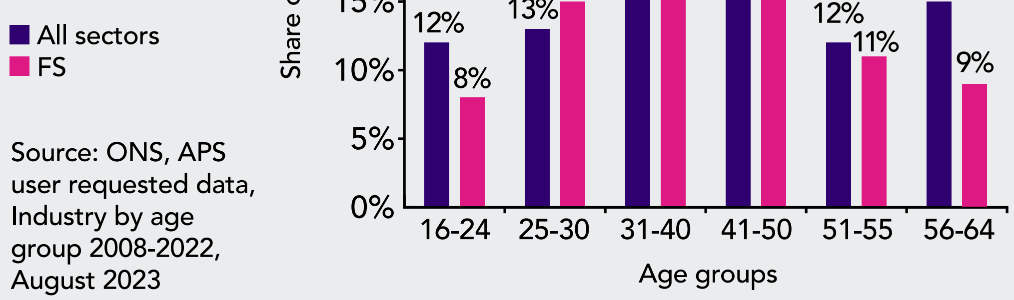
Age – mature workers

FS has seen a growth in its workforce aged between 56 and 64 from 6% to 9%, but this has simply kept pace with the growth of the overall population, and still lags more than 6 percentage points below the UK workforce average[23].

Around 14.5% of the current FS workforce will retire by 2035[24], meaning we will lose employees with deep FS expertise which we will need to replace with external hires and internal who may require significant upskilling.

FS has a significant 'bulge' aged between 31 and 50, and 55% of our workforce sits in these age ranges, compared to 48% of the overall workforce.[25] This opens up more risks due to the sector's poor record on retaining workers past 55.

Age breakdown of FS compared to all sectors



Source: ONS, APS user requested data, Industry by age group 2008-2022, August 2023

"Our workforce is becoming more diverse and we should now be focused on ensuring our businesses are inclusive as possible to increase the talent and skills pool, boosting innovation and productivity."
Tim Bailey, CEO, Zurich UK

21 ONS, APS user requested data, industry by age, 2008-2022, August 2023
22 First destination of students obtaining first degrees in UK by subject and SIC employer, www.hesa.ac.uk
23 ONS, APS user requested data, industry by age, 2008-2022, August 2023
24 FSSC analysis based on ONS, APS user requested data, industry by age, 2008-2022, August 2023
25 ONS, APS user requested data, industry by age, 2008-2022, August 2023

Sex & Gender

The proportion of women in the sector has dropped to 43% from 51% in 2004. This correlates to the loss of medium and lower-skilled roles in which women were better represented.

Over the same period, there has been an increase in the number, but not the proportion of women working in higher-skilled roles. Women hold 1/3 of highly skilled roles which now make up over 70% of roles in FS[26].

This means there is more to do to access this significant talent pool, sharpening competition for highly skilled talent with other sectors.

Ethnicity

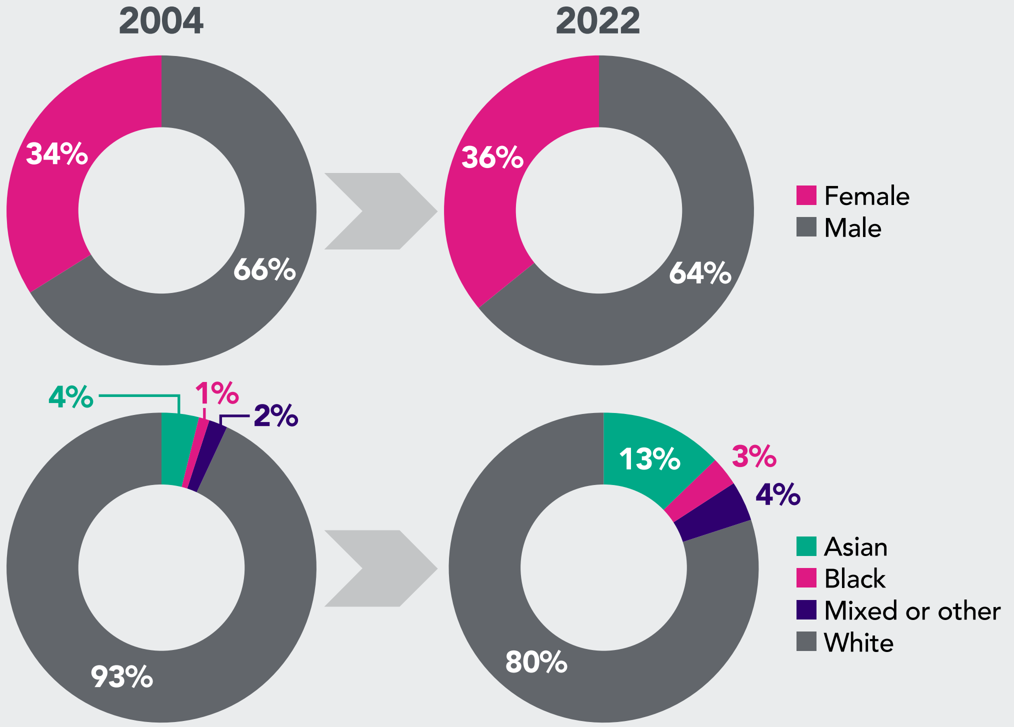
Although FS employs just under 200,000 workers from Black, Asian and Mixed/other ethnic background, many of them are employed in highly skilled roles.

Almost half (47%) of Black and 43% of Asian colleagues are employed in professional and managerial roles - a higher share than for White workers (36%).

FS has the highest level of ethnic diversity (19%) among managers and directors - well above the average for other sectors (11%). This is driven by a strong representation of managers and directors from Asian backgrounds[27].

Employers will want to continue efforts to retain and attract workers from diverse backgrounds, especially those from Black backgrounds.

Gender & ethnicity breakdown of highly-skilled roles over time



Source: ONS, APS user requested data, industry by occupation by sex, ethnicity 2004-22, August 2023

[26] ONS APS user requested data, industry by occupation and sex, ethnicity, 2004-2022, August 2023
[27] Ibid.

Socio-economic diversity

In FS on average, 50% of employees (across all levels of seniority) are from a higher socio-economic background, compared with 37% in the UK workforce and socio-economic diversity decreases significantly as seniority increases[28].

People from lower socio-economic backgrounds take on average 15% longer (or 1.3 years) to progress from middle to senior roles, compared with their peers from higher socio-economic backgrounds[29] meaning firms need to address progression of diverse talent as well as recruitment to access diverse talent.

Churn and employee turnover

FS faces significant labour market turnover risks too. 36% of UK FS respondents surveyed stated they were very likely to move to a new employer in the next twelve months, 10% above the average.[30] 9% of FS employees change employer each year.[31]

The WEF has estimated labour market churn for FS at 26% over the next five years.[32]

While a certain level of churn is to be expected, the data indicates that FS will have to work harder to retain talent and attract new employees from within FS and from other sectors.

"Demographics is an important factor in the shape and needs of the workforce as we plan ahead. One clear challenge is an increasingly ageing workforce in all the larger economies of the world, and an increase in those choosing to retire early since the pandemic. Recruiting, understanding the right value propositions, and providing opportunities for older workers to engage and work longer is important for businesses as it is for individuals and societies."
Peter Cheese, CEO, Chartered Institute of Personnel Development

Supporting menopause transition

128,000 women, or 1 in 10 employees, working in the financial services sector are currently going through the menopause. For almost half of employees experiencing the menopause, it makes them less likely to want to progress in their role. For a quarter it is the reason they are more likely to retire early.

The FSSC has developed **insights and resources** identifying how firms can support employees with menopause transition.

28 Progress Together and Bridge Group, 2023, Shaping our Economy: Senior roles in financial services and socio-economic diversity.
29 ibid
30 PwC *Hopes and Fears Survey*, 2023
31 FSSC Member Survey data 2022
32 WEF, *Future of Jobs Report* 2023

The Changing Customer

The sector's retail customers continue to evolve in their characteristics, needs, expectations and habits and the sector must respond to these changes.

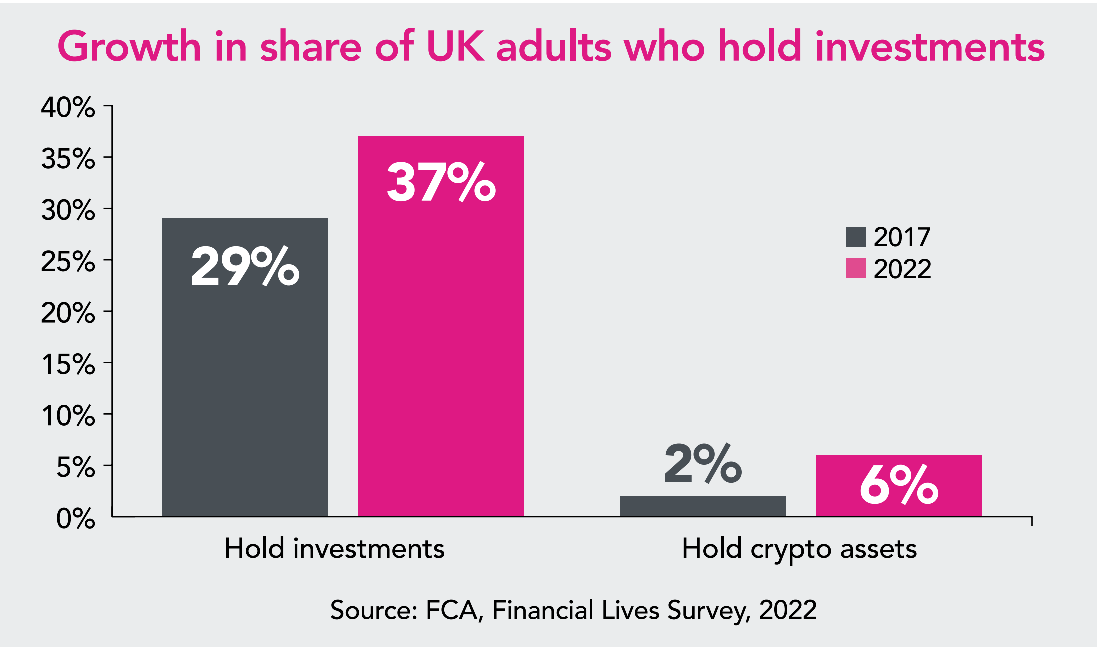
Just as we increasingly think about meeting the needs of a multi-generational workforce, we will need to apply the same thinking to our customers. This manifests itself in different ways. For example, as interest grows from investors in the use cases for systemic stablecoins and Central Bank Digital Currencies, cheques and cash still remain a key means of payment for some demographic groups.

In terms of wealth, we have seen median net wealth grow to £302,500 in 2018/20 – a real terms increase of 20% compared to 2006/08.[33] Much of this increase is in older demographic groups, who have been through the accumulation phase of building housing, pension and other financial wealth. Firms can therefore help their older customers manage the decumulation phase with advice on saving and the use of a defined contribution pension pot.

At the same time, there is the opportunity to support younger customers through their accumulation phase as they juggle competing short and long-term financial goals. The UK's shifting demographics and levels of personal wealth are central to this concept. While the population ages, its wealth is becoming less evenly spread across the generations. Estimates suggest £327bn will be transferred by 2032 from one generation to the next in the form of housing and other assets[34], with further huge transfers to follow over subsequent decades. Factoring in the shift from defined benefits to defined contribution pension schemes, more people will need help to actively manage their existing finances and plan their future.

£327bn will be transferred by 2032 from one generation to the next in the form of housing and other assets

This will increase demand for financial planning and advice with customers increasingly expecting to access this via tech platforms. Technology will help us deliver this and will augment great customer service skills



[33] Household total wealth in Great Britain - Office for National Statistics (ons.gov.uk)
[34] Are you ready for 'The Great Wealth Transfer'? | Barclays Smart Investor

Trust in FS remains a core issue. 50% of customers report low levels of trust in financial services overall. 54% of respondents believe that their trust would be improved if there were improved customer protection (54%) or legal consequences for activities that lose customers' money (49%).[35]

Customers have high levels of concern about some core issues that go to the heart of what our sector does for them: becoming a victim of fraud/scams (53%), handling personal data (43%), lack of protection for customers if things go wrong (42%). Research by McKinsey shows customers' concerns about cybersecurity are paramount with 87% saying concerns about data security would end their business relationship with a company.[36]

"We've got to transform, to become customer-engaging companies that are customer not product-centric. We must talk their language from a service rather than a product perspective. This is probably one of the biggest shifts in skills and capabilities that we need."
Andy Briggs, Group CEO, Phoenix Group

Technology

FS & Tech expertise will be increasingly underpinned by core competencies such as agility, creative thinking and relationship management, that will enable the sector to innovate and navigate ongoing uncertainty and change. The future will be about skills not jobs.

The future success of financial services will depend on its ability to make the best use of existing and emerging technologies. Digitisation and automation are fundamentally reshaping how firms work, and the way customers interact with them.This is not a new trend, firms are already dependent on advanced technology, and the disruption (in a positive sense) they bring to the sector is the norm. However, the pace of change requires continual adaptation and adoption to realise the positive opportunities on offer.

The prevalence of tech and digitisation will continue to dominate and disrupt the sector with the pace of change likely to increase. Access to generative AI tools by all workers will create a seismic shift in how tasks are completed e.g. rapid analysis and insight generation and create new tasks e.g. AI trainers and AI compliance and changing ways to respond to customers' expectations and needs.

"Access to a Large Language Model means approximately 15% of all worker tasks in the US could be completed significantly faster at the same level of quality."[37]

Beyond the focus on AI, other burgeoning technologies bring their own challenges and opportunities, such as cloud, cyber-security, robotics, quantum computing and blockchain.

[35] Although many express much greater trust in their own bank, 2023 Edelman Trust Barometer | Edelman Smithfield
[36] Consumer data protection and privacy | McKinsey
[37] OpenAI: GPTs are GPTs: An Early Look at the Labor Market Impact Potential of Large Language Models (Eloundou, Manning, Mishkin, Rock) March 23, 2023

> "AI is going to play a huge part in our lives going forward. It will automate some processes and free up time to deploy in other areas. We can then use our talent to help customers in a different way – upskill our workforce in sustainability, tech and data to deliver a better service."
> **Ian Stuart, CEO, HSBC UK**

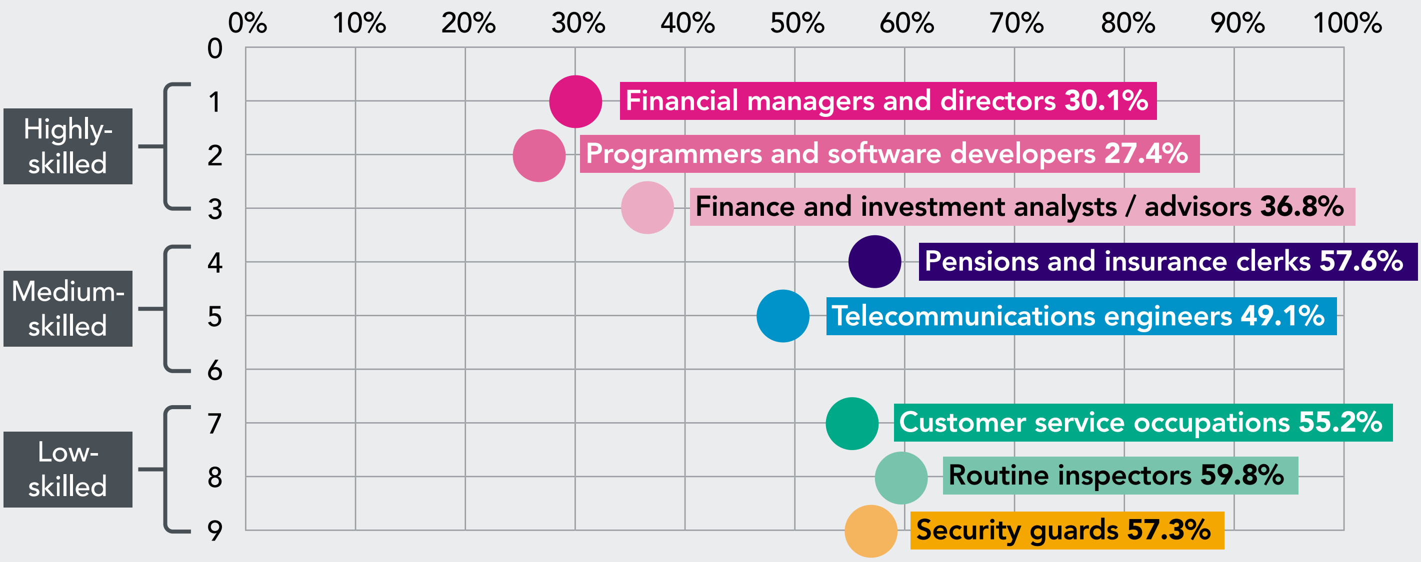
In tandem, many organisations need to manage legacy technology, where the business case to re-platform is weak.

Few, if any, job roles will be left untouched by ongoing tech innovations, as the chart below illustrates. Even for highly-skilled roles such as financial analysts, there is 37% automation risk, rising to 55% for customer service occupations and 58% for insurance clerks. While details are emerging on how exactly roles will change, there is widespread acceptance that the knowledge, skills and capabilities we need our people to have will change.

> "We're seeing the potential for AI to play an integral role for us going forward. We're all currently at a relatively early stage on AI, trying to find the right balance between where the opportunities are and what risks come with that. AI creates the potential opportunity for us to improve customer journeys and to improve our modelling capabilities."
> **Tim Bailey, CEO, Zurich UK**

Automation risk of FS roles by occupation group/skill level

(for highest-volume role in each category excluding where jobs <1,000)



Source: FSSC analysis of ONS data, Occupations at highest risk of automation, 2019

There is also huge potential to change how we forecast skills and deliver upskilling and reskilling. Enhanced data and analytical capabilities will enhance strategy and planning and tools that enable us to learn in the flow of work have potential to transform learning.

"AI will create jobs. Many tasks will disappear but cognitive skills will be geared towards humans. This i s where skills will be needed."

Ajay Vij, Vice President, Strategic Industries, Google Cloud, EMEA, Google

Artificial Intelligence and Financial Services: Opportunities and Impacts

FS is likely to be the sector that experiences the largest transformation from AI, given its high volume, tech-based and data-driven nature and its penetration to this point. We expect it to impact across the entirety of FS operations, replacing some roles but creating others, augmenting current skills and helping to train the workforce too.

Many gains will be made through improved productivity and automation of tasks freeing up workers to focus on other activities. McKinsey estimates that half of all todays work activities could be automated between 2030-2060 and that the US banking sector could see increased annual productivity of 2.8% to 4.7% or $200 billion to $340 billion.

There will be potential enhancements to many aspects of the FS sector:

- Rapid assessment of data speeding up generation of insights to enhance decision making, marketing etc.
- Enhanced capacity to analyse data and insights, e.g. on customer behaviours to provide more personalised products, pricing and risk management.
- Ability to improve software and tech solutions.
- Rapid analysis of customer feedback.
- Potential to improve regulatory reporting and compliance.

There are also potential advances in learning and development.

- Analysis of data at scale to identify skills and capability gaps at speed supporting strategic workforce planning.
- Insights into capabilities to enable creation of personalised learning pathways.
- Ability to provide learning 'in the flow of work'.

The integration of AI tools and insights will change the tasks we need our people to undertake and the skills they need to deliver. The shift will create a culture that teams humans with AI. The skills that will be required for this include:

- Critical thinking
- Empathy
- Problem solving

New skills that will be in demand will include work to ensure the relevance and accuracy of AI generated output, e.g. AI ethicist, AI compliance, AI trainer. It follows that these roles will require a deep knowledge of FS processes, systems and regulation that can be applied to new technology which can be achieved through reskilling and upskilling of existing FS employees.

Sources: Goldman Sachs Economics Research, March 2023; McKinsey Global Institute Research, July 2023; EY insights 2023.

> **"We are all on the path of upskilling when it comes to use of AI. How people use AI ethically and safely so that it supports their job role, is a key issue for CISI and its members. AI will be critical to managing organisational and client interactions, compliance and managing risk."**
> **Tracy Vegro, CEO, Chartered Institute of Securities and Investment**

Global Uncertainty

Financial services that grew through globalisation and political stability are now facing the consequences of the end to the more uncontrolled phase of globalisation into a new chapter alongside greatly increased levels of global uncertainty.

Globalisation and openness to trade helped make the UK into a world-leading financial centre, with UK headquartered businesses in banking, insurance and asset management operating across the world and branches and subsidiaries of our major competitors hosted in the UK. Supply chains around the world service customer needs 24/7. Visas and free movement provisions brought access to talent from overseas. Globalisation has been underpinned by communication across digital networks but this settled mode of business has come under pressure in recent years.

The phase of globalisation in recent decades was driven by a view that open economies created benefits across the world, an approach challenged by the growing perception that the benefits of globalisation were not evenly distributed, that free movement brings challenges as well as opportunities and did not in the end lead to peaceful co-existence between great powers like the USA and China. In the UK, we saw that manifested in part in the outcome of the Brexit referendum. More broadly we see increased focus on protectionism in relation to trade between blocs. A polycrisis (defined as a simultaneous occurrence of several catastrophic events) seems in effect following Russia's invasion of the Ukraine; growing tension between the US and China; and conflict in the Middle East all happening at a time of global climate crisis. Business leaders are increasingly focused on managing and responding to global uncertainty.

These events require firms to focus on their resilience and adaptability. For example, sanctions following the war in Ukraine required firms to assess and respond to their exposure to Russia and Russian customers, talent acquisition strategies have been complicated by visa tightening, and offshoring of operations has flexed into near- or 'friend-shoring' as firms adjust to greater geopolitical uncertainty.

But some uncertainty has brought opportunities: while the world grapples with very real and almost constant impacts of climate change and nature loss, financial services is helping to fund the transition to net zero and biodiversity: both through the projects it is financing but also by expecting its business and suppliers to curb their emissions and invest in nature. Sustainability is a growing necessity, a business imperative and political priority that forces us into action – and our response to it will need creativity and innovation across the piece, with skills in these areas fundamental.

Sustainability and Green Jobs

Decarbonising the economy and the transition to net zero is bringing about seismic change for every sector, and FS has a central and positive role. Providing products and investment to finance the transition towards climate and nature positive mean the application of many skills in a new way, and our sector must be ready. PwC's forthcoming report on green skills in financial services as part of the Green Jobs Barometer gives crucial insight into what is happening and how we will need to act.[38]

- Green jobs grew from 4,900 (0.25% of all vacancies) in 2019/20 to 16,700 (2%) in 2021/22. Given the investment needed in the UK and globally, this growth is expected to accelerate.
- London has most green jobs, but Scotland has the highest share of its FS work going green at 3%, London is close behind with a green job concentration of 2.3%.
- Demand for green jobs in finance is increasing across all regions but it is not equal: London accounts for 7000 green jobs demand, but Northern Ireland has just 100.
- Most FS leaders believe the industry isn't doing enough to close the green skills gap.
- Graduates with sustainability skills would only fill 1600 of nearly 17,000 green job vacancies in 2022. Upskilling and reskilling is needed.

Continued over...

"Sustainability must be a top three issue, both in terms of consumer attitude, particularly from young consumers who are asking, are you a business that I want to buy from? But also from an employee perspective, are you a responsible, purpose-driven employer? Then I want to work for you."
Kevin Ellis, Senior Partner, PwC UK

"The transition to a sustainable economy represents the great transformation growth opportunity of the 21st century. Prioritising reskilling to equip employees with the required knowledge and skills to enable the transition to net zero is essential and will position the UK financial services sector to deliver on sustainability goals."
Keith Bottomley, Deputy Policy Chairman, City of London Corporation

[38] PwC analysis as part of the Green Jobs Barometer series

How the green transformation is affecting existing FS roles

- Insurers face the heightened significance of environmental risk assessment and climate risk analysis for underwriting processes and are increasingly hiring professionals skilled in data science, artificial intelligence, and machine learning.
- C-suite leaders in banking are making sustainability issues core to business strategy; relationship managers must now be able to engage with clients on green issues as they demand more sustainable investment opportunities.
- Asset managers face pressure from the public, investors, and regulators. Managers must have an in-depth knowledge of ESG and sustainability issues as well as a firm understanding of the quickly changing regulatory landscape of sustainable finance.

Skills implications of the green transition for FS

The future skills which will need to be augmented with green knowledge are primarily relationship management, data analytics, and machine learning and AI. LinkedIn's 2023 green skills report highlights the UK's green skills concentration of FS skills at 7.8%, lower than the global average of 12.3%. Only 10% of graduates recruited into the sector have sustainability related degrees.

Barriers to closing the green skills gap				
Current workforce			New entrants	
Subject matter expertise	Accreditation standardisation	Skill gap identification	Shifting values	Career pathway ambiguity

Within and between these megatrends are enormous challenges for the skills the sector will need, but significant opportunities will emerge too, creating exciting new horizons: the extent to which AI replaces current tasks and roles but also the insights it generates; the UK's place in the world economy and our ability to influence it; customer behaviour and needs will evolve and make new demands but can turn our way as we gain their trust, too. The skills of our people have to react – but proactive measures can beat the uncertainty and win the future.

Impacts and skills challenges of the megatrends

The megatrends we have described will have impacts that touch on the full breadth of the sector's operations and on every aspect of our skills needs. They are closely interlinked, creating challenges for businesses that have to be tackled now if the sector is to be ready to meet the future with confidence, resilience and dynamism. These challenges require action from the sector's highest levels of leadership. They are fundamental to the sector's purpose and success, and their recognition as a priority in business strategies and delivery plans over the next five years and beyond, is necessary if our sector is to fulfil its national and global role. In the next section, we set out how the C-suite and wider executive team can meet these challenges head on.

"Future leaders in financial services will require a combination of technical financial knowledge, as well as engineering and digital skills, agility in ways of working and topic areas, and empathy. We need to focus on cross-skilling and developing the talent and approach of those working at every level across our industry."
Charlie Nunn, Group CEO, Lloyds Banking Group

"There are skills shortages and there's a lot of work we need to do to change the perception of what investment is and the understanding of clients. We see a traditional focus on STEM subjects, but we take people from every background, every subject, the critical thinking, and analytical thinking is crucial. You don't have to be a mathematician to work in investment."
Peter Horrell, UK Chairman, Fidelity International UK

The squeeze on skills

Inflow / outflow pressures

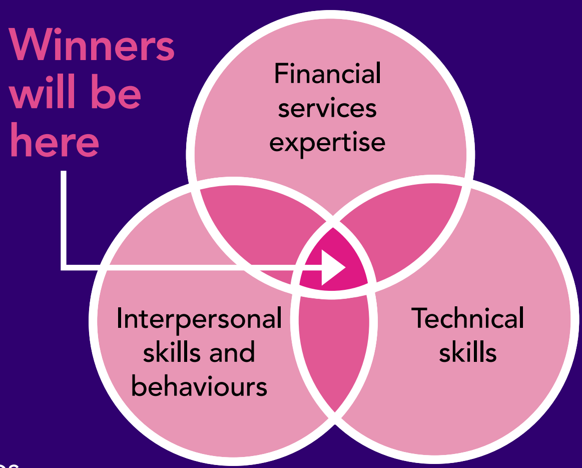
- Flatlining graduate recruitment
- Low levels of apprentices
- Waning attraction
- Competition for highly-skilled talent
- Matching talent demand and supply to locations
- Building talent pipelines
- Demand for hybrid / remote working
- Managing attrition
- Building diverse and inclusive workforces

Internal reskilling / upskilling pressures

- Skills proficiency shortfalls
- Integrating tech skills with FS expertise and behaviours
- Internal mobility
- Embedding learning culture
- Changing customer demographics & expectations
- Balancing mandatory vs non-mandatory learning
- Impact of AI on new and existing skills
- Upskilling for green transition
- Agility and adaptability to succeed in changing world

Integrating tech skills, FS expertise and behaviours

Our workforce's agility will be enhanced with specialists, as structures and teams change through integration of tech with traditional FS expertise. Old role barriers increasingly become obsolete, as tech becomes inseparable from the products and services that run on it. Everyone will need some level of tech skills to take advantage, as AI produces insights that drive innovation in products. These skills will have to be augmented with deeper behavioural and interpersonal skills to help teams function at a high level, requiring an understanding of how the skills blend together, and richer analysis of individual skills needs. We will also continue to service legacy systems requiring the retention or attraction of existing skilled groups.



Respond to global uncertainty by building a flexible and dynamic workforce

The traditional and newer players will challenge the sector to build a flexible and dynamic workforce capable of maintaining the UK's global position as an international financial centre. Adaptability, flexibility, and creativity will be the sector's biggest assets in meeting the unexpected head on. We can develop our current workforce and bring in those with the greatest potential, regardless of qualifications or background, who are agile and resilient. Creating and sustaining a learning culture which enables and encourages new skills to develop will be essential.

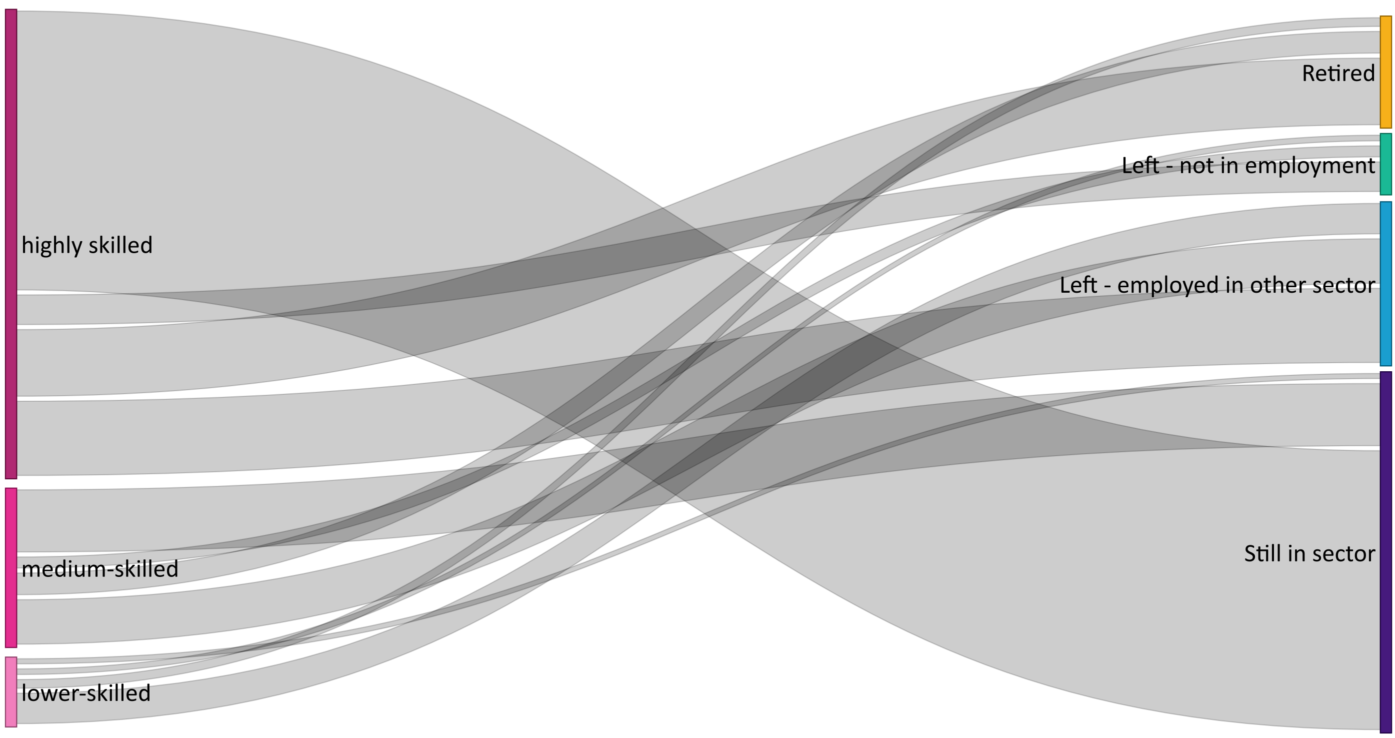
Maintain innovation while navigating new and evolving regulation on AI and the global economy

A fragmented regulatory landscape for AI will draw further calls for action, as will the public's growing understanding of the technology, particularly behavioural insights. Changes in the global financial system and geopolitical forces may draw conflicting calls both to liberalise markets and enhance oversight and control. The attractiveness of the sector to a younger, innovative workforce is said by some of our interviewees to be damaged by the inability to experiment and push tech boundaries due to regulation. The 'fear of failure' that restricts innovation must be carefully managed out by far-sighted leadership while ensuring that innovation is safe and responsible for customers and society.

Understand trends in skills and the workforce to enable effective talent planning

Scarcity of highly-skilled talent will continue, driven by demographics as more exit the labour market than join it, with greater competition from other sectors for tech talent and recruiting younger workers remaining difficult. Outflows are illustrated in the diagram below[39]. Flexible labour markets in other jurisdictions will favour their growth. Offshoring and nearshoring questions will continue to play a large part in talent acquisition. Hybrid working will be a source of contention for many but also a differentiating factor.

Outflows of workers from FS to 2035[40]



[39] Data is illustrative and may overstate the number of people in low-skilled roles exiting, due to double-counting issues between retirement and economic inactivity cohorts.

[40] FSSC analysis of ONS BRES 2022 data; ONS, Employment in the UK: September 2023; ONS, APS user requested data a) industry by age, 2008-2022, (August 2023); b) Job movers by skill-level and by industry 2020-21 (September 2023); c) Employee turnover by industry, 2020-21 (April 2023.

Address competition for talent by building talent pipelines, attracting and retaining talent

Demographics and competition will force the sector to think more about attracting both younger and more experienced talent. This will mean thinking about the ability to forge a diverse and goal-driven career, with clear objectives for social and sustainable purpose. It will mean attracting people from all social groups. Retention of expertise will need special focus, particularly for women as they approach the menopause, older workers, and those with caring responsibilities. Learning and development has a core role in offering opportunities to develop beyond initial roles, making internal mobility absolutely central.

Keeping the customer at the heart of business

Customer service will remain at the core of daily business but it will become more personalised and expert. There will be many more older customers, who may be wealthier and have more complex financial lives but may also have increased vulnerabilities. They will be passing on wealth to a generation with very different experiences and levels of trust in the sector, as well as a lack of financial education in many cases. Customer behaviour will respond to continued automation, pulled by the desire to make the customer experience even faster but also fear and resistance to the use of AI. Product development will need to keep up with changes in customer behaviour and needs. Researching these will require a range of skills, especially how to draw on the rich data insights provided by technology.

Building skills to enable AI integration

The demand for high quality tech skills is likely to grow as more sophisticated scams are enabled by AI and the proliferation of connected devices continues. Firms and their customers will be targeted and hostile global actors will continue to use tech as a weapon. AI will help firms identify and stop breaches, and the sector has a strong record of responding to these threats, but the 'arms race' between institutions and criminals to exploit tech will go on, meaning firms must continue to invest in skills to stay on top of customer communication and security and making updates to critical cyber defences a constant.

Recommendations for action

There will be unparalleled change in job roles due to automation and digital transformation. The demand for highly skilled technical expertise will grow and we will need the majority of the workforce to be in roles that blend sector knowledge with technical expertise underpinned by strong behavioural capabilities. Competition for talent will intensify meaning the ability to attract, develop and retain talent will be a differentiator.

"Today, the world looks and feels radically different from 5 years ago.To build skills and develop talent, we need to nurture people that have depth and expertise at verticals, but can work across the horizontal at the same time; tech needs to marry with FS understanding."
Anne Richards, CEO, Fidelity International, and Chair, TheCityUK Board

The challenges that we have outlined require business to act tactically while developing and implementing a strategy to deliver long term change. While firms are taking significant measures to address skills gaps and transform their learning capability in many ways, efforts are not closing existing skills gaps, let alone keep pace with future change.

Only a fundamental shift in the way we think about people, skills and work will ensure we keep adapting to change and become the sector that our customers and investors need us to be. This change needs to be led at the most senior levels in our industry, with CEO's Boards, C-suite and NEDs, leading purposeful action on skills.

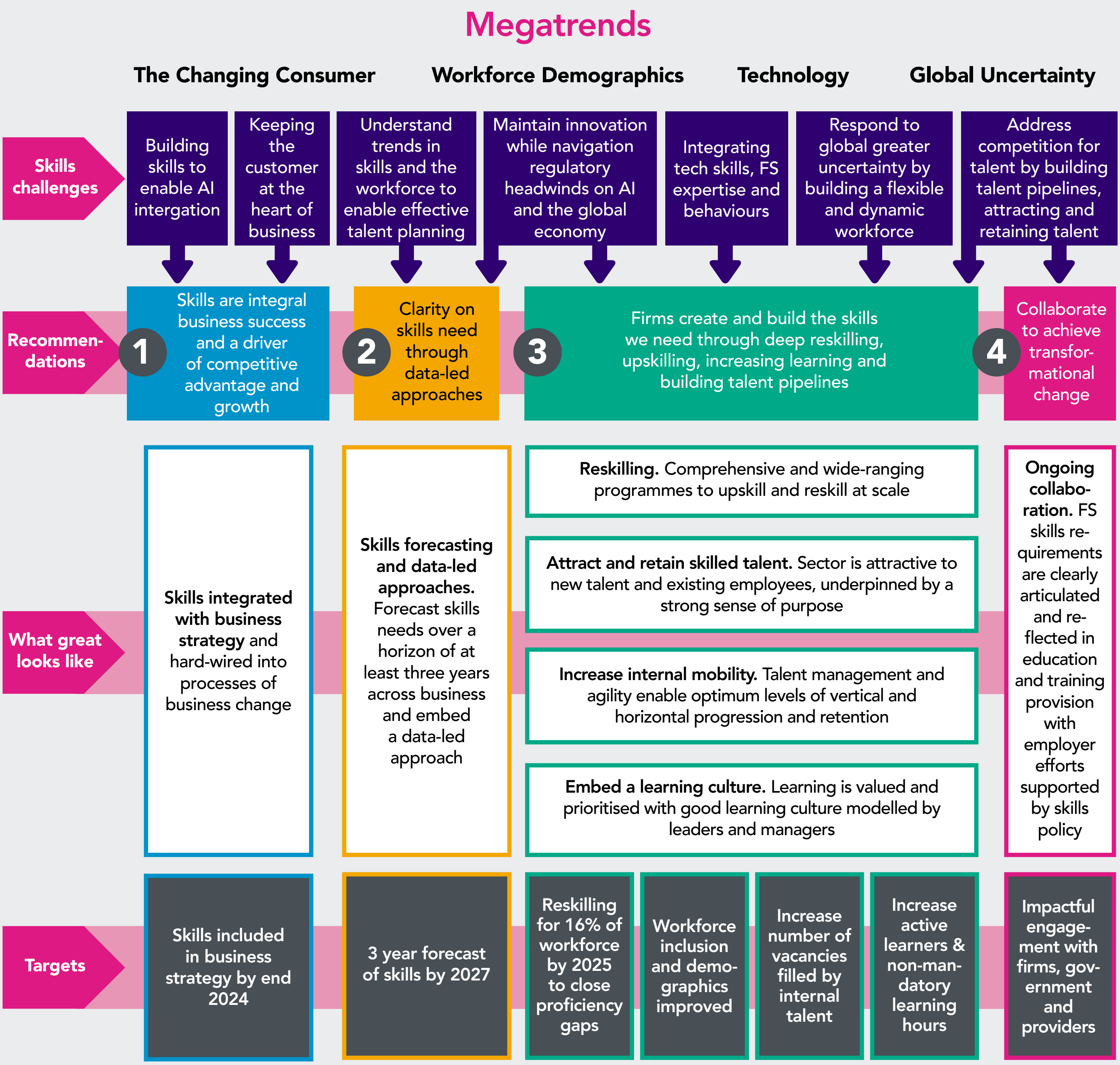
To succeed we need a fundamental shift in how we invest in our people and integrate human capabilities with tech opportunities

To achieve this, we now need action to reach our shared goals, where:

1. Skills are integral to business success and a driver of competitive advantage and growth.
2. Clarity on skills needs through a robust data-led evidence base of existing capabilities and future skills needs that inform future business strategy.
3. Firms create and build the skills we need through deep reskilling, upskilling, increasing learning and building talent pipelines.
4. We collaborate to achieve transformational change.

Our recommendations are ambitious, but necessary and achievable. We know much about the skills we will need and how to build them, and about the ways we need to change the way we think, but now we need to accelerate what we have been doing. Put simply, we need to do much more, much faster.

"Skills are right at the top of the investment you need to drive productivity. it's hard to imagine anything more important than investing in skills for individuals and indeed for our country. The FSSC report shines a spotlight on both the urgency of investing in skills, equipping our workforce with the future skills to prosper, and the benefits this brings both to our economy and to wider society."
Andy Haldane, CEO, The RSA



Recommendation 1: Skills are integral to business success and a driver of competitive advantage and growth.

The skills of our people are central to our future success. To harness the skills of our people and the potential offered from human +AI teaming, skills need to be integrated in every strategy, process and decision in business underpinned by clear, board level leadership and accountability on skills. Ultimately, firms should move towards becoming **skills-based organisations**. This is where work is defined by the tasks and activities that need to be performed to achieve outcomes and the skills required to achieve them. This enables skills to be deployed in a flexible, agile way, responding efficiently and effectively to business demands.

Actions

1. **Each firm in the sector should, by the end of 2024, ensure skills are integral to their business strategy, transformation plans and risk registers.**
2. Firms should move to become skills-based organisations over the long term.
3. There is mindset shift to think about skills rather than roles.
4. There is clear leadership and accountability at the most senior level, embedding a skills approach through the organisation. Directors are accountable to the Board for reporting their progress in skills development.

Recommendation 2: Clarity on skills needs through a robust data-led evidence base of existing capabilities and future skills needs that inform future business strategy.

"We need to get to a point where every firm has a strategic workforce plan and is forecasting for future skills, 3 years in advance. Learning and development needs to evolve. We need to rethink how we train people, using AI and build a learning culture."
Anna Anthony, UK Managing Partner, Financial Services, EY

To achieve our aim of building a skills-based organisations firms must implement a rigorous and robust approach to assess existing skill and capabilities, forecast skills needs and track progress in tackling them. This must have board-level buy-in, as well as ways of measuring what is working.

Advances in AI will enhance our ability to assess and forecast skills needs, widening access to these tools to more organisations and producing deeper insights more quickly.

Actions

- **Build a robust data led evidence base of existing capabilities and future skills needs.**
- Integrate data and evidence into existing systems to inform future business and skills strategies and monitor progress and impact using AI tools where appropriate.
- Ensure each operational business unit has a robust three-year skills forecast in place by the end of 2027 based on robust forecasts and capability assessments.
- Build high-quality qualitative and quantitative feedback into online learning platforms.

"Creating a culture of innovation and experimentation is crucial to ensure development. People need to have a good understanding of what skills and capabilities are required in-house and what can be sourced from outside."
Ajay Vij, Vice President, Strategic Industries, Google Cloud, EMEA, Google

Recommendation 3: Firms create and build the skills we need through deep reskilling, upskilling, increasing learning and building talent pipelines.

Despite efforts of firms over recent years to increase the supply of skills, skills gaps are still growing. Therefore, firms face a double challenge: to close existing skills gaps and prepare colleagues for the skills they will need in the future.

This requires firms to undertake deep and purposeful reskilling and upskilling programmes at scale, over and above existing learning and development.

Firms that become truly skills-based organisations will demonstrate outstanding learning cultures. The outcomes of this will be greater attraction, greater skills capability, and internal mobility as vacancies are filled from an upskilled workforce. In particular they will attract a skilled workforce which appreciates the purpose and ethos of the business. They will retain more older workers as the UK population ages drawing on the skills, expertise and perspectives of a diverse workforce.

A) Rapid deep reskilling & upskilling at scale to close skills gaps and retain skilled talent

Actions

1. **Offer deep upskilling to 16% of colleagues by the end of 2025 to close existing skills proficiency gaps.**
2. Create a tailored/curated skills development plan for every employee by 2026.
3. Increase the number of vacancies, especially hard to fill vacancies that are filled with internal candidates.

B) Fostering a culture of learning that builds skills, attracts, develops and retains talent.

Actions

- **Increase non-mandatory learning hours by end of 2025 from a 2022 industry average of 14.9 hours per employee per year.**
- All leaders and managers modelling their learning experiences to their teams emphasising the value of learning.
- Increase the number of active learners in the sector.
- Measure and improve workforce inclusion.
- Take purposeful action to rebalance workforce demographics, particularly around age and gender.
- Clearly demonstrate values and purpose to attract talent into the sector both in early careers and experienced hires, especially those joining from non-FS or non-traditional backgrounds.
- Improve retention by understanding retention risk by role type and demographic group and putting in place measures that would incentivise colleagues to stay.

"The more we talk about the new generation of talent the more we must consider as employers what hybrid opportunities we have to offer. The questions that need to be considered are around upskilling and career development."

Saif Malik, CEO UK and Regional Head of Client Coverage, Europe, Standard Chartered Bank

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"Workplace learning culture is about agility, it's about innovation and it's about the emphasis on continuous learning. CEOs need to own the skills agenda and drive change."

Sir Ron Kalifa, Vice Chair Financial Infrastructure, Brookfield Private Equity

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Recommendation 4: We collaborate to achieve transformational change.

To achieve the required change across the sector, ongoing collaboration is required. The industry established the Financial Services Skill Commission in 2020 to coordinate collective efforts on skills and participation has grown from 15 firms to 42 in less than 4 years. However, the success of our work and the ability of the sector to close skills gaps relies on ongoing collaboration amongst firms and with wider stakeholders.

Actions

Industry

- **Continue to collaborate as a sector to reduce skills gaps for firms and the sector as a whole.**
- Establish impactful relationships with education and training providers to communicate strategic skills needs and influence provision.
- Work collectively to engage government and others to drive a higher priority for skills in public policy:
    A. partner with other bodies pursuing similar objectives to combine efforts.
    B. Promote increased flexibility in the use of the Apprenticeship Levy to support reskilling and upskilling.
    C. Support as a cross-government priority the UK's need for a strategic approach to building the skills it needs to flourish and which places industry at the heart of the skills system.
    D. Work with national, regional and local government to support their response to skills issues, support further devolution of skills funding and to support the development of financial services clusters that support the success of the entire UK FS sector.

Education, training providers and chartered professional bodies:

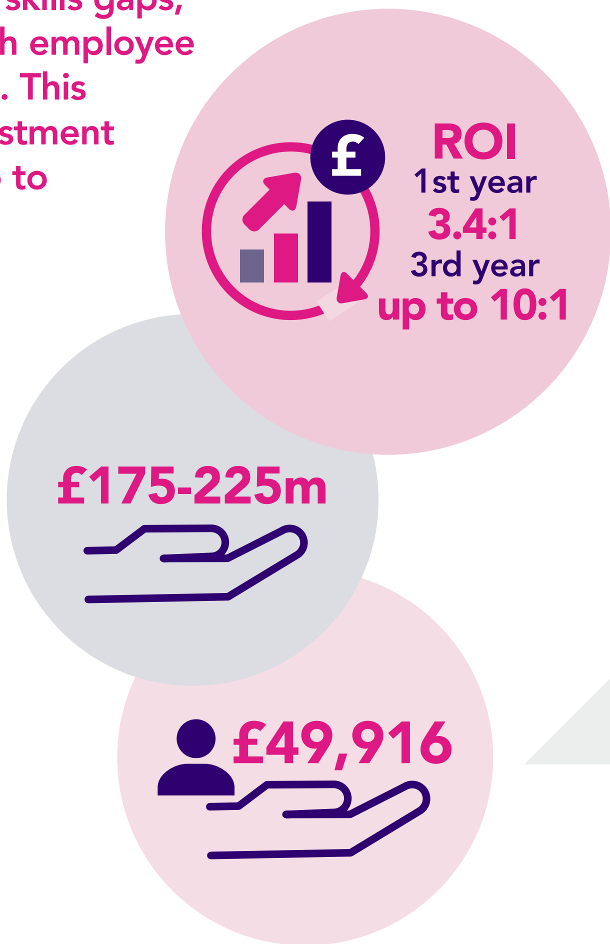
- Deepen their engagement with the sector to reflect current and future skills needs -in courses, qualifications and accreditation.

Government:

- Prioritise the development of the skills the UK will need through strategic action across government.
- Bring together industry and education sectors to coordinate action.
- Devolve more responsibility for the skills budget to regional and local level.
- Provide more flexibilities on apprenticeships to enable more people to be upskilled and reskilled via apprenticeships.

The business case

The UK's financial services sector could gain £555m per year in additional output by closing its skills gaps, equating to £3,340 p.a. for each employee who has a skills proficiency gap. This would result in a return on investment of 3.4:1 in the first year, and up to 10:1 by the third year.



The FSSC's analysis shows that, where firms identify colleagues with skills gaps, and provide them with the necessary training, there are significant rewards, both individually, at firm level, and at sector level.

Our calculations suggest that the sector could save £175-225m through increased retention associated with upskilling and closing skills gaps. Our **business case for reskilling** has been updated with a saving for firms of **£49,916** for each employee reskilled in reduced recruitment, redundancy, and onboarding costs.

Detailed calculations and analysis are contained in Annex 2 to this report.

Annex 1 – report methodology, list of interviewees' acknowledgements

This report is the culmination of over 40 interviews with senior leaders and stakeholders across the industry, during the summer of 2023, as well as drawing on new research and a broad range of existing data and analysis, to explore how we collectively tackle the skills gaps and improve talent attraction and retention or financial services. Special thanks to all our members and firms who took part in the research and the FSSC, EY and PwC teams for their hard work and contributions to this important work.

The following individuals, among others, were interviewed for this report in confidence. We are most grateful for their contribution. The content and conclusions of this report are solely and entirely the views of the Financial Services Skills Commission, and any opinions expressed cannot be attributed to any of the below individually or collectively, except where otherwise stated in the report.

Ajay Vij	Vice President, Strategic Industries, Google Cloud, EMEA, Google
Andrew Greenwood	Deputy CEO, Leeds Building Society
Andy Briggs	Group Chief Executive, The Phoenix Group
Andy Haldane	Chief Executive, The Royal Society of Arts
Andrew Neilson	Media Relations Manager, NatWest Bank
Anna Anthony	UK Managing Partner, Financial Services, EY
Dame Anne Richards	Chief Executive, Fidelity International and Chair, TheCityUK
David Gaughan	Head of Employer Services, West Midlands Combined Authority
David Hughes	Chief Executive, Association of Colleges
Dominic Hook	Unite the Union
Frank Bowley	Head of the Unit for Future Skills, Department for Education
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Ian Stuart	Chief Executive, HSBC UK
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Annex 2 – productivity gain methodology

To produce an estimate for the potential gain in output through closing skills gap we have used EY's analysis of skills proficiency gaps as quoted in this report, alongside OECD[41] data on the contribution of skills to closing productivity gaps, ONS data on individual employee productivity in FS.

OECD analysis of productivity and skills suggests that 'worker skills' are responsible for 10% of the productivity gap between the highest performing firms and those at median level productivity, across a number of developed economies.[42] Their analysis also suggests that there is a diminishing return to productivity for already highly-skilled firms so, alongside the fact that the UK's FS sector is both highly-skilled and more productive than average, we assume that the marginal impact of improving skills across our sector would not be as high as 10%. Instead, we made the conservative assumption that the productivity return on worker skills may be as low as one-third of this. Further analysis would be useful in determining whether this low assumption was justified or could be increased.

Our illustrative figures for the return in terms of output are set out in the table opposite. We used the EY conclusions of an 8% proficiency gap across 16% of the sector's workforce (166,400 employees). We used recent output-per-hour data[43], as well as whole sector GVA, to perform two calculations of the cost-benefit of closing our skills gaps, set against estimates of upskilling costs.[44]

Using conservative estimates across the piece, based on each employee among the 16% of the workforce with a proficiency gap needing one instance of upskilling to close their skills gap, and assuming that other factors, particularly other skills proficiencies remain the same, the table shows that an investment of £971 per employee can result in an output per hour increase of £3,339 per employee, or a total of £555.6m across the sector over an entire year. We further assume that an employee's upskilling benefits them beyond one year, and assuming that their output remains at the same level, this means a return on investment over three years of more than 10:1.

Measured against whole sector output by GVA, the returns are slightly lower, but still significant and impressive.

41 *Criscuolo, C., Gal, P., Leidecker, T. and Nicoletti, G., "The Human Side of Productivity: Uncovering the role of skills and diversity for firm productivity", OECD Productivity Working Papers, 2021-29, OECD Publishing, Paris*

42 Their work also makes a case for both 'manager skills' and 'manager-worker skills complementarities' as being significant factors contributing towards productivity, but the simpler approach was to use only 'worker skills' for this analysis.

43 Output per hour worked, UK - Office for National Statistics (ons.gov.uk)

44 Employer skills survey: 2022 - GOV.UK (www.gov.uk) and FSSC member survey data

Summary of Costs and Benefits

Costs of Upskilling	
Per Employee:	
Less intensive upskilling	**£242**
Medium intensity upskilling	**£725-971**
Higher intensity upskilling	**£1,700-2,415**
For all who need it in sector (16% of workforce or 166,400 employees):	
Less intensive upskilling	**£40.268m**
Medium intensity upskilling	**£120.6m - £161.5m**
Higher intensity upskilling	**£282.9m - £401.8m**
Benefits	
Per individual employee p.a. based on £97.29 output per hour worked, at 3.3% contribution to productivity	**£3,339**
Per individual employee (measured in sector GVA) p.a.	**£2,754**
Whole sector – output per hour	**£555.6m**
Whole sector – total GVA	**£458.3m**
Return on Investment (ROI)	
ROI calculated **per employee and by whole sector** based on one piece of a medium level of upskilling needed per employee, at the higher cost of that range (£971), **based on output per hour worked**, assuming other skills proficiency remains constant, and individuals remain at higher productivity level beyond the initial year of upskilling.	
ROI over one year	**3.43:1**
ROI over two years	**6.87:1**
ROI over three years	**10.3:1**
ROI calculated by **whole sector** based on one piece of upskilling needed per employee, at £971 unit cost of upskilling, and upskilling the entire 16% who need it (total cost £161.5m); **based on whole sector GVA**; assuming other skills proficiency remains constant and individuals remain at higher productivity level beyond the initial year of upskilling.	
ROI over one year	**2.83:1**
ROI over two years	**5.67:1**
ROI over three years	**8.51:1**

Savings through improved retention

Our calculations also suggest that the sector could save £175-225m through increased retention associated with upskilling and closing skills gaps.

In a typical year, the firms in our sector spend a combined £2.9bn on recruitment cost as 9.3% of the workforce change employers.

The academic literature as well as anecdotal evidence from our members suggest a positive effect of upskilling on retention, with research from Germany finding that employees receiving training were 14% more likely to stay with a firm. For our purposes, we assumed that by providing the required training to close the skills and proficiency gaps identified by EY for this report, we could bring about a 14% increase in retention in UK financial services - which would translate into a saving of £410 million across the sector.

To understand the training investment needed, we estimate the cost of training required for the 16% of the workforce who would benefit from upskilling (composed of 2% of the workforce with a low proficiency gap, 9% with a medium proficiency gap and 5% with a high-proficiency gap). At the lower bound, we assume that 10% of FS firms' typical annual spend per employee on training (£2,415 as per ESS 2022) will be sufficient to close a low proficiency gap, while the cost to close a high proficiency gap will roughly equal the cost of a multiple-week certified data analytics course with a recognised academic institution (between £1,700-£2,000). The average between these figures is estimated to be the costs to close a medium proficiency gap. All investment combined totals at £184m-£235.

Deducting these costs from the estimated gains from improved retention leaves us with a cost saving of £175-225 million for our sector, in addition to other tangible and intangible benefits such as increased productivity, brand reputation and increased employee morale.[45]

[45] ONS APS, Employee turnover by industry, 2020-21 (April 2023); Dietz & Zwick (2020) The retention effect of training: Portability, visibility, and credibility; ESS 2022, Cambridge Uni course; Other research suggests that 32% of those not upskilled would leave (Source: HR Magazine - Why micro-upskilling will help HR teams improve talent retention)


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Financial Services Skills Commission

The Financial Services Skills Commission (FSSC) is an independent, not for profit, member-led body, representing the UK's financial services sector on skills. The FSSC works directly with the sector to ensure that businesses have the talent and skills they need for the future.

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Membership
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