Skills scenarios for the Financial Services Sector in the European Union

Final Report

LOT 15
of
Comprehensive Analysis of Emerging Competences and Economic Activities in the European Union

undertaken for the
European Commission
Employment, Social Affairs and Equal Opportunities DG
Unit Working Conditions, Adaptation to Change

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by

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- *relaying the views of the stakeholders and society at large*

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http://ec.europa.eu/employment_social/progress/index_en.html

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Abbreviations

ATM	Automatic Teller Machines
BIPAR	European Federation of Insurance Intermediaries
CEA	Comité Européen des Assurances
CEDEFOP	European Centre for the Development of Vocational Training
CRM	Customer Relation Management
EACB	European Association of Co-operative Banks
EBF	European Banking Federation
EBTN	European Banking and Financial Services Training Network
ECB	European Central Bank
ERP	Enterprise Resources Planning
ESBG	European Savings Banks Group
EMCC	European Monitoring Centre of Change
EU15	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Ireland, Luxembourg, Netherlands, Portugal, Spain, Sweden, United kingdom
ICT	Information and Communication Technologies
IFRS	International Financial Reporting Standards
NMS	Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia
NM10	NMS except Bulgaria and Romania
LFS	Labour Force Survey
R&D	Research and Development

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Finally an experts panel meeting was organised by the European Commission on February 26th and 27th 2009 in Brussels with 44 participants coming from different countries and institutions, employers associations as well as unions and experts.

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Executive summary

The financial services make up a high-skill sector well above the standards of other industries. This, however, did not prevent the business from triggering the current world financial crisis which seems to be heading towards the worst economic depression for decades.

The failure of capital market liberalisation is starting to become apparent in these days of great trouble. The financial sector was unable to establish a sustainable business model and assess the risks correctly. This is the responsibility of management and public regulation. However, it also depends on the skills and competences of the workforce which needs a sound understanding of the financial markets and its risks. Finally, markets were unable to correct themselves without a severe crisis – and this is the point we are at now.

The scenarios for the European financial services sector take the strategic responses to the challenges of the financial crisis as their starting point. Three alternatives have been created:

- Scenario 1 – called "**sustainable finance**" – assumes that the sector will develop a completely new business model, based on long-term investment strategies, consumer trust and high-quality consulting services. This exerts a cultural shock to the business, as it means the reversal of profit targets, standardisation, and controlling instruments in favour of sustainability.
- Scenario 2 – called "**laissez-faire**" – draws less radical conclusions from the crisis, assuming the continuation of short-term profit orientation from the past. Public control will remain weak, also due to impediments at the international level. Standardisation of financial products will be fostered. Merger and acquisitions will revive.
- Scenario 3 – called "**state ownership"** – assumes that neither government nor the big players in the financial business will be able to keep control of the current crisis. Financial and economic turmoil will accumulate into a wave of destructive power. This will result in a significant reduction of economic activities for a long period, and force the financial services into an administrative role.

All scenarios are expected to cause strong employment losses in the financial sector of the European Union at least in the near future. Later recovery depends on the strategic choices made. Moreover, the scenarios have different impacts on competences and the occupational profiles of the workforce. In common they expect the continuous upgrading of skills – however with different types of specialisation.

As the emergence of the financial crisis is strongly routed in competence profiles, the study recommends employment-related policies to address the need for adequate training and increased R&D investments in this sector. Among the comprehensive list of suggestions, two priorities emerge in this context:

- Training policies should be reoriented towards the principles of capital markets, decent client consultation, controlling and risk assessment. Governments should take initiatives to implement such new types of training in the financial business sector.
- As the tools of risk assessment failed to indicate long-term risks, R&D programmes should be launched to improve these instruments. Controlling principles should be reappraised in order to develop strategic controlling.

Human capital appears to be the key to restructuring in this sector, and public institutions can raise the pressure on the financial sector to develop a sustainable business model. Education and training is one approach to proceed along this route.

Résumé

Les services financiers représentent un secteur de niveau de qualification élevé, se situant bien au-dessus de la moyenne des autres activités. Malgré cette caractéristique le secteur financier (bancaire surtout) est à l'origine de la crise financière actuelle puis de la récession économique la plus importante depuis des décennies.

Cette période de grandes difficultés fait ressortir les échecs de la libéralisation totale des marchés. Le secteur financier n'a pas instauré un modèle économique durable capable de prévoir les risques correctement. C'est une question de régulation financière et de management, mais cela renvoie également à l'analyse des marchés financiers et aux compétences présentes dans le secteur. Les marchés se sont avérés incapables de se corriger eux-mêmes, sauf à penser que la crise est une correction. Telle est la situation actuelle.

Les scénarios d'avenir pour les services financiers européens partent des réponses stratégiques qui peuvent être apportées à la crise. Trois alternatives sont développées :

- Le scénario 1 – nommé « **Finance durable** » - propose un développement du secteur sur un modèle complètement nouveau, basé sur des stratégies d'investissement à long terme, d'établissement de relations de confiance avec les clients dans le cadre d'un service de conseil financier de qualité. C'est un renversement culturel pour le secteur car cela signifie des objectifs de profit moindres, des produits fiables et des outils de contrôle permettant une régulation.
- Le scénario 2 – nommé « **Laissez-faire** » - ne tire pas de leçons radicales de la crise et repose sur la poursuite de l'orientation passée du secteur vers les profits de court terme. La régulation publique demeure faible, en partie à ca use des difficultés de coordination internationale. La standardisation des produits devient générale, leur distribution se fait par des canaux « low cost », parfois externalisés et les fusions-acquisitions se développent.
- Le scénario 3 – nommé « **Actionnariat public** » - suppose que ni les gouvernements ni les grands acteurs du secteur n'ont été capables de juguler la crise actuelle. La tourmente financière et économique est alors fortement destructrice et ne peut être stoppée que par des nationalisations. La réduction drastique de la croissance des activités conduit les services financiers à n'avoir qu'un rôle administratif.

On peut s'attendre à ce que tous les scénarios soient à l'origine de nombreuses pertes d'emplois pour le secteur financier de l'Union européenne dans un futur proche. Les perspectives plus lointaines dépendent des choix stratégiques. De plus, les trois scénarios ont un impact fortement différencié sur les compétences et les profils de métiers. Néanmoins, tous les trois prévoient la nécessité d'augmenter continuellement le niveau de qualifications avec pourtant des spécialisations différentes.

Dans la mesure où l'apparition de la crise financière est aussi liée aux types de compétences présentes dans le secteur, l'étude recommande le développement de politiques de R&D et de formation adaptées aux exigences de régulation et de responsabilité dans le secteur. Parmi les propositions, deux priorités ressortent dans le contexte actuel:

- Les politiques de formation doivent être orientées vers la connaissance des marchés, le service et le conseil responsable aux clients, le contrôle et la gestion du risque. Les gouvernements doivent prendre des initiatives pour aller dans ce sens.
- Dans la mesure où les outils de prévision des risques ont échoué à prévoir les évolutions, des programmes de R&D devraient être lancés pour améliorer ces outils. Les principes de contrôle doivent être réévalués dans le sens d'un management stratégique du risque.

Le capital humain apparaît comme une clé dans la réorganisation du secteur et les Pouvoirs Publics peuvent faire pression pour que le secteur aille dans le sens d'un développement responsable. La formation initiale et la formation continue ont leur rôle à jouer dans cette évolution.

Kurzfassung

Die Qualifikation der Beschäftigten im Finanzsektor liegt weit über den Standards anderer Wirtschaftszweige. Dies hat die Branche allerdings nicht davor bewahrt, die aktuelle weltweite Wirtschaftskrise auszulösen, die im Begriff ist, sich zur tiefsten Depression seit Jahrzehnten zu entwickeln.

Das Scheitern der Kapitalmarktliberalisierung wird in diesen Tagen großer wirtschaftlicher Schwierigkeiten offensichtlich. Der Finanzsektor war nicht in der Lage ein nachhaltiges Geschäftsmodell aufzubauen und die Risiken des Marktes korrekt einzuschätzen. Dies lag in der Verantwortung von Management und staatlicher Regulierung. Es hing aber auch von den Qualifikationen und Kompetenzen der Belegschaften ab, die ein tiefes Verständnis der Finanzmärkte und ihrer Risiken benötigen. Auch die Märkte waren nicht in der Lage, sich selbst zu korrigieren – außer durch eine schwere Krise. Dies ist der Punkt and dem wir jetzt angelangt sind.

Die Szenarien für den europäischen Finanzsektor nehmen die strategischen Antworten auf die Herausforderungen der Finanzkrise zum Ausgangspunkt. Drei Alternativen wurden entworfen:

- Szenario 1 – mit dem Titel „**Nachhaltiges Finanzwesen**“ – nimmt an, dass der Sektor ein völlig neues Geschäftsmodell entwickeln wird, das auf langfristigen Investitionsentscheidungen, Konsumentenvertrauen und hochwertigen Beratungsdienstleistungen beruht. Dies löst einen Kulturschock in der Branche aus, da es die Abkehr von den Gewinnzielen, Standardprodukten und Kontrollmechanismen der Vergangenheit zu Gunsten einer nachhaltigen Geschäftsentwicklung bedeutet.
- Szenario 2 – mit dem Titel „**Laissez-faire**“ – zieht weniger radikale Schlussfolgerungen aus der Krise und nimmt an, dass sich die kurzfristige Gewinnorientierung der Vergangenheit fortsetzen wird. Die öffentliche Kontrolle wird – auch wegen der Schwierigkeiten auf internationaler Ebene – schwach bleiben. Die Standardisierung der Finanzprodukte wird vorangetrieben. Unternehmenszusammenschlüsse werden zunehmen.
- Szenario 3 – mit dem Titel „**Staatseigentum**“ – geht davon aus, dass weder die Regierungen noch die großen Unternehmen der Finanzbranche in der Lage sein werden, die Finanzkrise unter Kontrolle zu halten. Die finanziellen und wirtschaftlichen Turbulenzen werden sich zu einer zerstörerischen Welle aufbauen und für lange Zeit einen signifikanten Rückgang der Geschäftstätigkeit bewirken. Dies wird die Finanzdienste in eine administrative Rolle zwingen.

Alle Szenarien werden – zumindest auf die kürzere Frist – erhebliche Beschäftigungsverluste in den Finanzdiensten der Europäischen Union mit sich ziehen. Die spätere Erholung hängt von der Wahl der strategischen Antwort ab. Darüber hinaus werden die Szenarien deutliche Veränderungen in den Kompetenz- und Qualifikationsprofilen bewirken. Gemeinsam sehen sie aber einen weiter steigenden Qualifikationsbedarf, wenn auch mit unterschiedlicher Ausrichtung.

Da die Entstehung der Finanzkrise stark mit der Kompetenzbasis zusammenhängt, empfiehlt die Studie der Beschäftigungspolitik, Ausbildung und Innovationen in den Fokus zu rücken. Aus der umfassenden Liste von Empfehlungen ergeben sich zwei Prioritäten:

- Die Ausbildung sollte die Funktionsweise von Kapitalmärkten in den Vordergrund rücken, die nachhaltige Kundenbetreuung, das Controlling und die Risikoeinschätzung. Die Regierungen sollten die Initiative ergreifen, solche Schwerpunkte für die Ausbildung im Finanzwesen zu setzen.
- Da die Instrumente der Risikoanalyse im Hinblick auf die langfristigen Risiken versagt haben, sollten F&E-Programme zur Verbesserung der Risikoabschätzung aufgelegt werden. Das Controlling sollte zu einem strategischen Instrument weiterentwickelt werden.

Das Humankapital ist der Schlüssel zur Umstrukturierung des Sektors, und öffentliche Institutionen können den Druck auf den Finanzsektor erhöhen, ein nachhaltiges Geschäftsmodell zu entwickeln. Bildung und Ausbildung sind ein Mittel, um auf diesem Weg Fortschritte zu erzielen.

Summary

Taking the present world financial crisis into consideration, the endeavour to formulate skills scenarios for the European financial services sector appears to be courageous, if not pretentious. Little is still known about the real extent of financial risks and their potential effects on the world economy. Nevertheless, thinking about the future of this sector is needed more than ever in such a period of great trouble.

The scenarios, however, can hardly escape the actual uncertainties. Accepting this fact, the study is designed as an input to the discussion about the European financial services by developing alternative "worlds" for the future. These alternatives might become a reality under the selected assumptions and thus strongly depend on the decisions actually taken by the actors involved – banks and insurance companies, customers, and governments. The different pathways are then extended by asking for the major policy options, in particular the adequate human resource policies and training policies which constitute the focus of this study.

Financial services, mainly the banks, will probably not remain the same after this crisis even if some trends of the past are strong enough to continue in future. It is therefore particularly important to develop a clear understanding of the numerous mechanisms of change and of the present crisis. The first parts of the study therefore design the statistical map of the sector, identify main trends and drivers of change, and look for emerging competences. Three alternative scenarios are then developed on this basis up to 2020 taking the present financial crisis as a starting point and asking for the possible structural answers to this challenge. Finally, the implications of these alternatives on skills, education and training policies and sector-related policies are discussed and condensed in recommendations for actors at EU level, Member States, regions and the sector itself.

Main characteristics of financial services

The European financial services sector

Financial services include three main sub-sectors:

- banking industry with retail banking and wholesale banking acting on the global financial market
- insurance industry (life insurance, non-life products and re-insurance)
- insurance and financial intermediaries

The banking sector is pluralistic as it is composed of private banks, co-operative banks, and savings banks. Similarly, the insurance industry consists of private and mutual insurance companies. Public social insurance is excluded.

Europe is one of the world leaders in financial services, comparable to the American financial services industry. It is concentrated in the main financial cities such as London, Paris and Frankfurt. The sector remains very diversified but some of the European groups have become global players. In 2007, 7,345 banks with 218,000 branches were registered in the EU27 area.

Market performance of EU27 financial services

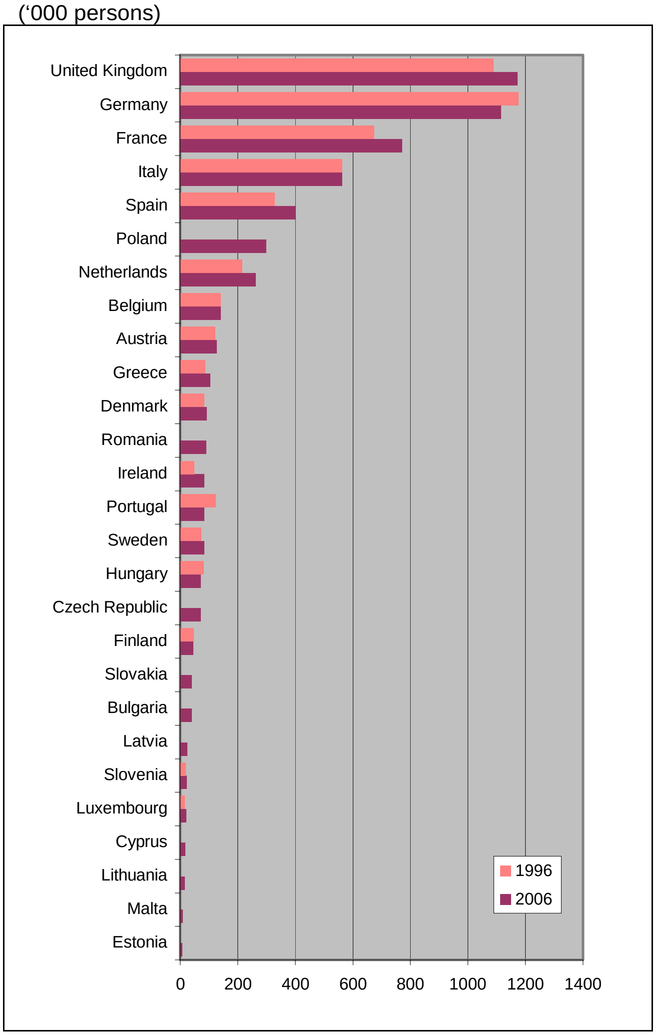
	1998	2007	% change
Banking			
Number of banks	2,996	7,345	145
Number of branches	103,188	218,234	111
Commercial bank assets (bn euros)	12,517	40,403	223
Commercial bank loans (bn euros)	6,222	17,232	177
Insurance			
Premium per inhabitant (euros)*	1,100	2,145	95

* 1996-2006

Source: EBF

The European banking market has tripled since 1998 with regards to both assets and loans. The insurance market showed a similar performance with a 95 % increase of average premiums per inhabitant between 1996 and 2006. Growth rates are close to US developments while Asia only grew by 8 %. This is also due to the slow expansion in Japan. New competitors should not be ignored: China and India are starting to develop this sector, Russia will take a serious share in Eastern European markets, and Australia has large financial groups which are expected to improve the relative importance of this market place.

Employment in financial services by country
('000 persons)



Source: Eurostat

Employment

5.6 million persons were employed in EU27 financial services in 2007. 65% of these worked in banks, 20% in the insurance industry and 15% for intermediaries. The sector represented 2.7% of total employment in Europe. This appears to be a small share in comparison to the USA where the sector had a share of 4.7% of total employment.

In contrast to market growth, the increase of employment was very slow. Overall, EU27 employment only grew by 0.5% annually between 1996 and 2006. Compared to this, service sectors expanded employment by 3% per annum in total. The difference can be explained by internal re-organisation and productivity gains. Slow employment growth was due to the creation of big players from mergers and acquisitions. Economies of scale are very important in the sector and opened a wide field for productivity increase. A strong impact came from ICT technologies and automation in back office administration, increasing use of the internet, and outsourcing internal support services.

Most of the employees were full-time workers. However, their share decreased from 90.5% in 1994 to 87.2% in 2006.

Employment expanded in a series of EU countries: Ireland, UK, Greece, Spain, France, Luxembourg, Denmark, Slovenia and Sweden. Employment volumes declined in Germany, Portugal and Finland, and were stable in Italy, Austria and Belgium. We must note that not all New Member States publish employment figures.

The relative importance of financial services strongly differs between countries. The greatest importance of the sector can be observed in the UK where it represents a share of 4.8% of national employment. Just behind are the Netherlands with a share of 3.9%, Germany and France both with 3.4%. Luxembourg is a specific case with a very large financial services sector (11.9%). It must be noted that Great Britain, Germany, France, the Netherlands, Spain and Italy together employ 75% of the EU27 financial services workforce.

Occupations and educational levels

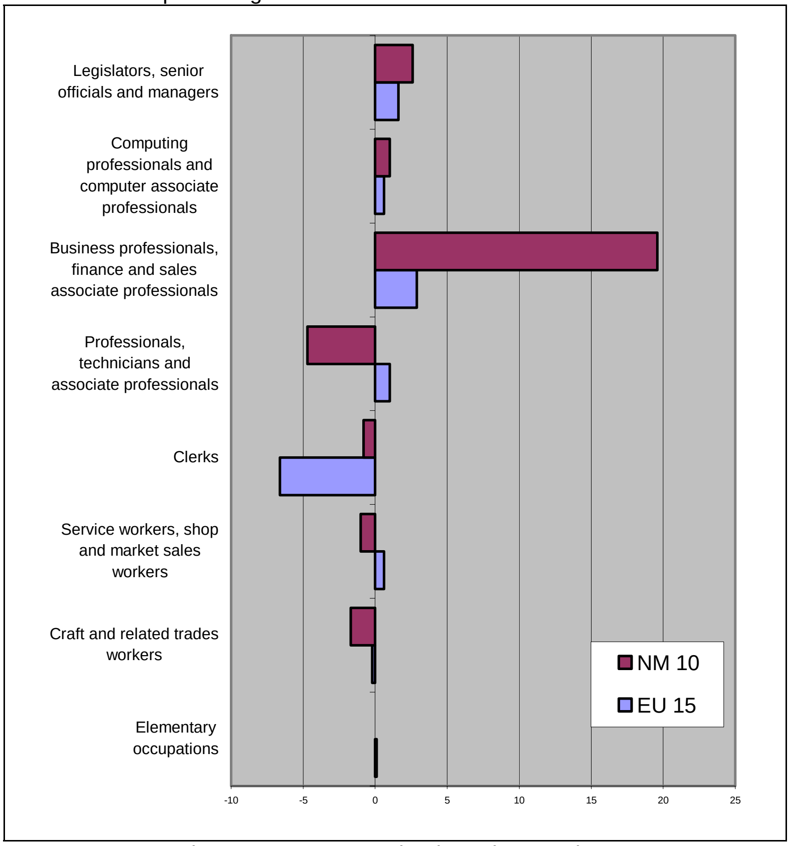
Financial services make up a sector of professionals which employs high shares of finance and business experts, technicians and IT specialists. The shares significantly exceed the proportions that can be observed in the countries' total labour force.

Staff in the New Member States show a bigger share of highly skilled workers than in Western Europe. This can be seen in all occupational groups and can be traced back to age structure: the financial services sector in these countries is younger, more highly skilled and with more women, even in management positions.

However, the borderlines between occupational groups of the ISCO classification are rather vague. Similar jobs are classified as different groups by different countries, depending on language traditions and different structures of training systems. Therefore, occupational data should be interpreted with great caution.

Change of occupational structures

Differences of percentage shares 2000-2006



NM10: New Member States except Bulgaria and Romania
Source: Eurostat

Between 2000 and 2006, data from the Labour Force Survey shows a shift of occupational structure from medium-skilled persons to highly-skilled persons. This is visible in IT occupations, business and finance professionals, and for the technicians and other professionals. This increasing share of highly-skilled employees can also be observed in the recently available LFS data for 2007. The need for a highly educated and trained workforce appears to be evident in all parts of the financial services sector and all European countries.

Division of employment by age and gender

The sector is younger in the New Member States (NM10) than in the EU15, which points out the importance of recruiting new young graduates in the sector during the catch-up period. In all the countries the IT occupational group is younger than the average workforce.

Nevertheless, the age distribution reveals the importance of retirement and the need of replacement over the next few years. The sector-specific age structure is close to total population (except for the UK and some of the New Member States). The countries with the highest share of older staff are France and Germany.

Female employment is very important in the sector. It is higher in the NM10, and has increased from 2000 to 2007. Financial services are thus becoming a female sector with the exception of IT occupations. It is worth noting that in the New Member States women are more numerous in senior management positions.

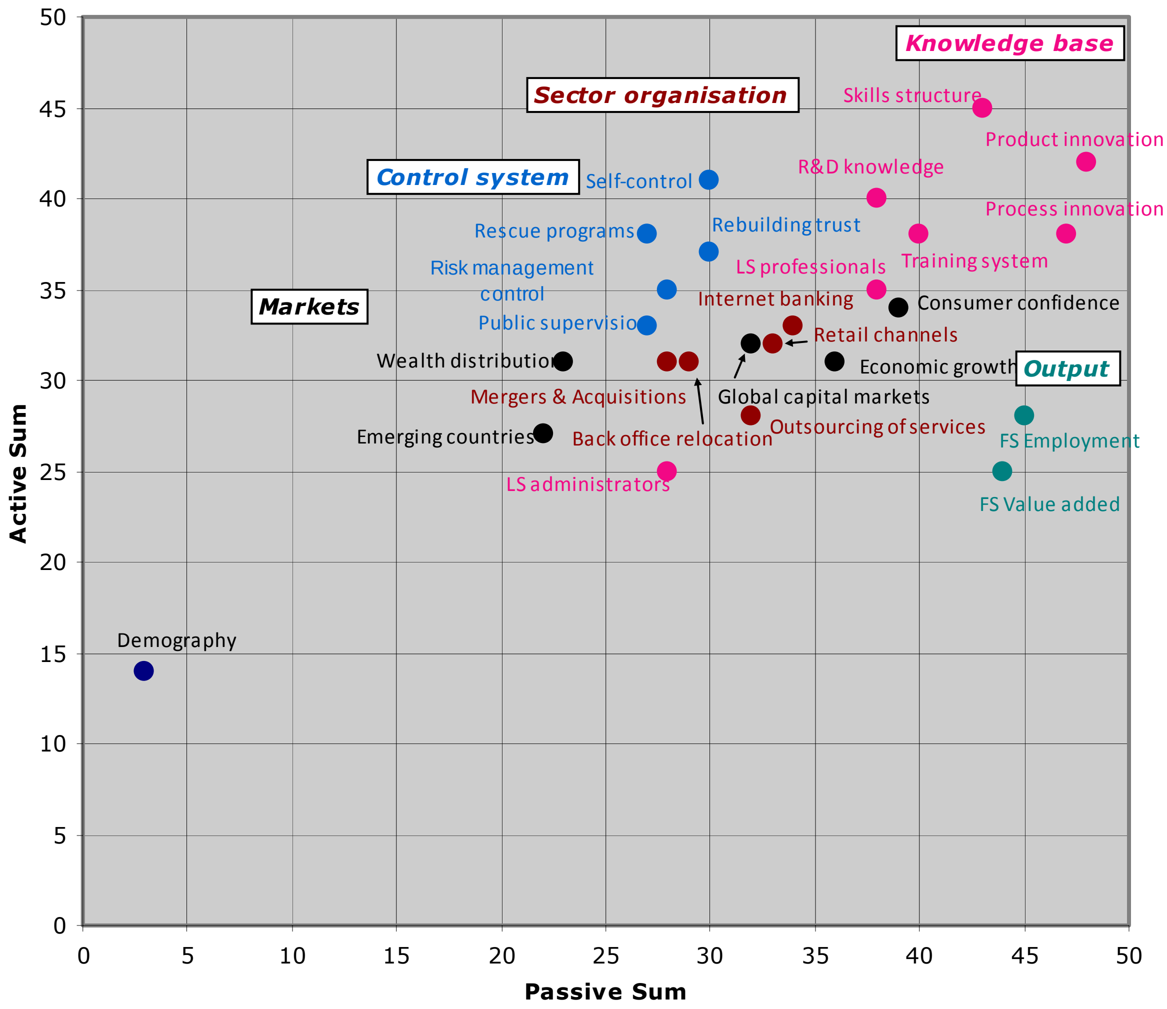
Main drivers of change

Market growth

As indicated above the banking industry grew rapidly. Growth was strongly supported by the enlargement of Europe, the expansion of traditional markets such as health insurance, and – most importantly – the development of new markets in the area investment banking, private equity, and asset management. Even if the European single market is not yet a reality, common standards for banks (Basel I and II) and insurance (Solvency I and II) have brought important integration steps.

Drivers

Active and passive sums of descriptors



Source: DKRC/Economix

As a large part of the population in the New Member States is not yet “bancarised” and not covered by housing, motor or property insurance contracts, substantial growth potentials are still available in these countries, at least in the long-run.

Globalisation

Financial services are now acting on global capital markets. Financial markets of today can be defined as the global interconnection of all different assets: loans and inter-bank credits, real estate, exchange rates, shares, materials etc. Global trading in these areas has experienced tremendous growth in recent years and yielded huge profits.

It was the liberalisation of international capital markets which opened the doors for the development of a global financial system. ICT networks have given rapid access to updated information and have opened up the opportunity of “real-time“ trading. Even smaller banks and investors have been in the position to manage assets on global markets. However, it has raised financial and economic dependencies, as the present financial turmoil has revealed.

Meanwhile, global investments have become an important market segment of the sector which has contributed substantially to overall profits of financial institutions. Capacities were redirected towards investment banking, partly at the expense of domestic consumer markets. Supported by a “cheap money“ monetary policy in the USA, strong leverage effects stimulated the expansion of financial investments worldwide.

Restructuring and sector organisation

Economies of scale have had an important impact on the game. Consolidation thus became an important driver of change. The big players were those who looked for expansion into new countries, created large “bank-insurance” groups, mergers and acquisitions in order to strengthen their already strong market position. As an example, 52.5 % of the European insurance market is in the hands of 20 companies. At the same time, co-operative banks, savings banks and mutual insurance companies are developing both their regional basis and their European cooperation.

Knowledge-based technological change

Technologies – in particular ICT applications in back office processes and the internet as a substitute for front office activities – have had a major impact on the banking and insurance industries. Due to the presence of a high number of intermediaries, IT application processes were faster in banks than in insurance companies. A new step incorporated the internet which allowed direct distribution of financial products and opened up the possibility for clients to manage accounts, savings, investments and insurance contracts. Although internet banking was not successful at the beginning, the development of direct operating systems, new payment tools (e.g. via mobile phones), and improved internet security will certainly be an important driver for both market growth and the organisational restructuring of financial operations.

The global financial crisis

The strong growth of financial services came to a sudden end with the present financial crisis. Triggered off by the US mortgages bubble, it now appears to be much more than that: the failure of worldwide capital market liberalisation. This was caused by

- the opening of capital markets to various investment funds with an unmanageable number of new products. This restricted the transparency of financial products and opened the doors for irregular activities.
- the reorientation of financial business management towards short-term profit maximisation which took the focus away from long-term risks.
- the failure of public supervision over capital markets and the misjudgements of rating agencies supported the belief of secure financial markets.
- the risk of an economic expansion which was based on rising debt levels with important leverage effects.

Even if some experts warned against the unhealthy developments on capital markets, the majority of actors felt confident about the new business models and thus could not see the deterioration of fundamental facts. Markets were not able to correct themselves without a severe crisis – and this is the point we are at now.

Strengths and weaknesses of European financial services

Burdened by the current financial crisis, European financial services are unable to profit from their strengths adequately. In the long-run however, market potentials are available in the New Member States and in emerging countries. These can be used as the European financial services is a strong player on international capital markets, disposing of a pluralistic system which now appears to be a strength rather than a weakness. Distribution is flexible because of the use of multichannels, and covers the whole EU area. The business can rely on a broad skills basis with a high share of professionals possessing high and medium skills. The social dialogue works in most of the countries.

Weaknesses can be found in demographic change which may be a burden to market expansion. The economic strength of companies was weakened considerably by the financial crisis and consolidation has not yet been achieved. This has resulted in the loss of consumer trust. The heterogeneity of distribution channels can push the struggle between banks and insurance companies. Skills shortages may arise even in a period of declining employment, particularly in strategic competences which are important for restructuring the business (ICT, controlling, risk assessment, management). Training capacities are underdeveloped in the NMS.

Emerging competences

The knowledge base of the sector has changed significantly during the past decade. New competences have been developed for new jobs. Requirements for a high-level of education have been raised for many functions. Functional requirements have been extended along the value chain. The usual distinction between back office jobs without customer contacts and front office/commercial jobs has been weakened.

Competences for back office jobs

Employment in administrative back offices is declining and the proportion of medium and high-skilled persons is going to be upgraded. A double competence profile is emerging with strong financial and IT knowledge.

Large administrative platforms and shared services centres are being established, which are changing the back office function into highly specialised technical functions. Routine functions, however, are being relocated to low-cost countries.

Competences for the new middle office jobs

Middle office functions are experiencing a revival in many companies of the sector. These jobs are occupied by highly skilled persons with a deep knowledge of financial processes, more legal expertise, an international background, language skills, and a good knowledge of IT applications. These functions will have to be more recognised by human resource policies and remuneration schemes.

Competences for commercial and front office jobs

Counselling functions for face-to-face communication with clients are being reorganised into multi-functional activities: counselling clients, executing just-in-time administrative operations, and selling new products. This requires rich competences: financial knowledge of the products, soft competences in order to be able to discuss with the client, listen to the client's needs and find the correct answer, IT self-possession.

Strengths and weaknesses – opportunities and threats

	Strengths	Weaknesses	Opportunities	Threats
Markets	• The European market share assures a good position in the world	• Strong dependency on global capital markets • Substantial amounts of risky products	• EU15: new markets for health care and pensions schemes • NMS: new markets for all products • Expanding markets in emerging countries	• Financial crisis will lead to a severe downturn • Decreasing population represents a risk of downsizing the markets • Economic risks in the NMS
Structure of business	• Global players acting in different local markets • A pluralistic financial system with different types of ownership • For the most part, banking institutions are commercial banks with a high level of deposits	• Strong needs for re-capitalisation but companies are weakened • Consolidation must be achieved in many countries	• Global players can take the opportunity to buy companies all over the world	• Many companies can face difficulties due to the financial crisis • Not enough capital for saving banks, co-operative banks and mutual insurance groups
Distribution	• High flexibility based on different channels providing products, advice, and services • Large distribution networks • Bancassurance: banks using their networks to distribute insurance products • Particular experience with internet banking	• Lack of customer confidence • Conflict between direct banking, insurance distribution and value-added services in proximity to the client • Financial management needs trust, transparency and information	• New offices and branches to be created in NMS • Promoting new distribution channels according to a new generation of customers	• Internet banking and internet insurance lack customer trust and need to be based on a new financial culture
Innovation	• Some of the most innovative clusters in the world (UK-London, Luxembourg, Ireland) • “Brains in Europe”: high-skilled persons for innovation	• Loss of confidence in innovation capacities: the crisis is partly due to innovative financial products • Lack of adequate risk management • Lack of strategic controlling	• To practise mass-customisation on one hand and high value added personal service on the other	• NMS are dependant on the western companies and their innovation policies
Skills	• Sound knowledge base due to high-skilled staff • Strong links between companies and educational institutions in the EU15 countries	• Potential skills shortages for highly skilled personnel • Underdeveloped training capacities in NMS	• Demographic change allows the renewal of staff • Reinforce the qualification level to deliver more advice and services	• Loss of attractiveness as an employer
Social dialogue	• High level of unionisation in the EU15 and a fair dialogue in western countries • Some innovative studies at the European level	• The social dialogue in the financial services sector was built in a growth period with benefits for wage and career development	• Develop social dialogue in the crisis • Anticipate the social impacts of employment change • Develop negotiation on career paths and lifelong training	• Lack of social dialogue in companies in the NMS

Source: DKRC/Economix

The choice between hard-selling standardised products or individual counselling will be strategic for companies. Sales in call centres employ more and more temporary staff for different publishing campaigns. Labour turnover is high as is the share of younger workers with instable careers.

Competences for IT jobs

They are at the very heart of the business, present in Customer Relation Management (CRM) as well as in daily administrative operations, finance and refinance, and wholesale activities. As they encompass different tasks such as studies for new products and processes, design and management of data bases, network architectures, marketing, IT safety, CRM etc, the requirements include IT knowledge but also knowledge of financial processes. Companies looking for budget economies are externalising mass processes.

Competences for the R&D functions

Most financial groups have R&D departments. The professionals are economists, mathematicians, actuaries, market and finance experts, and IT designers. It is not a very large group of specialists but they play an important role in the innovation process.

Competences for the management function

Managers in the financial services sector are always finance specialists. Their role is the same as in the rest of the economy, but the evolution of the sector requires enhanced competences: technical expertise and financial knowledge, human resource management and change management, management of transversal projects, language skills and inter-cultural management. Managers in branches have a commercial as well as a communicative role.

Three scenarios up to 2020

Starting from the financial crisis in 2008

The trends observed over the past ten years will certainly continue to have a strong impact on the future. However, the financial crisis will change the financial business fundamentally:

- The liquidity crisis of financial institutions has meanwhile transformed into a solvency crisis with a worldwide dimension. The compensation of these strains will take many years.
- The severe depreciation of property and the worldwide economic recession is on the way to reducing the volume of financial markets substantially. Not all financial institutions will survive, and the others will see limited growth due to the long-term effects of the recession.
- Governments are planning to reinforce financial supervision at different levels: national, European, and international. By means of rescue programmes, public intervention is already being extended – in some cases by means of nationalisation.
- Consumer confidence is at its lowest level whilst banks are detecting the importance of consumer markets again. It is a question of how they will be able to rebuild confidence and which parts of the banking system will succeed with such efforts.
- A new step involving mergers and acquisitions in the whole sector may occur. Market forces and public regulation, however, may force the industry to think about alternative approaches.

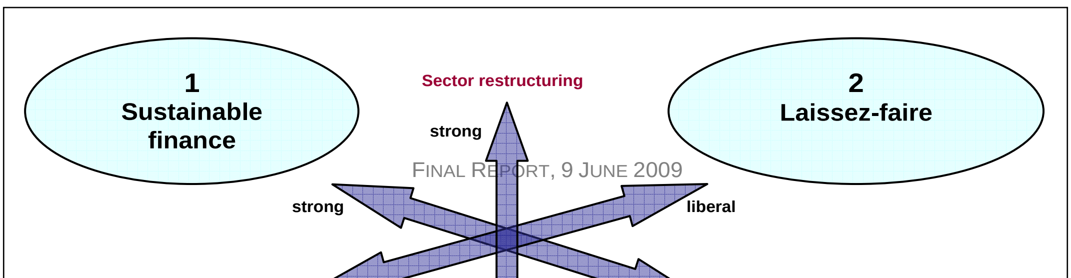
The future of the sector appears to be open and widespread options for alternative developments are being discussed. The scenarios start from both the fundamental drivers identified in the previous sections, and the present knowledge about the financial crisis. They take the organisational response of financial suppliers into the focus of considerations, by asking:

- how the European financial services sector will reorganise its activities and markets after the crisis,
- how governments will develop their supervisory instruments,
- how banking clients and financial investors will react.

Three scenarios have been developed on this basis:

- Scenario 1 – “sustainable finance”
- Scenario 2 – “laissez-faire”
- Scenario 3 – “state ownership”

Scenarios and drivers



Source: DKRC/Economix

The scenarios are combinations of the most important drivers identified in the previous analysis:

Scenario 1: "Sustainable finance"

This starts with the assumption that the financial business will identify short-term profit maximisation strategies as one of the major reasons for the crisis. Forced by strong customer reactions, a new business model will be developed which optimises the long-term profitability of investments. It will require considerable efforts to rebuild consumer confidence through self-enforced controlling and investments into the quality of financial consulting. A strong client-orientation will be the key to market success. Government regulation will strengthen self-controlling and re-enforce the liabilities of financial services providers.

This will result in a "cultural shock" for the financial business as it means a complete reversal of prevailing business models. Large parts of investment banking will be abandoned due to the high risks involved in that business. Product innovation in the sense of "security optimisation" will be more important than process innovation. Improved controlling and risk assessment systems will be established.

This will not be an advantage for the big players, as they will lose large parts of their investment banking business in the long-run. Savings banks and co-operative banks will have comparative advantages due to their proximity to consumer markets and public owners. Insurance companies less concerned by the crisis will follow the same trend towards customer oriented services.

Basic characteristics of scenarios

Driver	Scenario 1 **Sustainable finance**	Scenario 2 **Laissez-faire**	Scenario 3 **State ownership**
Business model	Trust oriented and consumer oriented	Profit oriented	Control oriented
Self-control by the sector	Strong	Weak	Strong
Public control	Restrictive	Liberal	Very restrictive
Mergers & acquisitions	Weak	Strong	Strong
Market growth	Restrained	Unstable	Weak
Product innovation	Strong	Strong	Weak

Product Standardisation	Low	High	High
Process innovation	Medium	Strong	Strong
Globalisation	Controlled	Uncontrolled	Restricted
Outsourcing/relocation	Medium	High	Low
Training activities	Strong	Strong	Weak
Employment	Recovery after recession	Short-term fluctuations after recession	Long-term reduction with late recovery

Source: DKRC/Economix

Scenario 2 "Laissez-faire"

This will draw less radical conclusions from the present crisis. In contrast, financial actors will try to blur the consequences of the crisis and continue with the present business model. The crisis will be interpreted as the accumulation of unfavourable market developments. The financial business will therefore avoid significant restructuring of the sector and more or less continue with the business model of the past. Public control will remain liberal, particularly on global markets, as international agreements on capital market control will be difficult to achieve.

New products will continuously be developed for investment rather than for consumer markets. Financial services will become increasingly standardised. The sector will be segmented into a business and asset management market with high-value services and a standardised mass-market for the majority of consumers. Mergers & acquisitions will be undertaken on a large scale in order to profit from economies of scale. It is the scenario which successfully returns to trends that dominated before the crisis.

Profit orientation will remain strong with a focus on economies of scale to restore the industry's margins. Direct distribution of products and internet banking will be very important as will call centres for sales and customers information. Big service providers will perform the administrative back office tasks, while banks and insurance companies will concentrate on the front office tasks of marketing and strategic management.

Scenario 3 "State ownership"

This emerges from the fact that neither governments nor the big players of the financial business will be able to keep control of the current crisis. Financial and economic turmoil will accumulate into a wave of destructive power. This will result in a significant reduction of economic activity for a long period of time.

Governments will be forced to take control of the financial system in order to guarantee its basic functions. The sector will return to an administrative business model with effective public control of national capital markets. Markets will only gradually recover after the crisis and innovation will remain restricted to the areas of organisation and controlling. The banking system will be saved by the governments at the price of nationalisation. Public budgets will see a considerable increase of debts. Economic growth will be burdened for the whole scenario period up to 2020. Similar to the financial crisis which happened in Japan during the1990s, the economies will suffer from the losses of property and market volumes for a long time.

Banking institutions will make no efforts to adjust to clients' needs. In contrast, they will only provide the minimum functions of financial services and will concentrate on operational functions rather than on new products. It will be lean banking under the direction of austerity, focussing on surviving a difficult period, not on being efficient.

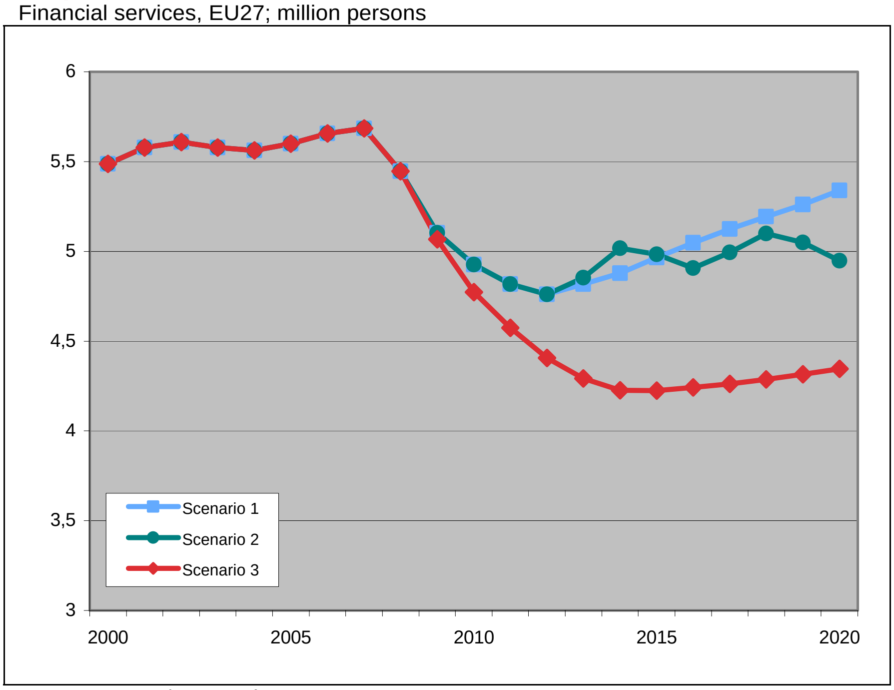
Large parts of investment banking will be abandoned and there will be a clear separation of wholesale banking and retail banking. In parallel, insurance and banking activities will be separated. Recession and state control will dry up new markets almost completely.

Global impact on employment

Scenario 1 – Sustainable finance: Like for all other scenarios, employment must be expected to decline considerably in the course of the financial crisis. A gradual recovery, however, can be expected after 2012-2013 due to the expansion of consumer and business markets. Recovery will be accomplished with the restructuring process based on sustainable products, services and customer relations. Insurance companies will particularly be able to profit from these changes as they applied this long-term approach in the past.

Employment levels

Financial services, EU27; million persons



Source: DKRC/Economix

Scenario 2 – Laissez faire: In this scenario, the major forces that generated the financial crisis will not be removed. Public authorities will not come to an international agreement about capital markets supervisions. Employment will therefore remain unstable in the

course of the after-crisis period. Financial services will join the group of economic sectors where employment levels are strongly determined by cyclical fluctuations.

Scenario 3 – State-ownership: Employment will remain at a depressed level for a long time. Even insurance companies will be negatively affected. Semi-public mutual and saving banks will achieve greater importance in the sector, encouraged by governments and local authorities. A gradual recovery can be expected at the end of the scenario horizon.

Implications for competences and occupational profiles

The required skills associated with the three scenarios clearly differ as regards the changes of skills and occupational structures:

Scenario 1 – Sustainable finance:
Skill needs will be high and there will be the demand for a new type of banker: client-orientation and a sound understanding of long-term investment strategies will be important. Skill needs will be influenced by the customer oriented organisations requiring:

- Highly-skilled persons able to analyse client needs and deliver financial advice with risk estimation
- R&D specialists, creating new products and controlling systems
- Controllers, risks analysts and managers with a strong international orientation and a strong ethic behaviour
- IT professionals for back office reorganisation

The scenario will develop a strong need for sales and marketing specialists who will be needed to establish the new marketing strategies and to intensify customer relations. Moreover, organisation and controlling specialists in middle office jobs will be important for developing and applying the new rules for financial self-control.

Scenario 2 – Laissez faire:
The skills profile will reinforce the dual structure known from former industrialisation processes:

- Low and medium-skilled workers will be needed for call centres and administrative platforms. These jobs will experience poor working conditions and strong performance oriented remuneration. Flexible working hours and a high share of part-time and agency work will be visible in combination with high performance demands.
- Highly skilled workers will be needed in marketing, trading business, as financial analysts, business process specialists, and – in particular – as R&D experts who will have to develop new products and increase the short-term flexibility of business processes. Performance requirements will also be strong but remuneration will be good.

In contrast to scenario 1, scenario 2 will focus on specialists for new products, including R&D experts for financial products and process engineering. Controlling and sales will see a lower increase. Administrative work in back office will be strongly reduced due to increased efficiency and outsourcing.

Scenario 3 – State-ownership:
The skills structure will shift towards:

- Medium-skilled persons for middle office jobs: accounting, reporting, controlling and risk management
- Lawyers and regulation specialists for establishing the new regime of public banking
- Clerks and back office administrative staff due to the role of general administration
- Lean management specialists in order to improve cost efficiency

The scenario will imply a strong increase of labour demand for organisation and controlling specialists. Sales and marketing specialists, however, will see a relative decrease in demand, together with experts for new financial products.

Impact on occupational profiles

Change of occupational shares in total financial services employment 2007-2020; EU27

Occupation	Scenario 1 **Sustainable finance**	Scenario 2 **Laissez-faire**	Scenario 3 **State ownership**
Managers	=	=	–
Computing professionals	=	++	+
Business and finance professionals (sales and marketing)	++	+	– –
Business and finance professionals (new products)	+	++	– –
Business and finance professionals (organisation, controlling)	++	+	++
Clerks	–	– –	=
Service and sales workers	+	+	–
Craft and related trades workers	–	–	=
Elementary occupations	=	–	=
** Change of % shares of area total:*	*++ strong increase; + increase* *= no change* *– – strong decrease; – decrease*		

Source: DKRC/Economix

Critical competences

Regarding the different functions, the scenarios imply significant changes of competence profiles:

- *Managers* will have to master the financial crisis in all of the three scenarios. They will need excellent knowledge of financial markets and crisis management. Most importantly, however, they will need to be experts in change management in order to reorient staff towards new market conditions, business targets and public rules.
- *Marketing and sales experts* will have to apply completely different strategies in scenarios 1 and 2. Scenario 1 will require experts who will be able to establish long-lasting customer relations in proximity with clients. Scenario 2, however, this expertise will be restricted to high value-added markets. Standard consumer markets will be served by low or medium skilled sales agents who will need excellent communication skills rather than a deep knowledge of financial products. Marketing and sales experts will need excellent knowledge of the financial markets and products in all scenarios.
- *Middle office staff* will have a strong position in both scenario 1 and 3. In scenario 1 they will have an independent position, being responsible for risk analysis and strategic controlling. They will process large amounts of information in order to identify risks among clients. They will continuously report to the management in order to keep track of change strategies. In scenario 3 their position will also be strong as the "masters of the rules". They will be responsible for the strict controlling of business processes and will continuously assess risk portfolios.
- *Back office staff* will decline in scenarios 1 and 2 but will remain at the same level in scenario 3.
- *R&D specialists* will be particularly important in scenario 2. They will be needed to develop both sophisticated financial products and standardised consumer products for different markets. Mathematical and statistical expertise will be required as well as a good knowledge in computer science. In scenarios 1 and 3, R&D experts will mainly be used for the improvement of risk assessment and controlling instruments.
- *Process engineers and IT jobs* will be needed in all three scenarios, but again with strongly different profiles. In scenario 1 business processes will be reorganised in order to achieve the flexibility to adjust to a growing variety of customer demands. In scenario 2 the standardisation of consumer products will be the main focus, while flexibility will be required for the high-value activities in the upper market segments. In scenario 3 process re-engineering will also be concentrated on standardisation and low-cost provision of services. The upper segment, however, is not relevant any more. ICT experts will therefore be important for all scenarios.

Critical competences

	Scenario 1 **Sustainable finance**	Scenario 2 **Laissez-faire**	Scenario 3 **State ownership**
General management	Risk oriented rather than profit oriented Long-term vision Change management	Global orientation, Strong profit orientation Short-term flexibility	Security oriented Low-cost oriented Change management
Marketing and sales	Financial professionals Strongly client oriented Socially responsible	Market oriented sales specialists Product oriented Communication skills for sales agents	Limited marketing efforts
Administration	Strict monitoring and controlling	Rapid adaptation to product changes	Strict controlling according to administrative rules
Research & development	Risk assessment Controlling instruments	New financial products Internet-based sales Standardisation of products	Standardisation of products

Process engineering	High flexibility of processes due to customised products	Standardisation of processes Relocation of back office services	Standardisation of processes

Source: DKRC/Economix

Strategic impacts from the scenarios

Adjustment strategies at company level

Five principal strategic orientations might determine the prevailing business models in the long-run:

- *Diversification strategy:* universal banks are the ideal business model of this strategy, distributing bank and insurance products through their network. Insurance companies provide new day-to-day services with complex contracts.
- *Trust oriented and security oriented strategy:* requiring an orientation for long-term rather than short-term profitability. It results in a fundamental change of product development, investment consulting, and investment decisions.
- *Globalisation strategy:* The crisis reinforces the need for huge capitalisation which makes mergers attractive. This creates big institutions on inter-bank markets and re-insurance, but also in private equity, asset management, and back office services.
- *Specialisation strategy:* this is the institutional specialisation on different markets – mortgages, business credits, asset management, investment banking and other market segments. The economies of this strategy are based on specialisation rather than size. A high degree of professionalism is required for market success.
- *Standardisation strategy:* products for mass consumer markets are standardised and processes are automated. The internet plays a dominant role. Big back office service providers execute the administrative tasks. Individual services are an exemption.

The scenarios will use different combinations of these strategies:

- *Scenario 1* will lead the companies towards a customer-oriented organisation, putting a strong weight on “face-to-face” work situations. This organisation is based on a high level of competences for the counsellors, loan officers, insurance agents, and intermediaries. Their motivation needs to be strengthened by serious career management, knowledge transfer measures and the experience of internal and external networking.
- *Scenario 2* is based on an industrialised organisation and on lean production models with large service centres and big call centres for product sales and client services. Turnover will be encouraged by profit-based remuneration. Young persons will be hired on low wages to work on sales platforms and in call centres, but also for highly professional jobs in investment banking. New products will continuously be developed by special R&D staff. Training courses will be used to continuously update employees’ knowledge about innovative products. Particular attention will be paid to soft competences and communication.
- *Scenario 3* will lead to an administrative sector demanding reinforced controlling skills and persons with a strong knowledge of regulations and general law in order to apply national and international rules. The middle office will be the most devel-

Adjustment strategies

Adjustment strategy	Scenario 1 **Sustainable finance**	Scenario 2 **Laissez-faire**	Scenario 3 **State ownership**
Diversification strategy	●		
Trust and security oriented strategy	●		●
Globalisation strategy		●	
Specialisation strategy		●	
Standardisation strategy		●	●

Source: Economix.

oped function. Employees will have to participate in training courses to develop their regulation and law knowledge.

Strategic choices for sector organisation, training institutions and governments

These organisations will have a strong role, particularly in scenarios 1 and 3:

- In *scenario 1,* sector organisation will support the image of a sustainable sector with a high degree of public accountability. Communication skills will be particularly promoted by training institutions together with the principles of a trust oriented and security oriented financial business. Regional labour markets will be developed because direct communication with local clients is important.
- *Scenario 2* will present the sector as a modern and dynamic business which calls for flexible, innovative and profit oriented professionals. Vocational training should train specialists for various financial products, global financial markets, and business organisations. Lifelong learning will be particularly important to keep professionals updated with the rapid paths of innovation. Open labour markets will be important as specialists will be recruited from international rather than local labour markets.
- For *scenario 3* an image campaign is not really needed as the sector is reduced to basic financial operations. Nevertheless, it appears to be a security oriented business which aims to provide financial services at low costs. Career promotion will select strictly task oriented employees. Vocational training will be reoriented towards business administration and controlling. Training centres will focus on law and public administration. The majority of recruits will be from internal rather than external labour markets.

Human resource strategies to meet skill needs

The financial sector in most EU countries expanded for many years, but the present financial crisis is going to radically change that. With the downturn of employment, human resource policies will face new conditions in internal and external labour markets. The reduction of employment will affect both labour supply and labour demand in a significant way. It will result in:

- high unemployment risks for the staff employed
- a smaller number of job openings for those entering the sector
- a stagnation of wages due to wide spread losses and rising unemployment
- a generally poorer attractiveness of the sector

This will not make human resource policies easier. While labour supply will be more than sufficient due to the rising number of lay-offs, it will become difficult to recruit specialists from the non-banking sector. Moreover, financial experts will look for job opportunities outside the financial sector. The human resource policy in companies will be determined by low labour turnover, a rising relevance of internal labour markets, and an ageing work force. Particular skills shortages may appear among critical skills.

Even with declining employment, however, the sector will be faced with the need to replace due to ageing staff in many countries. With the requirement of a higher level of formal education and the declining attractiveness of the sector, the following measures will have to be undertaken to meet the skills needs:

- recruiting new young graduates
- retaining older persons (even by refusing the easy solution of early retirement), particularly in the counsellor function in order to rebuild customer trust
- updating the skills of older staff
- utilization of „lifelong training” and career paths to reduce labour turnover and to attract newcomers

For a knowledge intensive industry like financial services it will be particularly important to guarantee the knowledge transfer from older to younger workers. Client trust and high quality consulting services can only be established with the broad knowledge base of the workforce.

Implications for education and training

All scenarios show an increasing need for graduates with higher education. A broad educational training structure is available in the western countries including universities, business schools and companies. In the New Member States, however, there are shortages of qualified persons. This requires the extension of training capacities and training efforts in these countries.

While the sector increasingly emphasised the necessity for graduates with post-secondary degrees, human resources managers partly doubted that skills will be needed to that extent. For example, often less skilled persons were recruited for sales-related activities. Many training experts therefore favour apprenticeships.

Intermediaries dispose of differentiated initial education and training profiles. The staff of these SMEs can possess all forms of education. Nevertheless, the need for more qualifications is also visible in this activity.

The development of the sector will lead to increased training needs as regards to quality and training content. The overall capacities, however, will be more than sufficient in face of the expected downturn of employment and recruitment.

In the New Member States, training facilities are not developed sufficiently and therefore require a different approach: in the upcoming years, companies, social partners and training institutions will have to be much more involved in developing training structures which will provide the new skills needs.

Beyond the need for updating skills with regard to new technologies, laws and regulations, and customer relations, the crisis will lead to severe structural changes in the sector. Training for new occupations and sometimes for new jobs will be required in agreement with the employees' representatives.

Recommendations

While European governments are actually combating for the survival of the financial system, this report develops a longer perspective. Our recommendations for human resource related policies for the European financial sector therefore suggest a long-term strategy for skills and competences which is able to reduce the risks of a further replication of such a crisis.

We are convinced that human resource policies play a pivotal role in the reform of the financial systems. The financial sector was obviously unable to establish a sustainable business model and assess risks correctly. This is the responsibility of management and public business regulation. However, it also depends on the deep understanding of the way financial markets function. Employment related policies should therefore address the need for adequate training and increased R&D investments in this sector. Two priorities emerge in this context:

- Training policies should be reoriented towards the economics of capital markets, the principles of decent client consultation, controlling and risk assessment. Governments should take initiatives to implement such new types of training in the financial business sector.
- As the tools of risk assessment failed to indicate long-term risks, R&D programmes should be launched to improve these instruments. Controlling principles should be reappraised in order to develop strategic controlling.

Human capital appears to be the key to restructuring in this sector, and public institutions can raise the pressure on the financial sector to develop a sustainable business model. Education and training is one approach to proceed along this route.

A comprehensive list of recommendations with six headings, has been developed for human resource policies in the European financial services. They address policy actors at European, national and regional level, as well as companies and social partners.

List of recommendations

Topic 1: Reform of the financial system

EU	• make European regulatory systems more efficient • maintain and develop a pluralistic financial sector • develop a supervision culture in Europe • protect customers and investors by introducing more rigorous liability rules
National authorities	• participate in the international regulation of financial markets • reinforce national regulations • improve market transparency and obligatory client information • reform bonus systems and top management remuneration
Companies	• rebuild trust with clients • develop self-controlling and reinforce the middle office function • promote transparency and provide liable information to customers • reform bonus payments and top management remuneration

Topic 2: Employment and human resource policies

EU	• prevent high replacement demand • contribute to human resource investment • support active ageing policies • support good practices in restructuring
National authorities	• contribute to human resource investment • support active ageing policies • support good practices in restructuring
Companies	• preserve the knowledge base • refuse early retirement schemes • set up good HR practices and career path developments to struggle against labour turnover and attract newcomers in the sector • build mobility solutions within the sector instead of lay-offs
Social partners	• support HR policies without early retirements and an effective ageing policy, new career paths • promote agreements about employment, restructuring, ageing policies

Topic 3: Skills adjustment

EU	• re-enforce new competence standards to promote sustainable business models • promote R&D in financial services in the areas of risk assessment and strategic controlling
National authorities	• promote the introduction of sustainable business models by improved training standards • reinforce training institutions in the sector • promote R&D in financial services in the areas of risk assessment and strategic controlling • raise training standards for intermediaries • support cooperation between companies and training institutions
Companies	• develop lifelong learning • develop middle office apprenticeship training and trainee periods for newcomers • develop finance-related ICT knowledge • adapt labour force to the principles of sustainable finance • invest in R&D in the areas of risk assessment and strategic controlling
Social partners	• reinforce involvement in training issues

Topic 4: Equal opportunities

EU	• encourage female students towards scientific studies and IT courses
National authorities	• encourage female students towards scientific studies and IT courses
Companies	• promote women in management positions • improve the proportion of women in IT jobs
Social partners	• support and negotiate agreements about equal treatment of men and women

Topic 5: Regional policies

Regional authorities	• support decentralised banking and insurance services

	• attract innovative capacities • develop regional centres for supportive services • address restructuring in financial services and avoid risks of high specialisation in a single sector
Social partners	• address the employment issues at the local level

Topic 6: Knowledge about skills

EU	• develop a monitoring activity for employment and skills in the sector • improve the European classification and statistics so they are more relevant for the services sector (ISCO, ISCED)
National authorities	• support prospective sector studies
Regional authorities	• support prospective sector studies
Companies	• support skills monitoring • present regular and transparent information
Social partners	• develop social dialogue about employment, skills and training needs • promote a common understanding of the sector and develop a strategic view

Source: DKRC/Economix

0. Introduction

The objective of the study is to identify skills scenarios for the European financial services sector.

The study is based on a specific methodology developed by Rodrigues[1]. It contains:

- An economic and statistical mapping of the sector, with a focus on the structure and trends in output and employment, the regional distribution of output and employment, other relevant factors such as the size of enterprises, the age, gender, skills and occupational breakdown of the workforce, as well as the competitiveness of the sectors internationally (steps 3 of the prescribed methodology);
- An analysis of the main drivers of change so far as the sectors are concerned and their implications for employment and competence, with a particular focus on the main skill needs and skill gaps that can be identified (steps 4 and 5);
- A presentation of plausible scenarios concerning the future development of these industries in the period up to 2020, focusing on the implications for employment and competences (steps 6 and 7);
- The main strategic choices to meet these skill needs (step 8), including the implications for education and training provisions (step 9);
- Recommendations with respect to the above (step 10).

The methodology was adapted to the specificities of financial services as far as necessary.

1. Mapping the sector

1.1. Definition

The financial services sector encompasses not only all financial operations and banking activities but also all insurance and reinsurance activities together with their intermediaries.

Table 1 Financial services by NACE classification

Aggregation of NACE Rev 1.1

41-industry [NACE]	NACE Rev.1.1 [NACE]
Banking activities (financial intermediation)	NACE 1-1-65
Insurance and pension funding (except social security)	NACE 1-1-66
Activities auxiliary to financial intermediation	NACE 1-1-67

Source: Eurostat

In the scope of this study we shall analyse these three "sub-sectors" and consider their economic performance, their potential for innovation, and their employment aspects. We shall also examine occupational profiles, relevant skills and human resources solutions. This analysis does not include the European Central Bank, diverse national banks, the stock exchange institutions nor regulating bodies. It should be noted that the scope of this analysis does not include compulsory social security programmes or pension programmes.

[1] See M.J. Rodiguez (2008): *Innovation, Skills and Jobs.*

Financial services represent an essential part of the European economy as a macrocosm and of each individual national economy as a microcosm. A well developed financial system is present in every European country, regardless of its size. This system works both for individual customers, for enterprises and for local authorities. These financial activities are linked to the stock exchange and the money market. As for financial companies, they act as a service provider, a credit provider and an investor in all the economic sectors. Dependent upon the country, financial services have very tight links with enterprise development.

It must be said that the financial services are a basic necessity for business activity and for enterprises and thus a stakeholder in European national markets and economies: the "cardiovascular system" of the economy.

Expert panel views:
The expert panel discussed the necessity of disaggregating the industry into sub-sectors and by Member States. In particular the separation between banking and insurance was requested as the two sub-sectors are operating on different markets.
Moreover, markets are still nationally regulated and segmented. Different business models exist in the banking industry with a wide range of company sizes, principles and strategies.

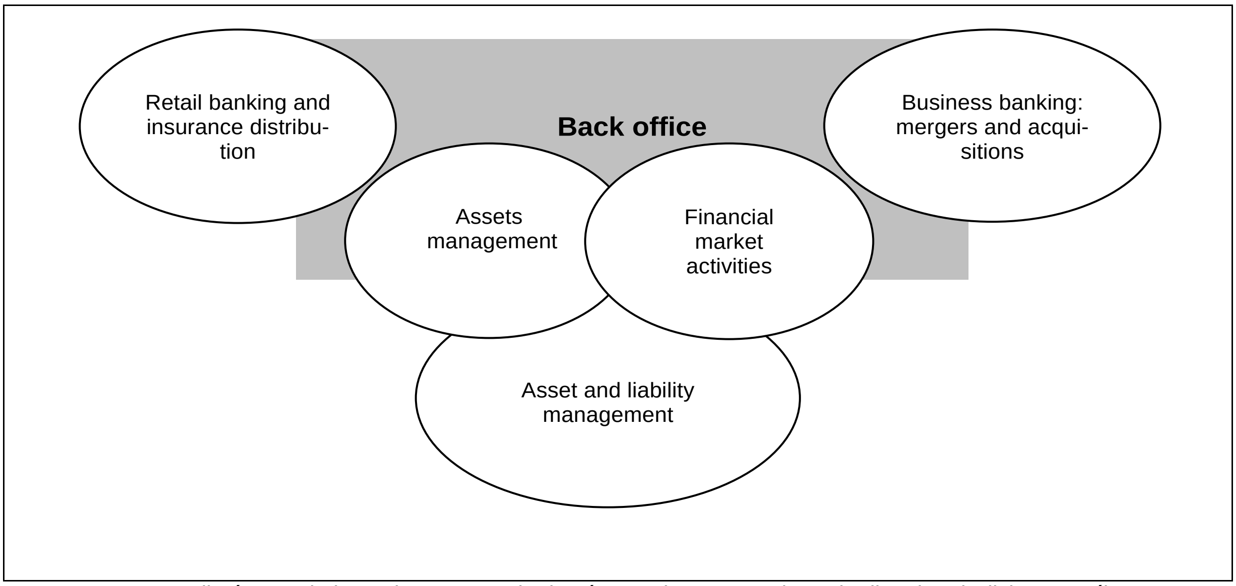
This is acknowledged in principle. The study therefore uses all available empirical evidence for the sub-sectors without presenting full statistical information at the disaggregated level. It also separates scenarios and strategic options as far as possible. However, the study remains a study which covers the entity of financial services in Europe.

Banking industry

From an ownership point of view, there are three types of banks in Europe:
- private banks (working with different stock exchanges)
- saving banks
- co-operative banks (or credit unions in certain countries in the mortgage credit sector)

The differences between these three types of banks are mainly linked to their capital structure. However, we will see that there are also differences in the degree of decentralisation of organisations and management, risk policies, customer relations and human resources management.

Chart 1 The different activities within the banking industry



Source: "La nouvelle économie bancaire", Le Cercle des économistes, 2007 (sous la direction d'Olivier Pastré)

Internal banking activities are separated into (Chart 1):
- retail or domestic banking

- business and investment banking: this industry is deemed "wholesale banking". It includes corporate banking, assets management, merger and acquisition management, and operations in the global capital market.

All banks can be active in both fields with specific subsidiaries. Insurers are also active in wholesale banking.

We must note that banks and insurers work within the framework of the financial system. One bank cannot work without the others as their relationship is reciprocal. Interbank credit is a basic need for a major part of the business. At the same time, the banking industry cannot work without regulatory bodies i.e.: the FSA (Financial Sector Authority) in Great Britain, the AMF (Autorité des marchés Financiers) in France, and the regulations of the Basel I and Basel II Agreements which were accorded at the European level. The same holds true for the insurance industry. We shall analyse the influence of prudent regulations in the Section headed "Drivers of Change".

Insurance industry

The insurance industry is a key sector in the business world but similarly serves the public interest by protecting an ample amount of a country's wealth. The insurance industry provides risk transfer mechanisms for business activities and protects individuals and families from the uncertainties of daily life, such as health problems or loss/damage of property. One might assert that insurance is a financial product which compels the insurance companies to compensate the losses of a policy holder when a specific event occurs. When an individual or a company underwrites an insurance policy he pays a premium. In order to compensate policy holders for their losses, insurance companies invest their income from premiums in financial assets and sometimes in real estate.

An insurance company cannot work alone. It must relinquish some of the risk to other insurers or reinsurers. Similar to the banking industry, the insurance industry needs prudent national and international regulations.

The concept of risk management is at the heart of business insurance. New risks appear on the horizon on a daily basis; environmental risks, medical malpractice suits and the like. The insurance industry is also closely linked to the social security system of the welfare state.

The insurance industry is divided into:
- life insurance and private pension funds,
- non-life insurance (motor, health, causality, property, general liability, and marine aviation and transport or MAT)
- reinsurance.

The retail of insurance policies is handled in a number of ways: i.e. independent agents, brokers, private companies, banks or post networks and direct or internet distribution.

It must be taken into account that most of the banking companies deliver insurance products through their branch networks. Meanwhile, insurance groups sometimes acquire banks, including their network of branches, and develop business banking activities. This phenomenon is called "*bancassurance*". Additionally, insurance companies now sell financial products such as securities, mutual funds and various retirement plans.

Data concerning this sub-sector will be provided with NACE 2, 66 which closely covers the sector. This includes life insurance and some of the pension savings but does not include compulsory social security.

Insurance and financial intermediaries

This sector is more composite.

Firstly, it includes what can be deemed as either insurance "brokers", "agents" or “producers". These agents are either self-employed, are employed by small companies or by different insurance brands. They act as mediators between companies seeking to sell insurance policies and consumers seeking to procure insurance coverage. Over the past two decades many intermediaries have developed other services such as risk management strategies and claims management.

Secondly, it provides advice for individuals and companies including large international brokerage firms.

The main data is provided by NACE 2, 67. There are manifold opinions and studies about the relevance of the data available in this sub-sector.

The financial service industry is present in all European countries and is diffused in its scope and breadth. However, its size is usually proportional to the size of the population and that of the national industry. Thus the highest density of financial services can be found in cities. Banks are usually located near the economic decision centres; London, Frankfurt, and Paris are the three main financial capitals of Europe.

Institutional structure

The representation of employers in the sector follows the divisions previously alluded to:

- Private banks in EU Member States, and in some non-Member States like Norway, Iceland, and Switzerland, are regrouped in the EBF (European Bank Federation). Set up in 1960, the EBF represents the interests of 5,000 banks from twenty national associations, with assets of more than 2 trillion euros and comprises over 2.3 million employees.
- Savings banks (like Caisses d'Epargne in France, Sparkasse in Germany, Caja de Ahorros in Spain) are represented by ESBG (European Savings Banks Group).
- Co-operative banks are represented by EACB (European Association for Cooperative Banks) which is a part of ICMIF (International Cooperative and Mutual Insurance Federation). EACB also represents the credit unions and the so called “building societies". They have 47 million members in Europe, employ 730,000 persons and have an average market share of 20%.
- Insurance companies are represented by CEA, the European Insurance and Reinsurance Federation (Comité Européen des Assurances) with 33 national member associations (EU 27, including Switzerland, Lichtenstein, Norway, and Croatia). It represents around 5,500 companies and one million employees.
- The mutual and co-operative insurance companies are now represented by AMICE (Association for Mutual Insurers and Co-operatives in Europe) which consists of 120 direct members and 2,700 non-direct members.
- The insurance intermediaries are represented by BIPAR (European Federation of Insurance Intermediaries) which forms 47 national associations of insurance agents and brokers in a total of 32 countries. This represents around 80,000 insurance intermediary companies and 250,000 individuals. Initially BIPAR represented only insurance intermediaries, but now they also represent some of the activities of financial advisers.

Employees are represented by Uni-Europa Finance, which is a very important stakeholder for the industry. One can find specific forms of representation in each individual country depending on the structure of the social dialogue. In Scandinavian countries (Sweden and Denmark) and in Great Britain, unions currently tend to merge in order to represent the whole financial services sector and to be more efficient.

1.2. Market development

1.2.1. Banking industry

The banking industry grew continuously from 1998 to 2007. The number of banks increased by 145 % and the number of branches expanded by 112 % (Table 2). Total assets and loans also increased even stronger, particularly bank assets (+ 223 %). This market increase was largely due to the non-euro area.

Table 2 Banking in Europe

	1998	2007	% change 1996-2007
Commercial bank assets (bn euro)			
EU15	12,286	39,549	221.9
NM12	223	753	238.0
EU27	12,517	40,403	222.8
Commercial bank loans (bn euro)			
EU15	6,121	15,656	155.8
NM12	98	412	318.2
EU27	6,222	17,232	177.0
Number of banks			
EU15	2,639	6,220	135.7
NM12	324	1,054	225.3
EU27	2,996	7,345	145.2
Table 2 continued			
Number of branches			
EU15	94,407	185,485	96.5
NM12	8,236	20,582	149.9
EU27	103,188	218,234	111.5

Source: EBF Statistics 2006, 2007

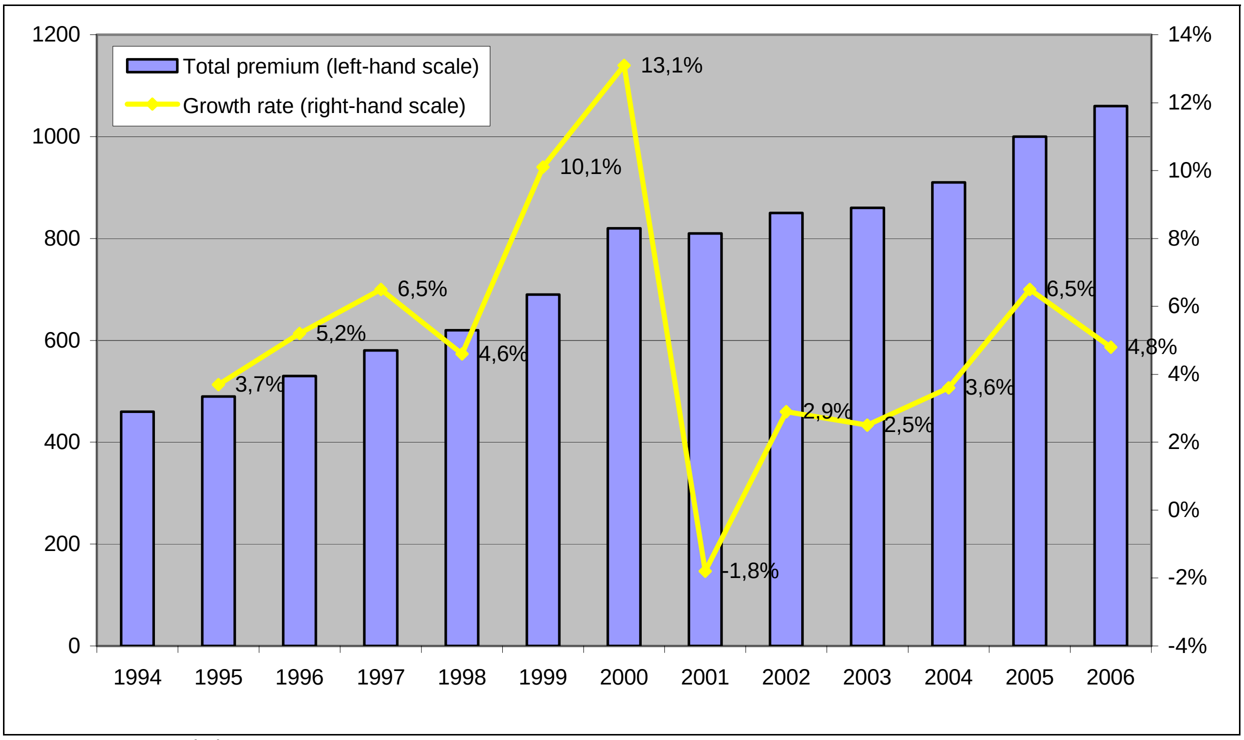
1.2.2. Insurance industry

The European insurance market also doubled during the 1996 to 2006 period. It can be measured with the average premium per inhabitant: 1,100 euros in 1996 and 2,174 in 2006 (CEA, Annual Report 2007). Comparing premium insurance income accounts to the number of inhabitants is a good indicator of insurance development (except for Luxembourg where insurers largely benefit from the freedom to provide foreign services).

The decline in 2001, a year with a lower increase of growth linked to the financial crises' so called "internet speculative bubble". The European insurance market grew by 4.8% in 2006. This included 5.3% for non-life insurance, thanks to the privatisation of the Dutch health care system, and 4.4% for life insurance. Total premium income has increased in Europe from 2006 to 2007, but not by the same percentage as previous developments.

This growth was higher than in America for the same year, a negligible 2.7%. However, a growth of 9.5% was observed in Asia, including Japan and newly industrialised countries in the area.

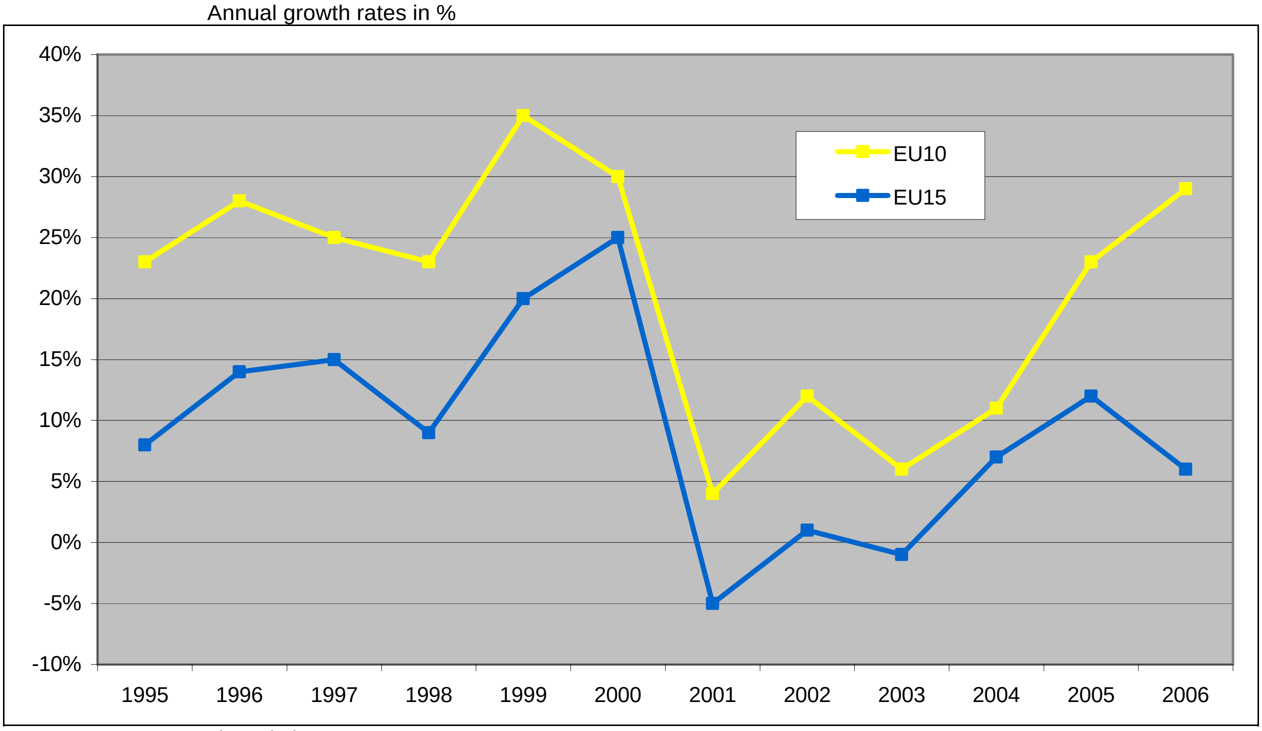
Chart 2 Development of total premium income
Billion euro, annual growth rates in %; EU27



Source: CEA Statistics, August 2007

Chart 3 Life premium income

Annual growth rates in %



Source: CEA Annual Statistics, August 2007

Considering life-insurance: the development of new pension insurance products, such as is found in Sweden, Slovenia and France, or individual pensions. The Annual CEA Report of 2007 also observes the development of "unit-linked products" in life-insurance, combined with options to allow for a capital guarantee. However, the performance of the life-insurance market is closely linked to the different fiscal incentives in each country and can be more difficult with the financial turmoil.

Concerning non-life insurance: the shares of different markets are as follows:

Table 3 Non-life insurance (2006)
Percentage of market shares; EU27

Non-life insurance	%
Motor insurance	33.7
Health-accident	25.0
Property	21.0
General liability	8.7
MAT(Marine and Transport)	3.4
Legal expenses	1.5
Others	6.7

Source: CEA, 2007

1.3. Financial services in Europe and in the rest of the world

The European financial services industry has gained greater importance on the world stage. However, the most developed industry still remains in the United States while the centre for business banking is Great Britain. Meanwhile, one should not ignore new competitors in Asia, the Middle East and Australia.

A global appreciation of Europe's placing could be illustrated by its share of activities within the financial market (Table 4):

Table 4 The importance of financial markets activity
Percentage share of world, 2006

Activity	EUROPE	US	Rest of the world	Total
Investment banking revenue	33	43	24	100
Cross border bank landing	68	9	23	100
Commercial banking assets	70	16	14	100
Insurance global premium	40	31	29	100
Marine insurance	62	11	27	100
Funds under management	33	52	15	100
Assets of high net worth individuals	27	30	43	100
Hedge funds	27	65	8	100
Private equity, amounts invested	44	47	9	100

Source: a synthesis from OECD,CEA, Investment Company Institute and IFSL estimates (2006)

Europe and the United States are often evenly matched. However, concerning banking income and global insurance premium income, Europe shows a higher level of income.

Europe has a market share of 33% for banking income, while the US represent 43% and the rest of the world 24%.

Europe has a market share of 40% for insurance income, while the US and the rest of the world represent 31% and 29%, respectively.
The securities market is larger in the United States than in Europe. Before the last subprime mortgage crisis, the United States' financial services industry was the most important in the world. The United States are also represented by a large proportion of its population as being shareholders; this proportion is much larger as opposed to the proportion of shareholders in other nations. That said, a large percent of its population is in debt and this was a driver for both financial service growth yet also for the financial crisis.

1.3.1. European banking industry in the world

Some European financial groups are in the global top ten and the position of European banks in the world improved between 1990 and 2004, as seen in Table 5.

In 1990 the top 20 banking groups in the world were distributed as follows:
- 12 banks from Japan
- 7 from EU
- 1 from the USA

In 2004 the proportions were the following:
- 12 banks from Europe
- 4 from Japan
- 3 from the USA
- 1 from China.

Table 5 Ranking of European financial groups 1990 / 2004
Billion US $

1990			2004	
Rank	Bank (country)	Total balance	Bank (country)	Total balance
1	Dai-Ichi Bank (Japan)	408.025	Mizuho Financial Group (Japan)	1,285.471
2	Sumitomo Bank (Japan)	372.401	Citigroup (USA)	1,264.032
3	Fuji Bank (Japan)	366.745	UBS (Switzerland)	1,205.430
4	Mitsubishi Bank (Japan)	364.100	Crédit Agricole Groupe (France)	1,105.378
5	Sanwa Bank (Japan)	357.760	HSBC Holdings (Great Britain)	1,034.216
6	Industrial Bank of Japan (Japan)	259.860	Deutsche Bank (Germany)	1,014.845
7	Crédit Agricole (France)	241.992	BNP Paribas (France)	988.982
8	Banque Nationale de Paris (France)	231.463	Mitsubishi Tokyo Financial Group (Japan)	974.950
9	Tokai Bank (Japan)	230.358	Sumitomo Mitsui Financial Group (Japan)	950.448
10	Citicorp (USA)	227.037	Royal Bank of Scotland (United Kingdom)	806.207
11	Norinchukin Bank (Japan)	222.300	Barclays Bank (United Kingdom)	791.292
12	Credit Lyonnais (France)	210.727	Crédit Suisse Group (Switzerland)	777.849
13	Mitsui Bank (Japan)	205.629	JP Morgan Chase (USA)	770.912
14	Barclays Bank (United Kingdom)	204.907	UFJ holdings (Japan)	753.631
15	Bank of Tokyo (Japan)	202.854	Bank of America Corp (USA)	736.445
16	Deutsche Bank (Germany)	202.263	ING Bank (Netherlands)	684.004
17	National Westminster Bank (United Kingdom)	186.559	Société Générale (France)	681.216
18	Long-Term Credit Bank of Japan (Japan)	176.240	ABN AMRO Bank (Netherlands)	667.636
19	Taiyo Kobe Bank (Japan)	174.967	HBOS (United Kingdom)	650.721
20	Société Générale (France)	164.741	Industrial and Commercial Bank of China (China)	637.829

Source: The Banker, 2004

1.3.2. European insurance industry in the world

It can be observed that while premium income doubled in Europe and North America, it grew marginally by 8% in Asia over the same period (Table 6). For the time being, the growth of the financial groups in Asia (except that of Japan which only resolved the big crisis from the end of the 1990s in 2004) is quite low. The reasons for this poor development can be seen in the importance of administrative regulatory regulations, for example in India. This is the case for a large part of Chinese financial groups; during different banking crises some of the Chinese banks have had non-performing loans and today they are not allowed to take part in foreign groups above 5% of the capital. In China the total amount of savings is very high and it is one of the reasons that

Chinese financial groups are partly financially secure. Yet these savings are used more for consumption i.e. construction and public works (infrastructure) than for industrial investments.

Table 6 Insurance premiums

Billion euros

Continent	1996	2005
Europe	675	1332
North America	689	1247
Asia	647	765
Others	95	98

Source: Annual Report CEA 2007

One can ascertain that Europe and the USA have nearly the same market share, amounting to twice that of Japan (Table 7). With a share of 0.3%, Poland is the only new European Member State with a relatively high share among these countries. This means that the growth potential of the insurance sector could remain important for both foreign and domestic companies in the New Member States and in emerging countries.

Table 7 World market shares – insurance, 2006

Region	Market share %
EU 25	38.7
USA:	34.0
Japan	14.6
China	2.4
Brazil	0.7
Russia	0.5
Others	9.1
Total	100.0

Source: Annual Report CEA 2007

1.3.3. Excursus: A look at the American and Japanese financial sectors

Between 1996 and 2006 the American sector had a very large and continuous growth of markets, revenues and profitability. Together with the British financial sector it was considered as one of the strongest financial systems in the world.
For example, commercial bank assets more than doubled between 1996 and 2006:

Table 8 **Commercial bank assets of the United States**

trillion US-dollars

Year	Assets
1996	5.32
1998	6.87
2000	7.46
2002	8.44
2004	10.11
2006	11.86

Source: European Banking Federation, Federal Deposit Insurance Corporation

The American insurance industry shows a continuous growth with, for example, the total premium indicator:

Table 9 **Life and non-life premiums in the United States**

billion US-dollars

Year	Life and non-life premiums
1996	624
1998	656
2000	765
2002	847
2004	1206
2006	1485

Source: Swiss Re (IFSL, London, 2007)

The growth of the American financial services was driven by the credit and debt of the population, of course in the mortgage business and also in consumption credit. One of the main mottos was a sentence from a George Bush adviser: “To make an American ownership society”. This policy, along with the American growth, was strongly pushed by the Federal Reserve Bank’s policy of low interest rates (1% in 2007) and the government’s public deficit policy (around 7% in 2007).

Japan

The Japanese financial services sector was preoccupied with a severe crisis in the 1990s. This was due to bad loans which caused the economic bubble to burst. This period witnessed the failure of large and small banks, which led to a large amount of public funds being injected into bank capital and bank management being drastically streamlined (shedding business, mergers and consolidation). The crisis changed the whole sector. This in turn led not only to mergers and acquisitions but also to failures and later to the creation of new low-cost banks - particularly new types of banks created in the year 2000 which included an internet bank called Japan Net Bank and E-Bank which specialised in internet payments, portable phones and delivering standardised insurance products.

The major industrial companies created banks and financial institutions. Some of these include Sony Bank in cooperation with JPMorgan, the Nippon Shinko Bank, Mitsubishi Bank and presently Incubator Bank of Japan which was created in 2004 by owners of emerging companies to finance SMEs and start-ups.

It took a very long time to resolve the banking crisis in Japan; around 12 years in total. As Japanese banks had to be very careful and concentrated on their domestic market during this recovery period, they were less affected by “toxic products” and the subprime mortgage crisis. In the Autumn of 2008 some financial institutions, such as the insurance company Nomura or the Mitsubishi UFG Financial Group, took capital shares in American companies. Even if Japan has not been at the epicentre of the financial crisis, it is involved in the economic crisis and its financial system is suffering too.

1.3.4. New competitors

The Oliver Wyman Report 2008, *The State of the Financial Industry*, pointed out that Russian state-owned firms are taking the lead in Eastern Europe where previously only European firms like the Italian group Unicredit held sway. Russia has gained significant economic influence across CIS (Commonwealth of Independent States) in the telecom, dairy, machinery and financial services sectors. This is particularly the case in the Ukrainian financial services. Though not yet cohesive, the Russian industry is becoming a major player by expanding into Eastern Europe.

As for Chinese companies, "… they have risen to the top of the league of most valuable financial services players around the world, flushed by trillions of dollars in households' savings. They now threaten established players in western economies." (Oliver Wyman, Report 2008). As the Chinese market is not able to absorb such financial investment, they invest abroad, seeking access to global expertise.

We should not, however, neglect other countries such as New Zealand and Australia, who are willing to compete against the best in the sector. The Australian Agency for Development compares the growth of financial services in Australia and in the rest of the world. The financial services sector is the third largest industry in Australia with an annual growth of 9% between 2000 and 2005. In turn, the financial market doubled between 2001-2002 and again between 2005-2006. However, it should be noted that Sydney's market is half the size of London's and a 40th the size of New York City's. As of November 2006, the sector employs some 392,500 people.

India: Though it promises to change slowly, public banks still manage 75% of the country's assets and the sector remains strongly regulated. Thus, despite WTO (World Trade Organisation) requirements it is currently difficult for a foreign bank to penetrate the Indian market.

Latin America is in a period of growth with solid deposits and investments in information technology and has the support of large European groups such as the Spanish Santander.

1.4. Employment

1.4.1. Trends of total employment in the sector

Financial services represent 5,629,600 employees in the EU27 (Source: Labour Force Survey, LFS, 2007), 65% of whom work in the banking industry, 20% in the insurance industry and 15% are intermediaries (agents and brokers).

CEDEFOP (European Centre for the Development of Vocational Training) provided the figure of 6,014,000 employees in 2006. Assuming that total employment amounts to about 223 million people, the financial services sector represents 2.69% of total EU employment. The data reveal a small increase of 0.5% p.a. between 1996 and 2006. At the same time the increase in employment for the whole service sector was 3% p.a.

The Associations of the Representatives furnishes us with statistics for different types of companies:

- The EBF(European Banking Federation) statistics for the European private banks sector demonstrate that by December 31, 2006 there were 3,000,000 people working in 204,446 branches for 7,126 banks.
- 730,000 people were working for savings banks
- 747,000 for co-operative banks.
- 1,000,000 persons were employed by insurers
- 250,000 in different small intermediary companies.

These employees are mostly part of a full-time workforce: 90.5% in 1994, although this figure is slowly changing: 87.2% in 2005 (CEDEFOP).

1.4.2. Employment by countries

The LFS (Labour Force Survey) data between 1996 and 2006 discloses countries which had an employment increase in the financial sector during the fore mentioned period: Ireland, United Kingdom, Greece, Spain, France, Luxembourg, Netherlands, Denmark, Slovenia and Sweden.

Table 10 Financial services employment by country
1,000 persons, 1996 to 2006

Country	1996	2006
Belgium	140.9	140.6
Bulgaria	—	38.4
Czech Republic	—	71.1
Denmark	82.5	91.7
Germany	1,174.9	1,113.8
Estonia	—	7.0
Ireland	48.8	83.9
Greece	87.0	104.0
Spain	328.0	399.7
France	674.0	770.1
Italy	561.7	561.6
Cyprus	—	17.7
Latvia	—	23.9
Lithuania	—	15.4
Luxembourg	16.0	21.5
Hungary	81.1	71.7
Malta	—	9.2
Netherlands	215.8	262.3
Austria	120.8	125.7
Poland	—	299.4
Portugal	122.4	82.8
Romania	—	90.6
Slovenia	19.2	22.1
Slovakia	—	38.6
Finland	47.0	44.1
Sweden	72.6	82.4
United Kingdom	1,088.8	1,172.3

Source: Eurostat 2006

Contrary to this period of augmentation, we can see a decline in employment in this sector from 1996 to 2006 in Germany, Portugal and Finland.

The volume of employment remained steady in Italy, Austria and Belgium. Data was not provided for certain countries which have not been mentioned, thus no conclusion can be drawn.

Shares in the financial service employment sector as a percentage of total employment, listed by country:

Table 11 Financial services employment shares by country
% share of total national employment, 2006

Country	%
Belgium	3.88

Bulgaria	1.42
Czech Republic	1.75
Denmark	3.57
Germany	3.39
Estonia	1.17
Ireland	4.92
Greece	3.69
Spain	2.46
France	3.44
Italy	3.32
Cyprus	3.31
Latvia	2.48
Lithuania	1.21
Luxembourg	11.94
Hungary	2.08
Malta	4.71
Netherlands	3.68
Austria	3.70
Poland	2.71
Portugal	2.12
Romania	1.47
Slovenia	2.74
Slovakia	1.92
Finland	2.07
Sweden	2.08
United Kingdom	4.77

Source: Eurostat 2006

Looking at employment, the most comprehensive countries in 2006 were the United Kingdom with 1.2 million persons working in the sector (4.77% of the total employment), Germany with 1.1 million (3.39%) and France with 0.7 million (3.44%). The Netherlands is also an important country for the sector at 3.94%.

Luxembourg has the largest share of employment in the sector at 11.94% of the total employment because there are specific liberal exchange regulations for financial business with international clients in this country.

For Germany and France the employment figures are in almost the same relation to that of the total population, but for Great Britain the relation is much higher. This establishes Great Britain as the leader in the European financial services, represented by 14% of the GDP as opposed to only 8% for the European Union as a whole.

Spain, Italy, Austria and Poland rank medially in financial services with 0.4 million, 0.3 million and 0.1 million employees working in the sector, respectively.

Scandinavia can be seen as one geographical region with strong cross border links between companies: it represents a total of 257,500 employees in Sweden, Denmark, Finland, Latvia and Lithuania. Data is not available for Estonia.

Individual share of employment within the financial services sector for each European nation:

Table 12 **Distribution of financial services employment within the EU27**
Percentage share of total EU27 employment in financial services, 2006

Country	Share
United Kigdom	20.35

CC

Germany	19.33
France	13.36
Italy	9.75
Spain	6.93
Portugal	5.20
Netherlands	4.55
Poland	5.20
Belgium	2.44
Austria	2.18
Greece	1.80
Ireland	1.45
Denmark	1.59
Romania	1.59
Sweden	1.42
Hungary	1.24
Czech Republic	1.24
Finland	0.77
Slovakia	0.67
Bulgaria	0.66
Latvia	0.42
Slovenia	0.38
Luxembourg	0.37
Cyprus	0.30
Estonia	0.29
Lithuania	0.26
Malta	0.16

Source: FLS 2006

Three countries have the lion's share of more than half of the total European employment in the financial services sector: the United Kingdom, Germany and France together total 53%.

The group of Western European large countries including the United Kingdom, Germany, France, the Netherlands, Spain and Italy represent 75% of total employment in the financial services in Europe.

The Scandinavian countries Sweden, Denmark, Finland, Estonia, Latvia and Lithuania represent only 4.56%.

Chart 4 Shares of financial services in total national employment 2006

1.4.3. Total employment in the US

From the Bureau of Labor Statistics (2006), employment in the US financial services sector represented 4.7% of total employment, compared to 2.69% in Europe (5,629,600 / 14,070,000).

4.1 million persons are employed in the American financial services sector: 1.8 million people work in the banking industry (44%) and 2.3 million people in the insurance industry (56%): 62% in companies and 38% in small insurance agencies, brokerage and providers of other insurance services. However, it must be noted that the distribution is not the same: in the United States, the insurance sector is bigger than that of the banking sector. It encompasses more occupations such as claims adjusters, examiners, and investigators. This also reflects a feature of the American society with a strong legal and insurance system. The sub-sector of intermediaries is very developed.

1.4.4. Occupational structure of workers

The following Tables present the structure of occupational profiles, the education level for each group of occupational profiles, the distribution by age of the workforce, and the distribution between men and women. The Eurostat occupational structure of workers is the basis of this analysis (ISCO): as the definition of occupational groups is not always suitable with the functions organisation in the financial services sector, these findings should be interpreted carefully.[2]

We have chosen to present only the statistics of countries which have the most important share of employment in the financial services sector. These countries are: Germany, Spain, France, Italy, Poland and Great Britain. Likewise, the totals for the EU15 and for NM10 are assessed.

As the primary shares for occupational groups, education level, age distribution and the proportion of male/female distribution differ only slightly in the three sub-sectors, statistics for the whole of the financial service sector are presented. The only exception is the sub-sector of intermediaries which has a very large proportion of business and finance professionals who are either self-employed or employees.

Differences between countries must be taken into account; for example, a larger share of clerks in some countries and thus a lower percentage of professionals and vice versa, cannot be explained simply by the organisation of work and the real structure of the workforce, but by the fact that similar jobs require different qualifications in different countries or are defined differently. Note that this occupational profiles' nomenclature is more suitable for the manufacturing industry than for the services industry.

While analysing the division of employment by occupation it is worthwhile to point out that the highest number of senior managers can be found in France followed by the UK. If one compares France with Germany, where the share of senior managers is the smallest (4.7%), an astonishing difference of 25.1 percentage points exist. Furthermore, this category is slightly larger (by some 5 percentage points) in the EU15 as opposed to the NM10, and the share of this category is larger than that of the total economy (by 6 percentage points for EU15 and for NM10).

Table 13 Division of employment by occupation
Percentage of total persons employed in the sector, 2006

ISCO occupations	Financial services									Total economy	
	DE	ES	FR	IT	NL	PL	UK	EU 15	NM 10	EU 15	NM 10

2 This Chapter uses the occupational classification ISCO. The link of occupational groups to functional activities is given in Table 23.

Legislators, senior officials and managers	4.4	13.8	29.5	7.6	9.5	10.4	25.5	15.2	10.1	9.0	6.0
Computing professionals and computer associate profes-sionals	3.5	3.6	4.5	1.8	7.9	5.0	5.5	4.2	4.1	1.9	1.2
Business professionals, fi-nance and sales associate professionals	8.8	23.7	9.6	42.1	29.4	47.7	23.5	21.4	44.1	4.6	3.6
Professionals, technicians and associate professionals	29.6	18.9	17.8	10.8	22.6	10.8	3.3	15.7	15.0	24.4	20.6
Clerks	51.0	37.3	31.0	34.9	28.5	23.6	37.8	39.7	22.7	11.9	6.6
Service workers and shop and market sales workers	0.4	0.7	6.2	0.9	0.8	0.8	1.5	1.6	1.2	14.2	12.5
Craft and related trade workers	0.5	0.7	0.4	0.7	0.3	0.3	0.6	0.5	0.8	21.5	28.8
Elementary occupations	1.8	1.2	1.0	1.1	0.9	1.4	2.3	1.7	2.0	12.6	20.8
Total employment	100	100	100	100	100	100	100	100	100	100	100

Source: Eurostat, 2008

The highest number of IT specialists can be found in the Netherlands, followed by the UK and Poland. The smallest number of IT specialists prevails in Italy. While analysing data from the New Member States as opposed to that of the old, it can be surmised that the number of IT specialists is neither dependent on its time of induction into the European Union nor on its size. Indeed the amount of IT specialists is similar across the board.
The largest share of occupations in the whole sector are in the groups of "professionals of finance and sales professionals", and "professionals, technicians and associated".

The most numerous group of professionals and technicians can be found in Germany and in the Netherlands, with the smallest share in Poland. Yet Germany additionally possesses the largest share of clerks, significantly more than in other countries – the difference can reach up to 22.5 percentage points (in comparison with the Netherlands) or 27.4 in comparison with Poland. In this respect, Germany is high above the average for both old and New Member States. It will be more conspicuous later that Germany also has the highest percentage of "medially skilled" workers.

This is related to the organisational structure of German financial institutions with big companies in both banking and insurance, but also to the training system which promotes intermediary skills in particular.

If one considers finance, sales and other professionals, one ascertains that the countries with a large share of clerks, such as Germany, have smaller shares of professionals and vice versa, as is the case in France and Poland. All the New Member States have a larger share of profession-als than clerks compared to the share of professionals in the old member states. This is due in large to a younger and more professional population which can be found in the New Member States. If "clerks" refers to back office and administrative occupations, it could mean that old member states have sometimes kept an old work organisation with a high number of back office employees. Studies show that this is the case in France, Greece, Portugal, Spain and Italy.

Table 14 **Change in division of employment by occupation**
Percentage point difference of occupational shares, 2000 to 2006

	Financial services									Total economy	
	DE	ES	FR	IT	NL	PL*	UK	EU	NM	EU	NM

								15	10	15	10
Legislators, senior officials and managers	-0.8	0.7	4.4	0.1	-1.4	—	3.4	1.6	2.6	0.5	0.9
Computing professionals and computer associate professionals	0.6	1.8	0.2	1.2	0.2	—	0.1	0.6	1.0	0.4	0.6
Business professionals, finance and sales associate professionals	1.7	4.8	2.2	4	-3.1	—	3.4	2.9	19.6	-0.7	1.6
Professionals, technicians and associate professionals	1.8	3.6	-0.2	2.7	0.2	—	1.1	1.0	-4.7	-1.4	1.6
Clerks	-2,8	-11	-11.5	-7.6	4.5	—	6.4	-6.6	-0.8	-1.8	0.5
Service workers, shop and market sales workers	0	0.1	5.4	0.1	0	—	0.6	0.6	-1.0	-0.2	1.9
Craft and related trade workers	-0.2	0.3	-0.4	-0.2	0	—	-0.3	-0.2	-1.7	-2.4	0.2
Elementary occupations	-0.3	-0.3	-0.1	-0.1	-0.5	—	1.4	0.1	—	0.4	1.3

* data available only from 2006
Source: Eurostat, 2008

Regardless of whether they are old or New Member States in lower categories of occupations, the differences are not that striking between the EU members. In general, the three groups ("Service workers and shop and market sales workers", "Craft and related trade workers" and "Elementary occupations") have a very small share in the occupations: 3.8% in the EU15 and 4% in NM10, compared to 48.3 and 62.1 for the total economy.

While analysing the changes in the division of employment by occupation between 2000 and 2006, it can be seen that the share of employment had been rising in the category of senior managers in France and the UK, while it had been decreasing in Germany and the Netherlands. The difference reached 5.8 percentage points. The share of IT professionals slowly increased in all countries studied, but the increase was slightly larger in the New Member States.

The category of business, finance and sales professionals is increasing in the majority of member states. The largest increase has been in Spain. The difference between the EU15 and the NM10 is conspicuous: in the NM10 the rise of employment in this occupational category is at 19.6% as opposed to a negligible 2.9% in the EU15. The contrary can be observed in the category of professionals: there is a decrease in their number in the NM10, while in EU15 there is a slight rise. In the category of clerks there is a visible decrease of their share in all EU15; in the NM10 the decrease is also visible although not that significant.

1.4.5. Employment by educational attainment

Table 15 Employment in financial sector by education level
Percentage of total employed in each occupation in the sector, 2006

		Financial services									Total economy	
		DE	ES	FR	IT	NL	PL	UK	EU 15	NM 10	EU 15	NM 10
Legislators, senior officials and managers	Low	3.5	5.3	10.0	2.4	2.9	—	8.5	7.0	0.7	22.0	1.5
	Medium	39.1	24.8	29.4	66.7	26.7	17.6	44.4	37.7	18.6	40.2	48.9
	High	57.4	69.9	60.6	30.8	70.3	82.4	47.1	55.2	80.7	37.8	49.7
Computing professionals and computer associate professionals	Low	1.6	1.1	4.5	—	4.2	—	7.7	4.4	0.1	5.1	0.8
	Medium	45.0	21.2	14.5	78.1	41.4	23.1	39.0	36.4	29.2	36.0	40.8
	High	53.5	77.7	81.0	21.9	54.5	76.9	53.3	59.2	70.7	58.9	58.4
Business professionals, finance and sales associate professionals	Low	5.1	11.9	10.9	5.3	6.0	—	8.9	7.3	0.5	12.7	0.9
	Medium	57.2	28.8	42.1	65.4	42.0	38.7	47.3	50.7	45.4	46.0	44.6
	High	37.7	59.3	47.0	29.2	52.0	61.3	43.7	42.0	54.1	41.2	54.5
Professionals, technicians and associate professionals	Low	5.8	5.5	11.2	7.7	7.4	—	8.2	6.9	0.3	6.0	0.5
	Medium	67.1	21.3	41.3	61.2	39.8	37.2	42.8	51.7	39.8	33.8	43.6
	High	27.1	73.1	47.4	31.3	52.7	62.8	49.0	41.3	59.9	60.2	55.8
Clerks	Low	6.4	9.7	17.6	10.9	19.0	0.6	20.4	11.9	0.8	21.2	3.7
	Medium	75.5	35.2	46.8	68.9	58.7	74.7	60.0	61.7	76.4	59.9	81.2
	High	18.1	55.1	35.6	20.2	22.3	24.7	19.5	26.3	22.7	18.9	15.1
Service workers, shop and market sales workers	Low	21.3	31.6	6.0	30.8	25.7	17.3	11.7	11.8	9.1	34.6	8.4
	Medium	68.2	60.5	35.1	44.9	43.5	74.2	65.1	46.8	79.0	54.6	84.7
	High	10.4	7.9	58.9	24.2	30.7	8.5	23.2	41.4	11.9	10.8	6.9
Craft and related trade workers	Low	12.0	44.5	15.9	31.3	38.7	—	26.3	28.5	—	43.9	11.3
	Medium	78.3	34.0	50.9	56.0	33.5	—	40.6	49.5	98.3	49.2	86.8
	High	9.8	21.4	33.3	12.7	27.8	—	33.1	22.0	1.7	6.9	1.9
Elementary occupations	Low	48.6	81.9	57.0	50.3	63.0	35.0	47.7	55.0	27.9	57.0	42.5
	Medium	45.9	10.4	34.6	36.8	33.4	65.0	41.5	37.2	71.1	37.4	55.8
	High	5.5	7.7	8.4	12.8	3.6	—	10.8	7.8	1.1	5.7	1.7

Source: Eurostat, 2008

Analysing the financial sector based on educational prowess, one can see that there is a relatively large number of managers and senior managers with a high level of education in countries such as Spain and the Netherlands. The largest number can be found in Poland. Interestingly, the proportion of senior managers with high education is much higher in the NM10 than in EU15 (the difference reaches 25.5 percentage points). Therefore one can conclude that only graduates attain high managerial positions in the NM10 but in the old member states there remains some possibility to be promoted from the ground up.

There are remarkable dissimilarities regarding IT employees. This concerns the number of employees with an intermediate level of education; there is a divergence of some 63.6 percentage points between France and Italy. Likewise, this reflects the category of employees with higher education: there are countries which possess a high number of such employees, such as Spain or France, and those with a significantly lower level of IT employment like Italy. Moreover, there is a difference of some 10 percentage points between the EU15 and the NM10.

However, there are sizable variances, for example between Italy and Poland which reaches almost 30 percentage points.

Table 16 Change in employment; financial services by level of education
Percentage point change, 2000 to 2006

		Financial services									Total economy	
		DE	ES	FR	IT	NL	PL*	UK	EU 15	NM 10	EU 15	NM 10
Legislators, senior officials and managers	Low	0	-3	-2.9	-0.4	1.8	—	-0.8	-1.4	-0.8	-1.8	1.5
	Medium	2.8	-14.1	-3	-3	-11.5	—	-2	-4.3	-13.3	-0.3	-0.6
	High	-2.8	17.1	5.9	3.4	13.2	—	2.8	5.6	14.1	2.1	2.2
Computing professionals and computer associate professionals	Low	-0.3	—	-2.9	—	-1.7	—	-2.8	-1.8	-0.9	-0.6	-0.5
	Medium	-2.9	10.9	-10.8	-19	-0.6	—	4.1	-3.1	-9.3	-1.4	-8.2
	High	-3.2	12	13.7	19	2.4	—	-1.3	4.9	9.2	-2.0	8.7
Business professionals, finance and sales associate professionals	Low	0.3	-15.2	0.2	0.1	-2.2	—	-5	-3	0	-1.4	-1.0
	Medium	0.6	-3.5	-1.5	-4.8	-12.2	—	-1.5	-3.8	-14.9	-2.4	-14.9
	High	-0.8	-18.7	1.3	4.9	14.4	—	6.4	6.8	15.4	3.7	15.9
Professionals, technicians and associate professionals	Low	-1.4	-5.7	0.2	2.6	-2.4	—	1.0	-1.1	-2.0	-0.9	-0.9
	Medium	1.7	5.4	-4.7	-9.6	-18	—	5.8	-2.9	-17.2	0.3	-6.4
	High	-0.3	10.9	4.4	7	20.3	—	-6.8	3.9	17.4	0.6	7.3
Clerks	Low	-2.2	-6.3	-1.7	0.4	-1.2	—	-7.4	-3.4	0	-3.9	-3.1
	Medium	3.1	-5.8	-6.2	-7.2	-4.2	—	3.5	-1.4	-8.5	0.2	-3.0
	High	-1.3	12.2	7.9	-8.1	5.3	—	3.8	4.7	9.9	3.7	6.1
Service workers, shop and market sales workers	Low	34.3	16.1	8.8	1.9	-41.7	—	-15.2	-15.3	-2.4	-6.9	-3.4
	Medium	32.4	40.9	-29.3	-8.4	20.7	—	9.6	-5.2	-9.1	3.9	2.5
	High	17.2	57	38.1	5.2	20.9	—	5.6	21.4	0.7	3.0	0.9
Craft and related trade workers	Low	-0.7	10.2	14.7	19.8	11.8	—	-29	-8	—	-4.2	-4.1
	Medium	3.1	-21.9	-6.5	6.6	-39.6	—	4.2	-4.9	13.2	3.3	5.0
	High	-3.7	11.6	21.3	—	—	—	24.8	12.9	-1.8	0.8	-0.9
Elementary occupations	Low	5.4	-1.4	15.1	29.0	-25.1	—	-14.0	-8.4	1.9	-8.7	-17.6
	Medium	6.0	-4.9	6.7	16.1	21.5	—	3.2	2.7	-2.9	7.2	17.6
	High	0.6	6.2	—	—	—	—	—	5.6	—	1.6	-0.1

* data available only from 2006
Source: Eurostat, 2008

In the category of professionals and technicians, the major observation is that there are more employees with an intermediate skill level in EU15, while the contrary is true for those possessing qualifications that reflect a higher level of education. A greater number of employees with a high skill level can be found in the NM10. These figures need to be assessed with the distribution by age. A significant number of young highly skilled graduates are entering the sector.

In the category of clerks there are more employees with a medial skill level employed in the NM10. However, one remarks that the percentage of this group is indeed smaller in proportion to that of employees with a higher skill level in a similar group. In the clerk group, there are significant differences among countries: for example in Germany the majority of clerks have a medial level of education, while in Spain the majority of clerks have high level of education.

Although in contrast they do not represent a large share of occupations, an interesting observation can be made by analysing service, shop, and sales workers. It is striking that the number of employees in this group with higher education is significantly lower in NM10 than that of the EU15 which represents a divergence of 29.5 percentage points.

By looking at the difference in the educational level in the group of senior managers between 2000 and 2006, the general observation is that the number of employees with a medial level of education is decreasing in the NM10 to an even greater degree than in the EU15. At the same time, the number of senior managers with a higher level of education is increasing, again to a greater extent in the NM10. However, the largest increase of high skilled senior managers has been observed in Spain.

The change in qualification levels can also be acutely seen within the IT group. The number of employees with medial skills is decreasing, while the number of employees with high skills is increasing. The only country where the share of IT employees with a medial level of education increased was in Spain. The biggest increase in the share of the employed with a high level of education was observed in Italy, followed by France. Often increases and decreases are exactly or nearly proportional; a decline of 10.8% of medially skilled workers in France is contrasted by an augmentation of 13.7% of highly skilled workers. One can see a mirror image in Italy where a decrease of 19% is contrasted by an increase of 19%.

With the growth of highly educated employees, employment of low skilled and medially skilled employees in the category of business, finance, and sales professionals is slowly diminishing in all EU countries. This trend is even more evident in the NM10.

In the category of professionals and technicians in all the European countries, there is a shift between medially skilled employees and highly skilled employees. In the NM10 the shift is more pronounced. This mirrored effect is present in the entire economy, but more acute in the financial services sector. The biggest decrease in medially educated employees, distinguished by the largest increase of highly educated employees, is found in the Netherlands. There was likewise a significant decrease of the employment of medially skilled employees in the NM10.

It is astonishing that the number of employees with a high level of education also increased in service, shop and sales activities, though to a greater extent in the EU15 than in the NM10. A possible explanation for this is that one has come to expect higher competencies among these personnel.
From these trends one can conclude that there is an inclination to upgrade occupational skills. The major change is in the increase of the share of highly skilled personnel in IT, finance, business, sales professionals and in the clerks group sectors.

If we consider the LFS 2007 figures, we can see that the share of low-skilled employees and people with basic schooling is still decreasing amongst all the groups, as well as in EU15 and the NM10. We can also see that the percentage of medium-skilled people is decreasing within the group of “managers” and within the two groups of professionals and clerks. The workforce structure is changing towards a high-skill profile.

1.4.6. Employment by age group

Table 17 Employment by age group; financial services
Percentage of total employed in each occupation, 2006

	Age group	Financial services									Total economy	
		DE	ES	FR	IT	NL	PL	UK	EU 15	NM 10	EU 15	NM 10
Legislators, senior officials and managers	15-39	36.2	39.3	35.4	19.4	41.0	46.0	53.3	40.8	46.9	35.1	39.1
	40-49	34.1	35.3	33.9	37.6	38.4	29.4	31.4	34.3	30.8	32.4	30.7
	50+	29.7	25.4	30.7	43.0	20.6	24.6	15.2	24.9	22.2	32.5	30.2
Computing professionals and computer associate professionals	15-39	45.9	55.0	51.0	34.7	47.6	69.6	62.6	52.8	67.7	61.8	73.9
	40-49	34.6	30.7	27.7	38.6	36.6	18.6	28.0	31.0	18.4	26.1	15.6
	50+	19.5	14.3	21.4	26.7	15.8	11.8	9.4	16.2	13.9	12.2	10.5
Business professionals, finance and sales associate professionals	15-39	43.4	51.9	49.2	43.2	57.3	62.9	63.8	51.5	60.4	55.8	60.5
	40-49	31.6	26.2	36.1	30.9	24.8	23.0	21.4	27.2	23.5	23.7	21.8
	50+	25.0	22.0	14.7	26.0	17.9	14.2	14.9	21.3	16.2	20.6	17.7
Professionals, technicians and associate professionals	15-39	44.5	54.5	39.1	50.4	59.4	52.3	60.8	47.7	55.0	45.1	47.5
	40-49	31.8	26.0	25.5	35.9	24.0	20.6	25.2	29.3	22.0	28.6	27.0
	50+	23.6	19.5	35.4	13.7	16.6	27.1	14.0	23.0	22.9	26.3	25.5
Clerks	15-39	49.2	57.9	45.6	50.9	58.6	61.7	66.4	54.3	60.8	50.9	54.6
	40-49	28.1	22.5	24.9	31.3	25.7	22.8	19.2	25.4	23.4	26.7	25.4
	50+	22.6	19.6	29.6	17.8	15.7	15.5	14.6	20.3	15.8	22.4	19.9
Service workers, shop and market sales workers	15-39	28.6	66.2	76.8	79.3	48.5	59.8	72.3	71.3	56.9	57.6	60.9
	40-49	30.1	27.9	10.9	16.9	20.5	31.7	7.9	13.5	25.2	23.8	22.8
	50+	41.3	5.9	12.3	3.8	31.0	8.5	19.8	15.2	17.9	18.7	16.4
Craft and related trade workers	15-39	23.8	55.1	53.2	42.1	63.5	—	40.4	39.4	27.8	49.5	51.9
	40-49	28.7	17.5	32.1	29.5	—	11.8	22.8	27.1	25.2	27.6	27.7
	50+	47.5	27.5	14.7	28.3	36.5	88.2	36.8	33.4	47.0	22.8	20.4
Elementary occupations	15-39	20.2	22.6	63.3	28.6	42.1	38.9	45.6	34.9	26.2	42.8	41.2
	40-49	31.8	36.7	21.7	51.3	15.0	26.7	20.1	26.8	29.4	27.1	23.9
	50+	48.0	40.7	15.0	20.1	42.9	34.5	34.3	38.4	44.5	30.1	34.9

Source: Eurostat, 2008

By looking at the age structure of the financial sector in 2006 in the EU27, one can observe that this sector is “younger” in the NM10 than in the EU15. Likewise there is a more than 50 point difference in the NM10 of personnel employed in the lower occupational level than in the EU15.

The greatest number of young people aged 15 to 39 in the senior management positions are employed in Poland and the UK. The oldest senior managers can be found in France, Germany and Italy – the majority of whom are over 50.

Similar observations concern IT employees. This youthful group totals 52.8 % of its employees between the ages of 15 and 39 in the EU15. In the NM10, this predisposition is even starker at 67.7%. There is almost a 15 percentage point difference in favour of the NM10 in the age category 15-39 and 40-49. The smallest number of “young” IT personnel are employed in Italy, which also counts proportionally less IT employees.

One finds a similar pattern across different age categories among business, finance and sales professionals. However, these groups are inclined to be even younger in the NM10 whose professionals and technicians have a median age between 15 and 39 compared to a median age between 40 and 49 in the EU15.

In the category of clerks the age pattern tends to be quite similar between EU15 and NM10, though there are still more numerous clerks over 50 in the EU15.

With the exceptions of Germany and France, the age distribution for all professional and clerk groups mirrors that of the total economy.

Table 18 Change in employment by age group; financial services
Percentage point change, 2000 to 2006

		Financial services									Total economy	
		DE	ES	FR	IT	NL	PL*	UK	EU 15	NM 10	EU 15	NM 10
Legislators, senior officials and managers	15-39	-8.9	3.6	2.4	-9.6	-0.3	—	-5.1	-3.3	9.2	-5.4	0.8
	40-49	-7.0	-5.1	3.6	1.9	-5.0	—	-4.7	4.0	-14.7	3.5	-5.8
	50+	-3.5	1.4	-5.9	7.7	-2.1	—	0.3	-0.7	5.4	1.9	5.0
Computing professionals and computer associate professionals	15-39	-13.8	-34.2	0.1	-47.0	-13.8	—	-15.4	-14.7	2.0	-7.6	4.5
	40-49	5.0	20.2	-5.0	20.3	-25.9	—	9.7	8.1	-0.3	5.3	-5.3
	50+	19.6	—	5.0	—	-1.1	—	5.6	6.6	-1.7	2.4	0.8
Business professionals, finance and sales associate professionals	15-39	-0.2	-7.8	-14.4	-9.2	-8.3	—	-1.5	-5.8	1.0	0.3	7.1
	40-49	1.3	1.6	12.2	3.1	-38.3	—	1.5	2.8	-3.2	-0.2	-6.6
	50+	10.8	6.3	2.2	6.3	-2.5	—	0.1	3.0	2.3	0.0	0.5
Professionals, technicians and associate professionals	15-39	-6.6	-3.8	-9.2	0.5	-8.5	—	3.4	-5.9	0.3	-3.2	1.6
	40-49	7.2	-2.5	-6.9	2.6	-37.9	—	-6.5	2.5	-7.9	-0.4	-4.6
	50+	3.8	6.3	16.1	-3.1	6.0	—	3.0	3.4	7.6	3.6	3.1
Clerks	15-39	-7.7	8.4	-1.8	-4.7	-10.5	—	-4.7	-4.0	-3.3	-4.7	2.8
	40-49	3.8	-12.3	-10.3	1.8	-42.6	—	2.0	-0.4	-1.1	1.1	-5.6
	50+	10.0	3.9	12.2	3.0	0.9	—	2.8	4.4	4.4	3.5	2.6
Service workers, shop and market sales workers	15-39	-9.8	-13.4	-2.4	-1.8	-24.9	—	-4.3	2.4	-11.6	-2.5	-2.0
	40-49	-5.4	14.1	-3.1	4.0	-41.6	—	-10.3	-4.2	4.0	1.7	-2.2
	50+	-1.5	-0.7	5.4	-2.2	11.3	—	6.0	1.8	7.6	0.9	4.3
Craft and related trade workers	15-39	-10.4	10.9	5.1	-7.3	14.7	—	-10.3	-3.7	-23.5	-4.9	-2.8
	40-49	-11.3	-30.4	17.8	-18.3	-27.6	—	-4.2	-5.9	-12.0	2.2	-2.4
	50+	—	19.5	-22.9	25.5	21.3	—	14.5	9.4	35.4	2.6	5.2
Elementary occupations	15-39	-5.3	-18.3	14.4	-6.4	24.2	—	15.9	4.4	-16,5	-3.7	2.5
	40-49	9.4	10.0	0.8	26.4	-7.4	—	-2.7	1.8	-0.1	2.6	4.5
	50+	37.5	8.3	-11.7	-19.9	-4.5	—	-13.3	-6.0	16.8	1.1	-7.0

* data available only from 2006
Source: Eurostat, 2008

The most significant changes were observed in Germany and the Netherlands, particularly in the over 50 category.

1.4.7. Employment by gender

In general, senior managers are more likely to be men in the EU15 – the highest disparity can be observed in Italy where 81.6% are men and 18.4% are women; and in Spain 84.8% men and 15.2% women. The lowest gender gap is found in France. In the case of New Member States the proportion of male and female employees is more equal at 53.3% men and 46.7% women. Proportionally there are more women employed in senior positions in the financial sector than in the whole economy both in the EU15 and the NM10.

The share of men employed in IT jobs amounts to 80% both in the EU15 and NM10.

In the categories of business, finance and sales the majority of female employment can be observed in France and Poland. Again, in the NM10 the majority of employees in these occupations are women. Regarding professionals and technicians, there is a visible trend of prevailing male employment in the EU15 and female employment in the NM10.

The same situation can be found in the category of clerks: there is predominant female employment both in EU15 and NM10; however in NM10 there are many more women employed in this occupation than men (difference of more than 20 percentage points).

Table 19 **Employment by gender; financial services**
Percentage of total employed in each occupation in sector

		Financial services									Total economy	
	Sex	DE	ES	FR	IT	NL	PL	UK	EU 15	NM 10	EU 15	NM 10
Legislators, senior officials and managers	Men	70.0	81.6	58.7	84.8	75.2	50.3	64.6	67.0	53.3	67.4	66.3
	Women	30.0	18.4	41.3	15.2	24.8	49.7	35.4	33.0	46.7	32.6	33.7
Computing professionals and computer associate professionals	Men	78.4	80.0	63.6	82.6	84.3	88.4	87.3	79.0	82.2	82.7	79.5
	Women	21.6	19.9	36.4	17.4	15.7	11.6	12.7	21.0	17.8	17.3	20.5
Business professionals, finance and sales associate professionals	Men	75.1	56.2	38.0	70.2	60.9	28.4	59.7	61.6	33.0	59.3	42.4
	Women	24.9	43.8	62.0	29.8	39.1	71.6	40.3	38.4	67.0	40.7	57.6
Professionals, technicians and associate professionals	Men	54.9	42.8	44.3	41.8	52.6	19.1	50.8	49.9	25.3	46.6	38.6
	Women	45.1	57.2	55.7	58.2	47.4	80.9	49.2	50.1	74.7	53.4	61.4
Clerks	Men	39.3	45.7	25.7	46.8	30.8	12.5	26.5	35.7	14.8	30.6	28.7
	Women	60.7	54.3	74.3	53.2	69.2	87.5	73.5	64.3	85.2	69.4	71.3
Service workers, shop and market sales workers	Men	36.0	40.9	20.2	44.4	41.4	71.7	42.7	31.3	81.4	31.3	35.2
	Women	64.0	59.1	79.8	55.6	58.6	28.3	57.3	68.9	18.6	68.7	64.8
Craft and related trade workers	Men	84.8	77.5	73.1	64.3	88.0	100.0	87.6	81.2	97.6	88.4	79.6
	Women	15.2	22.5	26.9	35.7	12.0	—	12.4	18.8	2.4	11.6	20.4
Elementary occupations	Men	25.1	22.8	7.5	57.2	7.0	28.0	46.3	31.4	20.2	53.0	52.8
	Women	74.9	77.2	92.5	42.8	93.0	72.0	53.7	68.6	79.8	47.0	47.2

Source: Eurostat, 2008

Consequently, as of 2006 there were more women employed in the occupational categories sector. The most pronounced change can be seen in both the senior management category and the elementary occupations. The only occupation category where the proportion of male employment increased was IT jobs; moreover, the increase was more significant in the NM10 than in the EU15.

Table 20 **Change in employment by gender; financial services**
Percentage point change, 2000 to 2006

		Financial services									Total economy	
	Sex	DE	ES	FR	IT	NL	PL*	UK	EU	NM	EU	NM

									15	10	15	10
Legislators, senior officials and managers	Men	-9.9	-4.8	-12.4	-4.9	-3.6	—	-0.8	-5.8	-10.3	-2.5	-2.8
	Women	9.9	4.8	12.4	4.9	3.6	—	0.8	5.8	10.3	2.5	2.8
Computing professionals and computer associate professionals	Men	-2.5	7.0	-13.2	14.4	-0.8	—	10.5	0.7	18.3	0.3	8.3
	Women	2.5	-7.0	13.2	14.4	0.8	—	-10.5	-0.7	-18.3	-0.3	-8.3
Business professionals, finance and sales associate professionals	Men	1.7	-10.3	-4.2	0.4	-8.0	—	-6.8	-3.9	-6.0	-5.9	-0.8
	Women	-1.7	10.3	4.2	-0.4	8.0	—	6.8	3.9	6.0	5.9	0.8
Professionals, technicians and associate professionals	Men	1.8	-11.3	-4.7	-7.4	0.2	—	-5.6	-2.2	-3.9	-1.6	-1.6
	Women	-1.8	11.3	4.7	7.4	-0.2	—	5.6	2.2	3.9	1.6	1.6
Clerks	Men	0.7	-13.7	-2.2	-6.8	1.2	—	3.1	-2.0	-1.5	-1.8	5.2
	Women	-0.7	13.7	2.2	6.8	-1.2	—	3.1	2.0	1.5	1.8	-5.2
Service workers, shop and market sales workers	Men	5.8	-20.2	-14.3	5.1	-5.2	—	12.4	-8.0	7.6	-2.6	1.1
	Women	-5.8	20.2	14.2	-5.1	5.2	—	-12.4	8.0	-7.6	2.6	-1.1
Craft and related trade workers	Men	6.0	-22.5	-2.0	-23.7	12.0	—	9.0	-6.0	3.8	-1.3	2.8
	Women	-6.0	—	2.0	23.7	—	—	9.0	6.0	-3.8	-1.3	-2.8
Elementary occupations	Men	-3.3	-15.8	-25.9	-5.8	-23.0	—	-7.1	-3.7	-22.8	-1.0	2.9
	Women	3.3	15.8	25.9	5.8	23.0	—	7.1	3.7	22.8	1.0	-2.9

* data available only from 2006
Source: Eurostat, 2008

1.5. Excursus: review of forecasts for the sector

A few forecasts exist for financial services. As part of the skill needs projections, CEDEFOP recently presented data for the European financial services sector among the complete set of sectoral forecasts. Moreover, the Bureau of Labour Statistics continuously publishes data of occupational change in the US.

CEDEFOP

The Synthesis Report "Future skill needs in Europe, medium-term forecasts" (2008) expected a flat situation for financial services sector until 2015 with no growth for this period: in relation to overall employment the sector that represented 3% of total employment in 1996 will only have a share of 2.7% in 2015. The figures for banking and insurance are given by Table 21.

It can be noted that with these forecasts, made before the financial crisis, the trend for employment in the banking and insurance industry will be lower than in the whole sector of services. “Business and miscellaneous services” have the best prospects with almost 9 million additional jobs being created between 2006 and 2015.

Table 21 CEDEFOP forecast

	Levels (‘000)			Percentage change	
	1996	2006	2015	1996-06	2006-15
Business and other services	34 022	34 568	54 559	3.0	2.0

Banking and insurance	5 743	6 014	6 032	O.5	0.0
Other business and defence	17 424	26 140	33 079	4.1	2.7
Miscellaneous services	10 855	13 485	15 448	2.2	1.5
All sectors	192 714	210 656	223 936	0.9	0.7

Source: CEDEFOP/IER (2008)

Bureau of Labour Statistics (USA)

According to the "Career guide to industries" (Bureau of Labour Statistics, 2008), the banking sector in the USA will increase by 4% until 2011 (while 11% are expected for all the industries) and the insurance sector (including brokerage and self-employed experts) will increase by 7.4%.

A long-term reduction of employment is expected in the banking industry for:
- back office jobs and all sorts of administrative support jobs,
- for general management and corporate jobs,
- for credit analysts (because of the development of credit scoring)
- for data entry keyers

Increases are forecasted for:
- financial analysis
- personal financial advisers
- computer specialists
- tellers

As for the insurance sector, that represents the larger share of employment in the US, „job growth … will be limited by corporate downsizing, new technology and increasing direct mail, telephone and Internet sales, but numerous job openings will arise from the need to replace workers who leave or retire. Growing areas of the insurance industry are medical services and health insurance, and its expansion into other financial services such as securities and mutual funds."

Employment reduction could be expected in the insurance sector from 2006 to 2016 for:
- computer programmers
- file clerks
- data entry keyers

and increases for:
- computer system analysis
- insurance sales agents
- customer service representatives
- financial analysts.

2. Main trends of change and drivers

2.1. Market growth in Europe

European financial services experienced exceptional growth during the last ten years. This was already presented in detail in Section 1.2. In addition to the strong and worldwide economic upswing during that period, the explanation for this rapid expansion has to searched in the enlargement of the European Union and the creation of new products on financial markets.

2.1.1. The impact of enlargement

The growth of financial service markets in the New Member States has been and continues to be crucial since the mid-1990s. It has represented a way of external growth for western companies. This current started at the end of the 1990s.

During the catch-up phase in eastern European countries, the insurance market was characterised by strong growth: over 26% on average in 2006. This demonstrates that in several countries new pension schemes are now managed by insurers.
That said, for the time being, a great share of the financial service sector in the New Member States is still dependent upon western European companies: some 85% of the banking sector in Hungary for example, or 90% of the banking sector in Slovakia.

Example: One evokes the following example of the Hungarian insurance group, the bank OTP Garancia formerly known as the single public bank during the communist regime, OTP Bank. After being privatised, the financial group developed retail banking activities, non-life insurance products and life insurance products. Then the group expanded in six eastern European countries: Romania, Slovakia, Bulgaria, Ukraine and Russia., As of 2007 OTP has 1,432 branches, 30,532 people and 32 million euros of assets. In 2008, the group sold its insurance activities (with an increased growth of 13% a year since 2004) in order to concentrate on its central business segment. It is suspected that will be acquired by the French insurance group GROUPAMA keeping true to their strategy of external eastern European expansion. The Hungarian market has been growing rapidly since 1998: premiums were tripled. GROUPAMA will become the second insurance group in Hungary.

What will the growth in eastern European countries be after the present crisis? It is sure that margins for further developments exist: only a part of the population is “bancarised”, there are people with no insurance for motor cars, property and of course life insurance. A large share of the Polish population lacks bank deposits (Belgian network for alternative financing; European Commission, May 2008).

2.1.2. Diversification and search for new markets

Over the past ten years, some examples of the constant effort of the sector to invent new products can be given. In the insurance sector, there is a constant search for new markets and new products according to the changes of welfare state benefits. This mainly concerns health care and pension funds. The expanding areas for the insurance industry are primarily in medical services and health care. Insurance companies are trying to provide new services: not only reimbursement but services.

In the banking sector the search was for direct banking activities and a wide range of speculative investment products ranging from hedge funds to credit default swaps and other options on the future.

Regarding direct banking, low cost products in order to address the ”non bancarised” people. Many are looking towards microfinance. The market is also constantly devising new products to attract the consumption of young people, such as "pay-as you-drive" car insurance. In Sweden the youth are looking to be the recipients of SMS loans, another example of this type of marketing based on consumer demand.

The real estate sector was seen not only as a guarantee but as an investment. The Dutch group ING has a real estate subsidiary which recently bought a property developer in Lyon to construct offices and commercial centres. The French group Credit Agricole, under the brand "Square Habitat", has bought 480 real estate agencies as of 2005 - that is nearly the same number of agencies as real estate companies such as the German Hypo Real Estate.

2.2. Globalisation of financial markets and international competition

The concept of "globalisation" has a wide range of meanings, but in step with the problematic aspect of employment and skills, we should stress two points:

- financial services are now more dependent on global money and capital markets;
- most firms are now global players; they seek to develop activities in a wide range of countries and seek to grow externally by employing an international strategy.

2.2.1. Financial services and global market

Description: for a considerable time in the banking industry, companies secured loans mainly with their customers' bank deposits and partly with interbank credit. In the meantime, insurers invested in the economy and in the real estate sector in order to insure their risks. This period was characterised by separation of retail activities and business activities. Currently, a substantial share of coverage is based on a large range of financial products depending on the stock exchange and global financial market. Thus, every company benefits from doing its job and by acting methodically on the global financial market. The worldwide market can be defined as a global interconnection of all assets: real estate, loans and interbank credits, exchange rates, shares, materials etc.
This represents hope for quick benefits and a certain fragility for the whole sector.

Example: the recent subprime and systemic crisis

The following is to better understand the value and risk chain in this part of financial activity which unleashed a credit domino effect, risk of failures and thus giving rise to what experts deem the credit crunch. Business or market banking is linked to retail banking activities and credits. While the prices of real estate were increasing, building brokers and credit institutions, mainly in the USA, but also in Great Britain and Spain, took to selling construction credits with a high degree of risk. Firstly, because they were sold to high risk borrowers, secondly because they were guaranteed by "commercial papers" and derivatives out of the normal accounts of the companies and balance sheet. In this way, in the run-up to the crisis, a lot of financial companies became strongly over-leveraged: in 2006, the derivatives represented 6 times the world GDP, $286,000 billions (International Swap and Derivatives Association, 2007). It was in 2000 that derivatives and credit default swaps (CDS) were excluded from regulation and in 2004 the SEC (Securities and Exchange Commission) exempted the investment banks from maintaining reserves to cover losses on investments. The "subprime" crisis has been forecasted by economists since 2005 by analysing the risk externalisation of new sophisticated products.

The debt was very high and American banks were strengthened by having the highest level of capitalisation. Some experts concluded that they faced better conditions for the globalisation and liberalisation of markets. Yet when a financial crisis appears, or if American households become insolvable, the crisis could be systemic and involve all types of financial businesses. This burdens other financial institutions, and sometimes even households, with risks.

The impact of such a crisis hits credit institutions first: some of them were near bankruptcy (such as the British Northern Rock which was nationalised by the British Government) or in urgent need of capital (such as Merrill Lynch or JP Morgan Chase). The turmoil that affected financial markets in the summer of 2007 turned for the worse in September 2008.
This crisis is acuter than that of 1991; banks and construction companies are racked by heavy losses (note CBI/Price Water House, London, 2008) and it spread worldwide when equity prices were felt all around the word.

The consequences for the whole sector are very important and as yet unknown:

- The risk of bankruptcy for some large banks has obliged them to look quickly for ways of increasing their capital. This is accomplished with the assistance of the United States which buy preference shares, or guarantee their debt, by wealth of sovereign funds or from foreign companies in emerging countries. These foreign companies can take advantage of the weakness of American or European companies in order to inject their capital.

- This cyclical weakness could lead to a new concentrated movement within the sector. This can be seen mainly in countries where the consolidation of the sector is yet to be realised. Mergers and acquisitions could have negative effects on the volume of employment.
- The credit squeeze: activity of credit and loans in banks will be reduced. With a general recession looming, such a limit is expected for individuals and companies. Therefore the whole economy could be affected by the effects of employment in all sectors. One can remark that all the banks are not concerned by the credit crunch: some of the co-operative banks for example still give loans to individuals and SMEs. On the other hand, some saving banks or mutual insurance groups are concerned because they bought “toxic products” .

The subprime crisis is not a new phenomenon: experts concede approximately 24 such financial crises since 1980. But it has capsized not only banks but money mutual funds, hedge funds, manufacturers and all sorts of companies, and even countries such as Iceland, Hungary and Ukraine. It has spread to a wider range of markets and institutions than others, including emerging countries, which until quite recently seemed to have been saved and now the fall in financial wealth is general.

We shall examine the economical and social consequences of the crisis at the beginning of the Chapter “Scenarios”.

2.2.2. Financial services groups are now European and global players

Previously held strategies for growth did not incorporate cross-border mergers, but were relatively confined as a national affair. This is mainly due to the financial sector being under the authority of active national government regulations.

Today, experts notice that the whole banking and insurance industry in Great Britain, Benelux, France, Spain, and in Scandinavia are acting beyond their own administrative and national borders; the majority of financial groups are not reticent to become global players. This is the result of a long-lasting deregulation policy at national levels and at the European level. Deregulation enhances the possibility for financial companies to access all European markets and to acquire various financial groups. More precisely, it marked the end of the dividing lines between the banking industry and the insurance industry as well as between retail banking and whole sale banking, though the current crisis now calls many of these deregulatory actions into question.

As was the case in Sweden in 1990, the deregulation in some countries meant that new financial activities, like brokering, became legal. As a result, there are now 800 brokers in just 300 small companies. One acknowledges that solely the Italian and German financial services still have to institute strategic changes to liberalise due to the continued limitation of their financial service sector by active regulation of national and regional authorities. Will this be protection?

The following indicators give examples of the new global players and their size: in 2007, large financial companies had employees throughout the world. Some of these included:
- HSBC- 312,000 employees worldwide: 57,000 in Great Britain, 50,000 in the United States, 29,000 in Brazil, 28,000 in Hong Kong etc.
- UNICREDIT-HBV- 120,000 employees worldwide: 38,000 in Italy, 27,000 in Poland, 25,000 in Germany, 15,500 in Turkey, 12,500 in Austria.
- Société Générale- 120,000 people worldwide: 58,200 in France, 9,700 in Czech Republic, 7,200 in Russia, 7,100 in Romania, 2,100 in Asia and 3,000 in the United States.
- Credit Agricole Group- 157,000 employees worldwide: 116,000 in France, 7,600 in Italy, 7,000 in Greece, 5,300 in Poland, 3,300 in Ukraine.
- BNP-PARIBAS- 155,000 employees worldwide: 63,000 in France, 20,300 in Italy, 10,400 in Ukraine, 6,400 in Great Britain, 14,500 in the United States.

Source: Internationalisation in retail financial services. "New jobs, new skills, new organisations", EBTN (European Banking and Financial services Association for Training. Paris 15-16 November 2007.)
Of course, smaller groups are still present in regional areas.

The following developments illustrate the new strategy: European financial groups are expanding into China. Inversely, Chinese funds are being introduced into the capital of western groups, like other international sovereign wealth funds:

- In 2007, the Spanish group CAIXA acquired the private banking activities of the American group Morgan Stanley. The group also took a share in The Bank of East Asia, an Asiatic group well organised in China. Hence CAIXA now has subsidiaries in Poland, Romania, and elsewhere.
- In November 2007, the Chinese group PING AN, the second most important on the Chinese market, became the primary shareholder for the Belgian and Dutch group FORTIS perhaps partly due to FORTIS being well developed in combination with Taiping Life in Asia. This fact has two important consequences: firstly, it proves that the Chinese groups are taking advantage of the subprime crisis in order to enter into the western market. Secondly, they are seeking strategic partnerships with European groups to develop innovations and new products for their own domestic market.

Increased international competition could arise from the crisis and from this great new game. This needs to be viewed against the backdrop of the high profitability of the “Anglo-Saxon” banking and insurance system countered by the German, and as of late, Japanese banking crises. The highest profitability is obtained in countries where there is an economic policy in favour of a large household debt. However, the risks are at their maximum. (Michel Aglietta, Vingt ans de mutations, in: La guerre mondiale des banques - Le Cercle des Economistes, 2007). The main question for the future will be the credit policy.

The internationalisation of the financial service sector could have several consequences for employment patterns:

- It is difficult to avoid the fallout of the global crisis leading to further restructuring and layoffs. The crisis reinforces the need for profitability: several British companies are looking for a low cost model to face the crisis. This is the case for the insurance Group AVIVA (cutting 10% of jobs in its non-life insurance company Northern Rock) and for ZFS.
- The large size of companies could lead them to a more industrious organisation with standardised products; easily delivered and a minority of skilled employees (we will examine this issue in the Chapter 4 about scenarios and competences implications).
- The worldwide organisation of firms could lead them to relocate support functions and back office jobs.
- The advantage of being a global player lies with weakened links between financial groups acting as investors and the national industry (this is the case in Germany where more than 50% of DAX companies are now under non-German control).

2.3. European single market and rules

Since 1990, national controls have to a large extent been abolished and have been replaced by European regulations, such as Basel I and II for the banking industry. Central banks in each country and the ECB are independent bodies. The rules laid down in the so called Basel I and Basel II aim to ensure a liable relation between the capital and the volume of loans dependent upon their risk degree. This has replaced the so called "ratio Cooke". Basel II encompasses a more economical approach: the level of risks would be calculated by the banks themselves as a result of their own risk evaluation. Some of the experts for the sector are now in favour of this new system because they lack confidence in their own risk management internal system. However, the latest philosophy of Basel II is relatively new and not without its failings. Under it, the consequences of new industrial regulations, like the new IFRS accounting rules, cannot be completely analysed, but some of the experts think that these new accounting rules had a “pro-cyclic” role and made the crisis worse.

For the insurance sector, the directive "Solvency I" was set up in July 2007: it requires a more solid capital basis for companies in order to assume risks and to encourage them to go to the stock exchange to raise money. However, it also established that the companies’ value will be estimated from the current market value ("fair value"), which increases the volatility of the market: this is a rule which is now being discussed among experts and company managers.

The question of the diversity of ownership in the financial services sector is also on the table for some experts and company representatives. Among the main conclusions of a recent study conducted by Oliver Wyman, published at the convention for co-operative banks: "they should have been seen as a safe haven in the current times of turbulence and uncertainty, and as a customer champion" (2007 Report for EACB). That is an important issue for employment which is better protected in the co-operative or mutual sector than in the private sector which demands a higher return ratio.

The European market (for the 27 EU Member States) is now open and in each state the barriers between the different sub-sectors have been abolished. Deregulation allowed financial service institutions to offer a wider range of products.

CEBS is the European Committee for supervisors in the banking sector. It is a body of the European Commission which is responsible for the implementation of the Basel II regulations. However, the "vision" of a single EU financial service market is being delayed by heterogeneous local market conditions such as differences in tax incentives and consumer preferences (Oliver Wyman Report, State of Financial Services Sector -2008). That is why a multitude of companies attempt to have both a decentralised organisation suitable for each county's rules and customer habits, and common industrial platforms for standardised activities.

CEIOPS is in charge of prudential rules and regulations for the insurance sector. It groups the EU 27 national control bodies and is now preparing the directive "Solvency II" for 2012 (also known as the Lamfussy Process). In July 2007, a European directive on insurance was adopted (for a survey: European Commission 's Green Paper in Financial Services Policy 2005-2010).

It is evident that in the upcoming months and years new rules will have to be established at different levels in order to answer to and to anticipate crisis.

2.4. Concentration in the financial services sector: mergers and acquisitions

2.4.1. Competition versus "too big to fail"

There may be several reasons for the process of concentration in the sector:

- The wish to enter new markets where an important growth can be expected. For example, in the New Member States western European companies are well established. Or for example in large market companies such as the English HSBC Holdings plc. (Hongkong and Shanghai Business Corporation), the Scottish RBS (Royal Bank of Scotland), or the French Axa which are all important players.
- Looking for sales economies: experts continue to debate the subject. They mostly conclude that there were no serious economic reasons to expand other than power and reputation. "The first driver for gigantic size is the struggle for power" (Michel Aglietta, Pastré, de Boissieu in La nouvelle économie bancaire, Economica, 2006).
- In order to expand into one another's markets: insurance groups, banks, and security firms are engaged in numerous mergers. This allows the merging companies to access each other's client base and geographical markets. In the USA there have been plenty of mergers since 1994. This is largely due to the abolition of both the Mcfadden Act, which accepted banks to collect only in the State where they were registered, and the Glass-Steagall Act in 1999, which separated banking and insurance activities. Seeking wider markets to spread their risk efficiently, particularly in the insurance industry, is a further rationale for mergers. Cross-selling products means that banks and insurance groups spread costs and risks across products and services. "Diversified risk spreading is positive" said Charlie McCreevy, the European Commissioner for Internal Market at the EBF dinner, September 24, 2007.
- Mergers may be perceived as help in resolving a financial crisis. After the big bank crisis of 1997, the Japanese government encouraged mergers in order to increase the consolidation

of the sector and a large number of secondary banks were closed. The government also reacted by creating a regulatory body based on the English model. Mergers resulting from the present crisis are already underway: BNP Paribas with Fortis, Barclays buying a part of Merryl Linch etc.

- New mergers and acquisitions will certainly continue as a consequence of the financial crisis, although there is now a “risk of TBTF” (too big to fail): “huge financial groups cannot fail”. “It is not inconceivable that the US will end up with four giant banks. If defaulting credit card debt then assaults these banks’ balance sheets, who is there to take them over?” (Paul Craig Roberts, Financial Times September 30th 2008).

2.4.2. Degree of consolidation in different countries and groups of countries

Firstly, it must be noted that there is a wide range of financial institutions in Europe: for example there are 7,196 different private banks (European Banking Federation general statistics on the European banking sector as at 31.12.2006).

The degree of concentration on the market varies significantly, contingent on the European country. Some of the representatives of the sector underline that diverse credit institutions are useful for each type of customer. It can also be reckoned that decentralised countries and their economies invite a wide variety of institutions from different countries and regions into their own.

The Annual CEA Report for 2007 states that the highest degree of concentration (in insurance business) can be observed in the Baltic and Scandinavian countries. The explanation is that insurers need a portfolio of a minimal size in order to spread their risk efficiency: thus smaller markets have higher concentration ratios. Indeed, the largest financial markets, such as in Great Britain, Germany, Spain and France, are less concentrated.

Medium-sized firms can be found in non life insurance companies, sometimes with so-called "mono-liners".

The top 20 insurance companies in Europe represented 52.5% of the market in 2005 (50% in 2004): the degree of consolidation in the insurance sector has slightly risen to a share of 75% of their income coming from Europe, followed by America (16%) and Asia (9%). Therefore they are "European groups" with external growth onto other continents.

Great Britain, which is the most important country for financial services, can be named as having 72% of its market concentrated in the hands of the top 10 firms in the insurance sector.

Mergers do have consequences on employment volumes and structures: there are no global statistics, but many important mergers have led to layoffs, e.g. 1,800 jobs were cut when Crédit Agricole merged with Crédit Lyonnais. When HVB merged with UNICREDIT there were 1,500 layoffs. Exceptionally, in the case of Crédit Agricole and Credit Lyonnais, 1,000 new sales related personnel were hired.

2.4.3. Relations between the three subsectors: the reality of "Bank-Insurance-Finance"

Ten years ago the main trend was the so called "bancassurance". Banks started to deliver insurance products through their numerous branches covering all parts of the country, to set up new life-insurance products. Insurance companies began investing in business banking activities. Banks had been willing to offer a larger range of saving products, to increase their assets under management, and to diversify their income sources. Over the last decade this trend has given rise to large financial conglomerates offering insurance as well as bank products. On the consumer side, the propensity to consult the bank about investing or saving money is very strong. The difference between insurance and bank products is not always obvious to the consumer, particularly between savings and life insurance products. Moreover, the wide variety of savings products offered by financial institutions and the central location of all financial services within a bank can be seen as an advantage for the customer (see Financial Services: Overview, Prospects.ac.uk, 2008).

Today, in the context of financial globalisation, the majority of financial groups are both banks and insurers. They are players on the global stock exchange and in the financial market. The financial industry has become and continues to be more integrated, encompassing bank activities, insurance activities, assets, property management, securities enterprises and brokerage activities. We should examine if this new reality has consequences on skills and training at different educational levels.

2.5. Technological changes

2.5.1. Computer science and ICT

Technology has a major impact on the banking and insurance industries. Electronic transfer payments, debits cards and ATMs (automatic teller machines) have influenced all the activities in the sector.

Meanwhile, technical and high value-added activities, including daily management, continue to be outsourced. The financial services sector is one of the first users of IT companies; the IT expenses for banks increased by 6% in 2006 alone (survey form the IDC company, January 2007). The main expenses are security of IT systems, fraud, payment systems and customer relation management.

However, it is worth noting that during the past ten years the banking sector has been more apt than the insurance sector to utilise IT processes such as the installation of automates. This is largely due to the presence of a high number of insurance intermediaries. Some experts state that the “new technologies were not applied in order to keep employment" (see interview with Mr Lobjeois, Director of the French Insurance Employment and Occupations Monitoring Centre).

Advancements in technology have also led to improvements in the ways in which banks and insurers process information. Some new developments are:
- Software package development
- IT processes
- Network architectures
- Computer science security
- Designing databases
- Customer relations management (CRM)

2.5.2. ICT and customers habits

Firstly, it must be understood that the different national markets remain very specific for retail banking because of the different laws in each country. Different pension and health care systems influence the life insurance market and other insurance products. Customers likewise retain certain habits regarding payment and financing. All the experts insist on this aspect.

Another characteristic is the “inertia” of customers’ habits. Experts explain that the low propensity to change their financial services provider is more important than for other services.

For insurance and banking companies it is an innovative discovery that the internet can potentially be a powerful tool for reaching existing and new customers. Not only to post company information but also to enable customers to access their account and billing information online. For the time being, direct internet banking or insurance products distribution on the internet is well developed in Great Britain and in Scandinavia. Whether this trend will catch on in other countries will be a question for our forecast scenarios.

Online services change a great part of the activities and distribution channels for financial products. A recent study conducted by Cap Gemini and Novamétrie predicts that by 2011 European banks will deliver one third of their products via the internet.

For the time being, the widespread uptake of e-banking cannot be confirmed and “brick and mortar” banks will continue to function, according to the Interim Report on ICT in the financial services sector from e.Business Watch (June 2008). The first period of internet banking was not a success. Zee Bank/ING Direct attempted to set up such a network in 2000 which floundered. However, today the internet has logically become a true channel for various banks in multi-channel distribution. This is the case for the British and international group HSBC. This development has important consequences on skill needs (see interview with M. Desvignes, Human Resources Manager, ING Direct).

Examples

ING Direct, Axabanque, Monabanq, develop direct services, and Groupama created in 2008 a direct channel for delivering insurance products, deemed AMAGUIZ.COM. It aimed at having 100,000 clients within four years and it succeeded (Les Echos, March 19th 2009). This new channel will complete all the traditional ones. The new subsidiary will be economically viable with jobs and intermediation costs ("low cost" said its director).

We can separate the main consequences of direct distribution for financial products as follows:

- Distribution is the driving force for the development of the whole of the financial service industry
- Standardisation of financial products
- Transparency of new problems and information for clients
- Segmentation of services by customers groups with specific databases
- Weak job creation
- Risks for the intermediaries (see interviews with Nic de Maesschalck, director for the BIPAR and the Polish Association for brokers)
- Skills needed for specialists in different channels (internet, call centres and branch tellers).
- Design of branches. Note that while online banking and the direct insurance are continuing, new branches are opening everywhere in Europe.

Will clients with major private assets demand more financial advice from banks or financial consultants? The answer is yes, but from a small number of advisers.

2.5.3. New tools for payment

- ATMs are now well developed in Europe. There are many heterogeneous methods of automatic payment, for example with credit cards.
- Europe’s new "SEPA" (Single Euro Payments Area): adopted in January 2008 and concerns the euro zone and other countries such as Liechtenstein, Switzerland, Ireland and Norway. Thus, roughly 4,500 banks will now be able to use the same means of payment as on a national market (bank transfers, cards etc.) within a window of three open days.
- Payment via mobile phone cards which currently exists in Estonia and Latvia and France is in the experimental stage. Electronic pocket money is already well developed in Japan.

2.6. How financial products are delivered: the question of distribution

2.6.1. Insurance agents or brokers

In most European markets insurance distribution is organised through professional intermediaries such as agents and brokers. Their relative market share differs however per country and in the function of market segments: life or non-life, commercial lines or large industrial risks.

In terms of market share, insurance agents and brokers represent a great majority of EU markets currently over 50% of market share in non-life insurance. Since the 1990s, alternative forms of insurance distribution, such as direct banks and internet sales, have been in strong competition with agents and brokers in the private lines insurance business.
In commercial business lines, agents and brokers continue to have the majority of the market share. In life insurance the market share of insurance agents and brokers is lower than their market share in non-life within the majority of EU Member States. In the private lines life insurance, banks and bancassurance networks compete with professional insurance agents and brokers.

Though few statistics exist about the precise market share of the main distribution channels for insurance (namely direct sales by insurance companies, sales through agents and sales through brokers) the information available demonstrates a great deal of variation across Member States.

The number of intermediary firms present in each country varies widely. In Finland there are just 70 brokers, whereas in the UK there are some 10,000 authorised intermediaries. The number of intermediary firms does not appear to be related to the size and income level of the country. This is because, in some countries, there has been a longer tradition for intermediaries to provide services to customers than in others.

The broad picture emerging from the intermediaries is of a sector populated by a large number of very small firms and a relatively limited number of large broker firms.

- In Italy there are a few big firms (100 to 1,000 employees) and many small brokers (2 to 4 employees). The top ten brokers are estimated by AIBA (Italian Association of Insurance Brokers) to have a market share of about 40%.
- In Sweden there are just three non-life firms with more than 50 employees. There are about 35 medium-sized firms (5-20 employees) and 550 small firms (1-4 employees) covering both life and non-life insurance.

With the insurance intermediary channel, the agent channel is the largest in countries such as France, Germany, Greece, Luxembourg, Portugal and Spain while in countries such as Belgium, the Netherlands and the UK, brokers are by far the largest non-life distribution channel.

2.6.2. Product delivery by the insurance companies themselves

Insurance companies deliver their products directly with a market share of 43% in Austria, 40% in Denmark and 70% in Finland (source: BIPAR, 2007).

2.6.3. Product delivery by bank branches

The Netherlands has the most important share of products delivered by banks and post offices (16%). In Portugal and Estonia their shares are 11% and 10%, respectively. Shares are, however, generally increasing; in Great Britain 5% of the insurance products were delivered by banks in 1996 and 17% in 2006 (Bipar Information, November 2007).

2.7. SWOT Analysis

We deem the financial services sector to be integrated, hence we shall present the SWOT analysis for the whole sector.

Table 22 Strengths and weaknesses of EU financial services

	Strengths	Weaknesses	Opportunities	Threats

Markets	• The European market share assures a good position in the world	• Strong dependency on global capital markets • Substantial amounts of risky products	• EU15: new markets for health care and pensions schemes • NMS: new markets for all products • Expanding markets in emerging countries	• Financial crisis will lead to a severe downturn • Decreasing population represents a risk of downsizing the markets • Economic risks in the NMS
Structure of business	• Global players acting in different local markets • A pluralistic financial system with different types of ownership • For the most part, banking institutions are commercial banks with a high level of deposits	• Strong needs for re-capitalisation but companies are weakened • Consolidation must be achieved in many countries	• Global players can take the opportunity to buy companies all over the world	• Many companies can face difficulties due to the financial crisis • Not enough capital for saving banks, co-operative banks and mutual insurance groups
Distribution	• High flexibility based on different channels providing products, advice, and services • Large distribution networks • Banc-assurance: banks using their networks to distribute insurance products • Particular experience with internet banking	• Lack of customer confidence • Conflict between direct banking, insurance distribution and value-added services in proximity to the client • Financial management needs trust, transparency and information	• New offices and branches to be created in NMS • Promoting new distribution channels according to a new generation of customers	• Internet banking and internet insurance lack customer trust and need to be based on a new financial culture
Innovation	• Some of the most innovative clusters in the world (UK-London, Luxembourg, Ireland) • "Brains in Europe": high-skilled people for innovation	• Loss of confidence in innovation capacities: the crisis is partly due to innovative financial products • Lack of adequate risk management • Lack of strategic controlling	• To practise mass-customisation on one hand and high value added personal service on the other	• NMS are depending on the western companies and their innovation policies
Skills	• Sound knowledge base due to high-skilled staffs • Strong links between companies and educational institutions in the EU15 countries	• Potential skills shortages for highly skilled personnel • Underdeveloped training capacities in NMS	• Demographic change allows renewing staffs • Reinforce the qualification level to deliver more advice and services	• Loss of attractiveness as an employer
Social dialogue	• High level of unionisation in the EU15 and a fair dialogue in western countries • Some innovative studies at the European level	• The social dialogue in the financial services sector was built in a growth period with benefits for wage and career development	• Develop social dialogue in the crisis • Anticipate the social impacts of employment change • Develop negotiation on career paths and lifelong training	• Lack of social dialogue in companies in the NMS

Source: DKRC/Economix

3. Emerging competences

At the backdrop of a low volume of employment development or of declining employment in the sector, there are multiple changes in the structure of occupational profiles. There are new requirements for a higher level of formal education and new competences which are required to do the jobs. These needs are to fulfil a customer oriented organisation in all the businesses.

We can describe six main functions in the financial services sector with new skills needs and new emerging competences for the occupational profiles in each function. For details see Table 23.

Firstly though, we must repeat that in every sector each function is becoming "customer oriented". This comprises likewise IT jobs (except for some jobs in "logistic" and support functions), so the usual distinction between front office jobs and back office jobs is less distinct.

The six main functions are the following according to the ISCO classification of EUROSTAT:

Table 23 Main functions

FUNCTIONS	OCCUPATIONAL GROUPS (ISCO)
Back office	• Professionals, technicians and associate professionals • Clerks
Front office	• Business professionals, finance and sales associate professionals • Professionals, technicians and associate professionals
Middle office	• Legislators, senior officers and managers • Business professionals, finance professionals • Professionals, technicians and associate professionals
R & D	• Legislators, senior officers and managers • Business professionals, finance professionals
IT	• Business professionals, finance professionals • Professionals, technicians
Management	• Legislators, senior officers and managers • Business professionals, finance professionals

Source: DKRC/Economix

3.1. Competences for back office

Back office can be divided into four specific functions:
- the traditional administrative and secretarial back office
- the back office for sales and managing insurance contracts
- the wholesale bank back office
- the back office in intermediaries and small companies.

For the insurance industry, the back office function is broad: it includes all operations for underwriting contracts and policies, answering and resolution of claims and liquidation. The banking industry is concerned with the handling of information, which is primarily controlled by IT.

Over the past ten years, employment in the financial services sector has remained stable but there are two major changes in the structure of the workforce which are still taking place:
- The traditional administrative and secretarial back office is acutely declining in all countries. The proportion between commercial or sales related jobs and back office administrative jobs has changed. We can see from the EUROSTAT statistics (Chapter "Mapping" 1-2) that in the EU15, the share of clerks in the total employment of the sector had decreased while the share of professionals had increased.
- As a consequence, the proportion between medially skilled employees and highly skilled ones has also changed, as we can see with the Chart about "level of education". In the banking industry, the French Monitoring Centre for Banking Employment notes that the share of technicians decreased from 72.1% in 1996 to 58.9% in 2006, while the share of "cadres" (a high level of education and five years of academic studies or equivalent by internal training and promotion) increased from 27.9% in 1996 to 41.1% in 2006.

- If there is no contact with the "insured" or the bank customer, the work can be done anywhere, with big platforms handled by the administration through IT tools: e.g. in France and Spain 63% of insurance claims are resolved without any physical contact. Therefore, tasks can be realised by automised systems, within huge shared services centres, or in foreign outsourced call centres or administrative centres. The main drivers are productivity and cost effective work.
  There can be contact between the client and the company's employee concerning a claim or dossier, the schedule for reimbursement, or the search for new services. Due to these multifarious tasks, the job requires more finance and business knowledge and more relational competences than previously known. In the insurance sector, Mr. Ferec, HR Manager for Generali, insists that the traditional back office administrative are now expected to provide personalised and quality service to each individual client.
- The" wholesale bank" (business and investment banking) requires a new type of back office which appeared from managing securities that can work not only for its parent company but for any kind of financial of company. It requires specialised IT personnel.
- Administrative and support services such as archives, reprography and editing are no longer at the heart of businesses and have therefore been externalised.

The so-called "sheltered jobs" have become an anomaly in almost every European country. In the study "Structural change in the financial services sector and consequences on employment and training" (Bernard Brunhes Consultants, 1998), we noted that the volume of back office jobs was formidable in countries such as Greece, Austria, Spain, France, Ireland and Italy. Yet these occupations were done away with in the New Member States, in Great Britain and in Scandinavia. However, the decline in the "clerks" group has alleviated. As for the NM10, the Tables show that they have directly adopted a customer-oriented work organisation based on young educated professionals.

Some of the occupational profiles within this function are:
- Administrative agents
- Administrative and banking technicians
- Credit technicians
- Claims technicians
- Accountants

Competences for the back office function :
- Insurance intermediaries, clerks and technicians who are in contact with the client (via different channels) must have new soft competences such as communication skills, reactivity and the ability to propose new services
- Extensive knowledge of the various and changing products
- Knowledge of the process
- IT literate

Examples of relocation

British companies were the first in Europe to undertake a wide relocation policy. In 2004, the British insurance group AVIVA (operating in UK under the name of Norwich Union) decided to outsource 2,500 jobs to India: 500 in call-centres and 2,000 for administrative back office and the computer science department.

The French group AXA recently decided to create 1,500 jobs in Morocco in order to manage a new contract with an automotive group. The CEO insists that news jobs will be created in France (Le Monde, 13.03.07) needing the same skills. His reason for creating jobs rather than outsourcing is to avoid losing essential skilled French employees.

In 2003 the HSBC banking group relocated 4,000 jobs (it employed 55,000 people in GB) to India, Malaysia and China. British Unions still exhibit signs that this debate is far from waning.

3.2. Competences for the new middle office for control and financial operations

Traditionally in this sector, a stark contrast was made between back office operations and front office operations. Today, however, many employment experts note that a new function has appeared. With the inception of this function, experts and specialists with a high level of education are needed. The new European regulations and the recent financial crisis have led to a reinforcement of this function. By combing the functions of both back and front offices, though skilled employees are needed, their number is limited.

Beyond this fusion of back and front office functions, many specialised employees are sought after. These include market analysts, risk analysts and risk managers, property managers, assets managers, experts for local finances and actuaries in insurance businesses. Therefore, one can conclude that there is a development in heavy specialisation.

Property management and enterprise relations are carried out by staff with high level of education (higher education university degree or five years of university or vocational training) dependent upon the criteria of the country.

Among the jobs encompassed in this new function are:
- market specialists
- risk analysts
- risk managers
- actuaries
- project managers

One can note that they are all highly skilled and specialised and they are all in development.

Among the competences required by the middle office function are:
- Deep finance process knowledge
- Specialised accounting and reporting knowledge
- Knowledge of the products and their risks
- Knowledge of the law (national, European, international)
- Foreign language knowledge (English) for the international regulation framework
- IT literate

3.3. Competences for front office, marketing and sales related occupations

All of these tasks represent an increasingly important function in companies. We can divide the sales function in three parts :

- Marketing
- Direct sales (in call centres or on the internet)
- Clients counsellors in branches, local insurance offices or local intermediaries offices

The marketing function is equated to the design of new products, communication campaigns and the sales functions. It is the preparation for sales: the product, marketing and publishing operations are based on clients differentiation using statistical research, defining targets and communication channels.

The industrialisation of data and information management has been developed in tandem with customer relations. It is based on industrialised CRM (Customer Relation Management) on one hand and on personal contact on the other hand.

Call centres do not enjoy an irreproachable reputation, especially in the United Kingdom. This is due to many factors, among them the employment of youth for short term contracts and poor working conditions. In most countries call centres do "hard selling" and employ an army of temporary staff in order to sell as much as possible in a short amount of time.

Counsellors: In this sector every job in each different branch and local office is defined as "sales related". In the insurance and banking industries these jobs require a wide range of knowledge about a wide range of products. Employees are not only expected to be competent but also to possess a sense of inventiveness about the daily use of Internet and Communication Technologies, therefore being able to provide clients with the necessary solutions.
Often "sales related jobs" are the first jobs proposed to young graduates. As long carriers are proposed in the financial services sector (internal labour market is the rule in large companies), these young people can work their way up to marketing (design of new products and new ways to deliver them) or to middle management.

A major part of Human Resource Managers in the sector acknowledge that with the demographic shock and competition for employees, it becomes all the more difficult to attract young graduates to sales. Competences such as personal sociability and affability are much appreciated and these jobs cannot be held by older employees who have been in the company for a long period of time.

The scenarios need to explore different ways for the design of this "sales related function". Is it preferable to have a qualitative approach which is advice-oriented or an industrial approach which is intensively selling-oriented? The consequences for needed skills are extremely important. When companies look at hiring people in mass distribution, it is a choice in regards to the alternative. For many industrial sectors, the challenge is now for financial services to be both a mass marketing sector and a sector with a high level of customer relations and services.

Some of the job profiles within this function are:

- Tellers
- Cashiers
- Sales personnel
- Insurance technicians
- Insurance agents
- Brokers
- Loan client counsellors
- Securities, commodities sales people
- Marketing and sales managers

The emerging competences for the front office function are:

- Ability to work in a multi-channel environment
- Reactivity
- Resistance to stress
- Knowledge of the products
- Communication skills
- Sense of responsibility

3.4. Research and development function – competences for innovation

Research and development

This represents a new function for the financial services sector, built on the pattern of research and development departments in industrial companies. It encompasses economists (in general the department is directed by a high level, well known economist, with a "chief economist" having worked in international institutions for example), mathematicians, actuaries, market and finance experts sometimes from the audit and consulting sector and computer sciences profilers (because new developments are closely linked to ICT models).

In every major company there is now a R&D director. However, one of the challenges for the sectors is the lack of specific protection for innovation and new products (such as "patents").

Innovation and clusters in financial services

Innovation in the global financial market has taken on an important role yet it is not measured by experts studies as "knowledge intensity" but can be in found in industrial sectors. Innovation in the financial service sector is strongly linked to the concentration of financial activities and the dynamism of the local markets. Examples of innovations can be recognised by new financial products for the global market and wholesale banking, such as:

- creation of mathematical tools for risk models and management (SWAPS, financial futures, options etc.) with the so-called “quants” or quantitative engineers
- derivative products
- dematerialisating with IT process.

Products and service innovations are also at the forefront of customer retail banking and insurance, in step with marketing activities: "through innovative concepts, successful firms will find and exploit new growth opportunities that arise at the intersections of traditional sector boundaries". They work in unison with IT developments: the share of IT investment can be used as an indicator for knowledge intensity. For example in the UK industry, the IT investment per hour worked doubles every five years ("A view from Europe: productivity and change in the UK financial services", Oxford Research and Eurofound, December 2007).

It can be ascertained that the most innovative clusters are logically located in the most important financial centres. The primary position is held by London City, but also can be found in Luxemburg, Frankfurt, Zurich, Geneva and Paris.

A cluster in the financial services sector cannot be defined in the manufacturing industry. The FSSC, however, establishes that a cluster can be defined:

- as a specialised local labour marker
- as an extensive business
- by the presence of recruitment services, computer services, postal services and telecommunication services.

In London, independent brokers, the self-employed, and the European Monetary System are considered as resources for innovations.

Example of "cluster" supported by the Government: the French "Pôle de compétivité" or business cluster: "Finance Innovation"

This cluster was created in 2005 with the aim of increasing the French percentage of the European market from 11% to 20% within 10 years and to increase employment in the R & D area. The hub is located in the capital region (Ile de France Region); here one finds Paris Europlace which has developed Creditnext, an independent platform for "derivative products". Researchers concentrate on risk management with new tools for financial forecasts, financial mathematics and regulations.

40 programmes are conducted with a financial volume of 40 million Euros. The cluster aims to develop market management skills in the highly qualified jobs segment; it aspires, by developing the French mathematical tradition, to challenge London's financial hegemony.

One research programme concerns the "carbon finance" for managing the CO2 emissions, another concerns climate indicators. By engaging in a partnership with Meteo-France, they are developing environmental risk management and new insurance policies.

The cluster is not exclusively linked to universities and business schools in Paris but also to R&D departments within main financial service groups. In France, about 700,000 persons are employed in the financial services.

3.5. Computer science and ICT competences

This function is at the core of business. New products are inextricably linked to ICT not only in their delivery but also by guaranteeing the financial product's place in the global world market. ICT represents the basis for financial operations: buying and selling on the stock exchange, on the exchange rate markets and on the primary materials markets.

The employment share of this function is larger than in other sectors of the economy. One can see this in the EU15 as well as in the NM10: 4.3% of financial services compared to 1.9% of the total economy in the EU15 and 4.1% of financial services compared to 1.2% of the total economy in the NM10.

It encompasses different occupations:
- Studies
- Design and management of data systems (like information system architect)
- Daily operations (exploitation), software packages management
- Network architectures
- Project engineers
- ICT safety
- CRM: customer relation management
- Management of customer data

Two main trends can be observed regarding the development of this function and the jobs within it:
- Developing skills within companies (for more safety and discretion regarding the different processes and products)
- Externalising functions to major ICT suppliers (Cap Gemini, Ernst and Young, Pick Marwick).

It is not only a question of cost but also a question of skills and careers. A computer scientist must be informed about the latest technological developments. This may be more difficult in a bank or insurance company than in an ICT company.

The number of jobs in this function, both within and outside the financial services companies, would increase if the financial crisis does not lead to externalisation of mass processing for budget economies. These jobs are becoming highly qualified and competitive. Due to these factors, a shortage of qualified personnel could threaten the industry in some countries.

Competences for the ICT function :

- A good level of academic scientific education
- A high level of specialisation according to the different activities
- A multi-dimensional competence: finance process, product knowledge and IT tools.

3.6. Competences for the management function

This function is present in top management, in support services, in branches and in local offices management. It represents a larger share of total employment in the sector than in the total economy.

Managers at different levels are generally financial services specialists. They are hired primarily for specific jobs such as actuaries or credit specialists. There are not a lot of top managers from other sectors, they are hired generally for their specific purpose and are not usually promoted. The internal labour market works in this sector.

One of the main challenges at this moment in time is for companies to bring about an internationalisation of their management.

Competences for the management function:

- Knowledge of financial products and processes
- CRM (local managers are commercials)
- HR management (communication, motivation, coaching and mentoring...)
- Change management and ability to conduct restructuring process
- Foreign languages skills
- Intercultural management skills

The outcome points towards new requirements for training. Formal education, professional education, internships and continued education will be described in Chapter 7, together with examples of company policies and training institutions.

Table 24 Trend changes in the volume of employment (1996-2007)

FUNCTION	EMPLOYMENT VOLUME
Administrative back office	Declining
Sales back office	Decreasing
Insurance back office: contracts , claims and new services management	Stable with no differences between front office and back office
Wholesale bank back office	It represents a small share of banking employment The past trend was to a higher level of employment (before the 2008 crisis) but now it is expected to be reduced
Middle office: • control • securities factories	Slow increase but a reinforcement of the function is expected
Front office and sales related jobs: • direct sales and hard selling (call centres)	Strong increase but with changes: development of definite contracts and possible relocations
Front office and sales related jobs: • client counsellors in branches and local offices	Increase in NM10 (new branches and new offices) Stability in EU15
Front office and sales related jobs: • marketing	Stable
R & D	Increase (but it is a very small share of total employment)
IT function	Stable but needs for replacement Risks due to concentration and externalisation
Management: • of local teams • strategic management • international management	Increase in NM10 Stable in EU15 Possible decrease in companies looking for budget economies

Source: DKRC/Economix

Table 25 New competences for occupational functions

FUNCTION	COMPETENCES
Administrative back office	• IT skills • Knowledge of administrative rules • Knowledge of financial techniques
Sales back office	• IT skills • Perfect knowledge of the products • Sales competences and capacities to get information about the clients' needs • Sense of responsibility
Insurance back office: contracts, claims and new services management	• Communication with the client • Requirement for more social competences for the employees answering claims: interpersonal relations, communication skills • More autonomy and ability to propose new services and to organise them (reactivity) • More poly-competences • Ability to manage partnerships with other activities outside the company on a local basis • Perfect knowledge of the products • IT skills

Table 25 continued

FUNCTION	COMPETENCES
Wholesale back office	• Financial process knowledge • Financial products knowledge • IT skills
Middle office: • Control • accounting • securities factories • risks management	• Double competence: specialised knowledge of finance processes and IT tools • Knowledge of the law • English language knowledge • Updated knowledge on the international and national regulatory framework • IT skills
Front office and sales related jobs: • direct sales and hard selling (call centres)	• Ability to work in a multi-channel environment • Reactivity • Soft competences such as interpersonal communication and social competences • Rapidity and reacts well under stress
Front office and sales related jobs: • clientele counsellors in branches and local offices • insurance agents • brokers	• Poly-valence and various knowledge about the products • Poly-competence and stress resistance • Communication with the client • Interpersonal relations • Autonomy
Front office and sales related jobs: • marketing	• Statistical competences for screening customer habits • Sociology to understand client behaviours • IT skills
R and D	• Actuaries • Mathematicians • Statisticians • Economists • IT innovations • Globally prospective competences for forecasting economic and business trends
Management: • local teams • strategic • international	• Knowledge of financial products and processes • HR management • New management techniques • Customer relation management • Languages skills • Inter-cultural management sensibility

Source: DKRC/Economix

4. The financial crisis and its consequences

For the first time in decades, the threat of a systemic crisis – a big financial crash – became a worldwide reality. Due to the interconnection of all the different financial markets, all types of financial activities are concerned. Activities are already declining in many countries and are expected to weaken further in the short-term. The OECD Economic Outlook *(N°84, December 2008)* expects a severe breakdown for all the OECD economies: "A recovery to the trend, at least, is not expected before the second half of 2010, leading to a sharp rise of unemployment." The European Commission also reversed its economic forecasts considerably, expecting a 1.8% decline of GDP in 2009 and hoping for a minor increase in 2010. The uncertainty of projections, however, is extremely high: alternative GDP growth rates range between ± 0 and – 4% for 2009 *(European Commission (2009): Interim Forecast, 19 January 2009).*

The financial system almost collapsed in autumn 2008. "Money, interbank and credit markets were in disarray amid a rarely seen uncertainty about the strength of banks' balance sheets and a complete collapse of confidence among market participants and intermediaries" *(EU Commission 2009, page 4)*. Banks tumbled into a severe liquidity crisis which was followed by a solvency crisis. Without massive support from central banks and rescue programmes provided by national authorities, a financial meltdown would have happened with unpredictable economic effects.

Nevertheless, the crisis remains with substantial risks, uncovered by a series of press releases about bank losses and alarms about bankruptcies.

Considering the transition of the financial sector over the past decades, the financial crisis can be seen as the consequence of market liberalisation. Three major factors contributed to the emergence of the crisis:

- *The opening of capital markets*: hedge funds and other investors have been allowed to enter the markets, borders between financial business and retail activities have been removed, insurance and banking businesses have merged, and traditional banking has been restructured towards investment banking. Lucrative markets emerged and expanded the financial bubble which then exploded in September 2008.
- *The failure of risk management,* which allowed capital investors to reorient their activities towards short–term profits without assessing long–term risks. This was certainly propelled by the exceptionally strong upswing of the world economy, opening excellent opportunities for short–term speculation but blurring the sense of risks.
- *The failure of public supervision* over financial markets. Neither the International Monetary Fund *(IMF)* nor national and other international authorities were able to identify the accumulating risks of a short–sighted financial business, not to speak of avoiding these risks. Rating agencies failed in adequately assessing securities.

Expert panel views

Some of the participants at the expert panel underlined that it appears particularly difficult to capture the scope of the financial crisis at present. The tremendous losses which have accumulated to date, however, will call for substantial reforms in the sector.
It was also stressed that the different sub-sectors are affected very differently in the member states. Banking and insurance were seen as separated sectors, and the segments within the banking business were also perceived as being largely independent. In particular, co-operative groups may be less affected.
Moreover, participants had the opinion that long-term skill requirements will not be changed fundamentally. The effects of the crisis will be limited to wholesale baking which was at the origin. Large parts of retail banking and insurers will continue with their business model, meaning that the skills requirements will hardly be affected.

Even if some experts warned against the unhealthy developments of capital markets, the majority of actors felt confident about the new business models and thus could not see the deterioration of fundamental facts. Markets were unable to correct themselves – except through a severe crisis: and this is the point we are at now.

The magnitude of financial risks still is unknown as is the length and depth of the economic downturn. However, we have learned a lot about the crisis' facts and figures:

- *The enormous expansion of financial markets* which happened during this decade: the volume of financial derivatives has multiplied by four since 2002 and doubled within one year after mid 2007. Large parts of GDP growth in the USA, the UK and other countries came from financial products.
- *The accumulation of risks:* the latest Global Financial Stability Report by the IMF estimates write-downs of financial assets in the world economy to around $ 4 trillion. For clarification, these amount to 7 % of the current world output.
- *The spread of the financial crisis:* pension funds, life insurance, companies and private asset owners have been hit hard by the crisis. Substantial parts of their assets have been devaluated. Stock exchange values have declined by almost 50 % since the beginning of 2008.
- *Strong effects on the real economy:* output has been declining at extraordinary rates. In February 2009, industrial production in Europe was 17.5% below the previous year, and there was no country with output growth. Unemployment started to rise considerably in the Baltic States, Spain and Ireland. The Scandinavian countries were also affected. Most of the other member states are presently entering recession in labour markets.
- *Signs of disintegration in the world economy:* on capital markets, the retrenchment from foreign markets is meanwhile outpacing the overall deleveraging process with a sharp decline of cross-border funding *(IMF: Global Financial Stability Report, 2009)*. Governments tend to favour domestic suppliers and consumers buy locally. Emerging countries are particularly affected by these trends, in parallel to the New Member States of the European Union.

These few observations underline the dimension of the crisis. Comparisons between the current and previous US recessions reveal that various statistical indicators are meanwhile far beyond former experience. Residential investments and private consumption have declined with exceptionally strong rates, output and employment have shrunk considerably and unemployment is increasing rapidly *(IMF: World Economic Outlook, 2009)*. Other countries in the world – the European countries in particular – are following the US and are significantly worse off compared to former recessions.

Expert panel views

An intensive debate arose on the role of co-operative and semi-public banks. In particular the National Association of German Co-operative Banks underscored that their business model is certainly sustainable and follows a long-term orientation since many years. Moreover these banks have put the recommended actions and policies already in place.
These arguments however have to be contrasted with the fact that German co-operative banks were reported to have been hit by losses of 2 bn euros from their investments in dubious financial papers (Handelsblatt, April 2009). The heading organisations of the German Sparkassen – the Landesbanken – have been unable to survive the financial crisis without massive public support. Moreover, for both German organisations, co-operative banks and Sparkassen, substantial restructuring needs have been identified before the crisis.
Even if this report has identified various merits of these decentralised banking systems, the analysis gives little support for the argument to apply such business models without substantial changes.

Expectations are divided between hope and despair. The latest interim forecast of the European Commission (January 2009) indicates a strong decline of economic activity in 2009 and a gradual recovery in 2010. However, the analysis of past financial and economic crises tells another story. The observation of the Swedish and Japanese banking crisis at the beginning of the 1990s is that economic growth was well below former trends several years after the start of the crisis. The IMF concludes from this past analysis that recessions associated with financial crises have typically been severe and protracted. Recoveries from these recessions are often held back by weak private demand and credit. Moreover, globally synchronised recessions are longer and deeper than others. The IMF summarises: "Past episodes of financial crises have shown that restoring the banking system to normal operation takes several years, and that recessions tend to be deeper and longer lasting when associated with financial crisis." *(IMF: World Economic Outlook, 2009, p. xii).*

4.1. In the short run

Consequence n°1: the risk of failure for financial institutions

The subprime crisis led to failures or quasi-failures of a series of banks: Northern Rock (UK) in September 2007, Bear Sterns (USA) in May 2008, Lehmann Brothers (USA) in September 2008, Hypo Real Estate in Germany, Fortis Group and DEXIA in Belgium were among the first to demand financial support from national authorities. Most of them – except Lehmann Brothers – were stabilised by a government bailout, illustrating the motto "too big to fail". However, the bankruptcy of Lehmann Brothers triggered a wave of severe losses, revealing the face of the crisis without any public rescue.

Initially, it was mainly a banking crisis. Insurance companies were partly saved from the tempest, except when they were engaged in CDS activities (Credit Default Swaps) such as AIG in the US or KBC and AEGON in the Netherlands. Insurance groups, however, have been affected in other ways:

- Companies have lost parts of their assets due to the devaluation of stocks and residential property.
- The companies' clients have experienced similar property losses and are becoming less inclined to sign new contracts.
- Competition with bancassurance companies is becoming keener due to the governments' support of the banking sector. Probably some representatives will claim for more fair competition.
- For the time being they are not protected from the "fair value rule" and the European discussion for the Solvency 2 rules will be hard.

Facing the risk of failures within the financial system, public authorities reacted quickly. To protect the financial system, the States had to increase guarantees in order to avoid the withdrawal of deposits by bank clients. It can be noted that this phenomenon took place only in the British bank

Northern Rock, which was immediately nationalised by the UK government. Looking at other cases, in spite of various deposit transfers, their volume did not achieve dangerous levels.

The OECD Outlook provides a list of governments which explicitly gave blanket deposits: Austria, Denmark, Germany, Greece, Ireland, Portugal, Slovakia and Slovenia. Some others raised their ceilings to 50 000 or 100 000 euro, as in the case of Belgium and the Netherlands. As a second step, governments of the EU member states took equity stakes in several financial institutions, often by the way of non-voting preference shares. By the end of 2008, rescue programmes for Germany, France and the UK amounted to between 20% and 30% of annual GDP. In small countries like Ireland the volume was expanded to 210%. Additionally, the European Central Bank expanded money supplies considerably and lowered interest rates to historically low levels.

Consequence n°2: confidence crisis and credit crunch

The lack of liquid assets immediately led to the breakdown of interbank credits. The state-owned and central banks helped banks during this first liquidity crisis with guarantees for interbank credits. However, the question of confidence is most probably a central one. The breakdown of trust is huge and is more extreme than the interbank credit issue. It will take time to restore trust and there will be consequences for customer relations.

The major consequence from the liquidity crisis is that lending possibilities are decreasing: less credit for individual demands (for housing and consumption) and less credit for businesses, particularly for SMEs. Banks became reluctant to extend credit and sharply tightened their criteria for lending to businesses and consumers. What has generally been deemed as the “credit crunch” has had a direct impact on companies’ investments and economic growth. Enterprises have stopped their expenditures on communication, advertising, human resources, R&D, and a lot of new investments have not been realised. The consequences on employment are direct: a lot of companies are starting to announce job cutting plans in different countries. The credit crunch has also had an immediate effect on the real estate sector: building sites and condominium programs have been stopped and all the business of this sector are affected.

Only very few banks have not been directly affected by the liquidity problem and the credit crunch: the co-operative banks have been less engaged in new financial products. However, they are also faced with the various indirect effects of the financial crisis and the economic downturn.

In order to make credits cheaper all the central banks lowered interest rates, even if it was not their policy in the past. For a long time this was the philosophy of the American FED. Now the Japanese Central Bank, the English Central Bank, and last but not least the ECB have changed their monetary policy and have promoted lower interest rates.

Consequence n°3: stock exchange crisis

The financial tempest has captured banks, but also money-market mutual funds, hedge funds, retirement funds and companies’ capital in all sectors. So far the uncertainties are large and “a negative feedback loop” (OECD 2008) is possible. Since the beginning of 2008, stock markets in Europe have lost almost half of their value (-45%).

Initially, some experts thought that there will be a decoupling trend in the world with emerging countries partly being saved from the crisis. But now it appears that all countries are concerned, even if growth perspectives remain better in emerging rather than in developed countries. The financial crisis is nevertheless global as many emerging countries were involved in speculation with derivatives or other “toxic products”. With the expanding economic crisis growth, exports to developed countries are affected negatively. When writing this report (during December 2008 and the beginning of 2009), it could be said that the worst of the financial crisis may have already passed (even if new developments cannot be excluded) yet the worst of the economic crisis is still to come.

4.2. Structural consequences for the financial services sector

Consequence n°4: needs for recapitalisation

"International experience shows that a rapid recapitalisation of the banking sector is an important ingredient of a successful and fast resolution of a financial crisis." (IMF, Global Economic Report, November 2008). Companies therefore need capital (some of them immediately) because they have – in the first instance –a liquidity and now increasingly a solvency problem. The financial services sector needs capital to rebuild its debt and leverage ratio.

The first way to recapitalise banks is public capital injection. This is the reason why the British government went so quickly into nationalising banks: the British government adopted a rescue programme (for Northern Rock in 2007 and for Royal Bank of Scotland, Lloyds-TBS, Bingley etc in 2008) based on public stakes in the companies. The effect was a rise in the banks' dept ratio to around 12%, the highest rate in Europe. As this ratio cannot be reached by the banks in the others European countries, Great Britain retains its leadership in the financial business.

Public ownership is spreading:

- in the Netherlands for the FORTIS group (a public-private solution built with the Dutch government and the French group BNP-Paribas) and the insurance group Aegon
- in Germany, even if this country is more reluctant to this solution (HRE was nationalised in March 2009)
- in Austria for Erste Bank
- in France for DEXIA

One can note that these new types of public ownership – named by the OECD as a "non-orthodox" policy – usually took the form of non-voting preference shares and will probably be very different from previous nationalisation in countries such as France.

The question remains: are the interests of tax-payers really preserved? In some cases there is a clear deal between the governments and the banks, such as the dividend policy in the Netherlands, regarding their lending strategy and lower compensation for top management. So far, however, the results of such deals have not been proved.

Finding money on the stock markets is the second solution: examples of Société Générale, Unicredit, Santander, Barclays can be given. Are new competitors, such as Asian countries, Sovereign Wealth Funds going to take advantage of this situation to become stake-holders in a wide range of western companies? For example, Qatar and Abu Dhabi own a 38% share in Barclays' capital. some Chinese firms in American or European companies at the beginning of 2008.

Consequence n°5: crisis leads to consolidation

The lessons of past crises, particularly the Japanese banking crisis (1992) and the Swedish crisis (1993), show that each crisis brought a new step of consolidation through mergers and acquisitions. The trend has already started: Barclays buying parts of Lehmann Brothers, BNP-Paribas buying the major part of FORTIS, the Japanese insurance company Nomura invested into Lehmann Brothers, the German Dresdner Bank is merging with Commerzbank. Some of these mergers may be encouraged by governments in Spain, for example, for CAIXA and local savings banks.

This need for consolidation is due to the weak position of some companies and the need for capital, and also because European regulation leads to consolidation in the mutual and regional banking sector: see examples for Germany and Spain.

The consequences of mergers on employment are important: for example the merger between Dresdner Bank and Commerzbank is expected to cost 9000 jobs. Moreover, consolidation will also happen internally with the reduction of activities in investment banking and other sections.

Consequence n°6: the end of the business banking model?

Some of the large banking companies which were involved in derivatives are (or were) pure business banks. Companies such as Lehmann Brothers, Goldman Sachs and Morgan Stanley are only based on wholesale activities, making the greatest part of their business with the huge debt market. This means that no deposits are guaranteeing their activities. For some experts (such as Michel Aglietta, 2008), the present crisis means the failure of this model. To illustrate this idea, one can note that Morgan Stanley and Goldman Sachs have just asked for a licence to become deposit banks. From this point of view, European banks which are generally universal banks can be seen as being stronger as long as they have enough equity capital.

Business banks, brokers, private equity companies, and financial consulting companies are directly affected by the crisis: in London City for example, they represent 17% of the total financial employment. The city lost around 40,000 jobs immediately after the start of the crisis. In France, it is said that business banking activities employ 10% of the banking workforce.

Consequence n°7: a new regulatory framework?

Even though national governments rescued their banks, it was clear from the beginning of the crisis that the regulatory framework for the financial markets needs to be improved. "International cooperation is desirable to avoid measures that distort competition" stated the OECD, pointing out the two problems associated with the regulation of capital markets: it is an international problem and a problem of balanced competition. This reveals that it might be a complicated issue. However, there is less time to draw a conclusion compared to how long governments took to negotiate the Kyoto protocol or the WTO agreements.

Several issues can be added to the check list for the international regulatory conferences:

- Encourage a better assessment and risk management: limiting or forbidding the off-balance sheet exposures, redefining the incentives which lead to risk taking behaviours. The European Commission will finish a public report on CDS in April 2009.
- Regulate compensation models and align them with long-term results
- Promote transparency in order to manage risks and rebuild trust
- Regulate solvency criteria and solve the discussion about " fair value" rules
- Change the rules for rating agencies
- Regulate hedge funds, private equity firms and all the "black areas" of non-regulated financial business
- Regulate tax havens

In Europe, the framework for managing the financial crisis needs to be improved due to the fact that a large part of European companies are global players. This makes international agreements indispensable.

5. Scenarios for the European financial services sector

Taking the current world financial crisis into consideration, the endeavour to formulate skills scenarios for the European financial services sector appears to be courageous, if not pretentious. Little is known about the real extent of property risks and their effects on the ongoing downturn of the world economy. However, thinking about the future of a sector is needed more than ever in such a period of great trouble. The future appears to be widely open and widespread options for alternative developments are being discussed. Reflecting on the future therefore is crucially important.

The scenarios, however, cannot escape the uncertainties. This Chapter therefore tries to capture the main alternatives for future developments rather than pretending to make forecasts. It is designed as input to the discussion about the future of this sector, thinking also about policy options in these times of great change.

Financial services will not remain the same after this crisis. It is therefore particularly important to develop a clear understanding of the numerous change mechanisms. For this purpose, the Chapter starts with the analysis of possible future impacts of the drivers identified in Chapter 2. It then identifies the links between the drivers and finally develops three scenarios for the European financial services sector up to 2020.

5.1. Main drivers of the scenarios

In Chapter 2 we identified five drivers of change for the past ten years: new market developments, globalisation, consolidation of the sector, regulation, ICT knowledge and the development of distribution channels. These can now be used to describe alternative future trends under the radically new conditions of the world financial and economic crisis. This can be expected to affect the sector not only in the short-run but may have a strong long-term effect on the operational scope of the business.

5.1.1. Principal methodology

As the scenarios will have to cover both the trends tied to the past and the changes triggered by the financial and economic crisis, the identification of drivers starts with a detailed collection of descriptors which are able to describe all the important factors. These descriptors refer to a wide range of economic, political and social phenomena. They do not need to be directly related to the target variables of FS output, employment and skills. Indirect links are similarly important.

The descriptors are linked through an interdependence matrix which shows the linkages between all the descriptors in four categories. The following categories are used:

Value	Meaning
3	Direct dependency
2	Strong indirect dependency
1	Weak indirect dependency
0	No dependency

These categories are applied to all combinations of descriptors in a two-sided approach: each descriptor has a value for its *active impact* on each of the other descriptors, and each descriptor has a value for its *passive dependency* on all other descriptors. Usually, lines contain the active values and columns contain the passive values. Line sums therefore give the active sums, showing how strongly the descriptor affects all other descriptors. The column sums make the passive sum, which measures the degree of dependency of the descriptor on all other descriptors. Finally, active and passive sums can be combined in a scatter plot which reveals those descriptors with strong active impacts and weak passive dependencies (Chart 5). These can be included in the set of drivers.

Regarding the variety of EU countries, financial services do not appear to be strongly segmented. In particular in the New Member States, financial companies from Western countries built the banking and insurance systems according to their principles and strategies, and applying their approved business models. Former socialist banks were bought by western companies. Thus the financial services market is European now and there is no stringent need to separate scenarios by regions.

5.1.2. Set of descriptors

Based on research literature, interviews with branch experts and workshops, a list of 25 descriptors was produced (Table 26). These can be sorted into five major groups, which are called groups of drivers:

- **Knowledge base,** including the skills and competences of the existing work force, the training system, and labour shortages in different occupations. This refers to ICT knowledge in particular which was one of the major drivers of past developments.
- **Markets**, comprising the determinants of market development in financial services, i.e. income and wealth distribution, consumer preferences and in particular consumer confidence in the financial system, demography but also general economic development. The globalisation of capital markets which was so important in the past will continue to play an important role at European and international levels.
- **Control systems,** which are now under reconstruction both externally and internally in order to have stronger public control and to rebuild consumer trust.
- **Sector organisation,** including mergers and acquisitions, internet banking, different types of retail channels, and relocation of back office functions.
- **Production and employment,** which belong to the target variables of the scenarios.

Table 26 List of Descriptors

Descriptor	Meaning	Categories
Knowledge base		
FS skills structure	Will companies with highly trained staff have comparative advantages against companies with intermediary and low-skilled employees?	• High share of profes-sionals • High share of clerks
R&D knowledge	The R&D experience and knowledge of financial products and processes. This means the ability to create new financial products, apply new technologies and optimise processes, operating internationally etc.	• Strong • Weak
Product innovation	Will product innovation come to a halt due to the risk awareness of consumers and investors, or will the creation of new financial products be accepted again as long as they allow improved transparency and risk assessments?	• Strong • Weak
Process innovation, ICT application	Will companies use the cost-saving potential of ICT in large scale organisations or will they apply ICT at a minimum level in small scale units?	• Large scale • Small scale
Training system	The descriptor comprehends general education, intermediary vocational training, and university training, evaluated from the perspective of potential financial services employers. The well developed training system therefore provides the competences which are important for jobs.	• Well developed • Poorly developed
Labour shortage of professionals	Professionals include managers, professionals and specialists. Labour shortage means a lack of sufficient supply of labour in these occupational groups.	• Lack of labour • Sufficient supply
Labour shortage of clerks	Administrators and clerks include skilled clerical workers at the intermediary level, sales staffs and secretaries. Labour shortage means a lack of sufficient supply of labour in these occupational groups.	• Lack of labour • Sufficient supply
Markets		
Consumer confidence	Banking and insurance clients lost at least part of their former confidence regarding the security of deposits, life insurance products and the quality of consulting services. Consumer confidence will have to be re-established. However, consumers might adhere to their scepticism.	• Re-building • Lost for many years
Income and wealth distribution	The distribution of income and wealth widened in the past and contributed to the segmentation of financial markets. Economic recession devaluated substantial parts of property and might limit the markets for property management. A rapid recovery might lead back to former trends.	• Wide • Narrow
Demography	Age structure of the population. This is related to consumer preferences regarding risks and the quality of services. More-over, it affects recruitment policies.	• Aged • Young
Economic growth	Will the European economy rapidly recover from the present recession or will it take years to overcome the financial and economic crisis?	• Rapid • Slow
Emerging countries	Will emerging countries use the crisis to expand their shares in the European financial services or will they concentrate on home markets?	• Rising importance • No increase
Global capital markets	Will there be a break in the development of international capital markets leading to a re-nationalisation of capital allocation, or will international business grow again when the crisis is over-come?	• Nationalisation • Internationalisation

Table 26 continued

Descriptor	Meaning	Categories

Control systems		
Self-control	Will companies be able to establish controlling mechanisms (middle office function) which allow a better balance of risks, or will they continue to follow a short-term profit maximising strategy?	• Strong • Weak
Rebuilding trust	Will companies be able to rebuild the confidence lost among consumers and investors? Will they invest into reliability with better information, competent consultants and stronger product control, or will they limit their activities to marketing campaigns?	• Determined • Vague
Public rescue programmes	Will governments be obliged to take the risks of financial investments through shareholding and guarantees in the long-run, or will they be able to retreat from the business soon?	• Short-term • Long-term
Public supervision	Will governments be able to control international capital markets and avoid future imbalances or will they only cosmetically adjust current supervisory concepts?	• Efficient control • Weak control
Risk management control	Will governments force financial institutions to introduce an effective system of risk management for all types of investments? Will this system be able to improve risk management and lead to the early identification of changes?	• Efficient risk management • Weak risk management
Sector organisation		
Back office relocation	Will companies follow cost pressures and relocate back office work to low-cost countries? Will those who use this opportunity get substantial advantages?	• Outward investment • Balanced • Inward investment
Mergers & acquisitions	Will economies of scale through the standardisation of products and market power further increase the rate of concentration or will smaller companies be able to survive on a regional basis through better services and more trust?	• Increasing • Decreasing
Outsourcing of technical and administrative services	Will independent "technical and administrative service organisations" emerge, which provide the whole range of services needed for banking and insurance or will these services remain in-house for control and data protection reasons.	• External • Internal
Retail channels	Will retail banking and insurance use sales points and branches with sales specialists rather than financial professionals? Or will market success depend much more on financial competences of consultants, broad market knowledge and personal relations available in competence centres?	• Sales points • Competence centres
Internet banking	Will internet banking and direct insurance be broadly accepted as the usual instrument of financial activities or will customers remain sceptical and prefer personal contact to bank representatives?	• Normal standard • Exception
Production and employment		
Financial services employment	Total employment in the sector	• Rising • Stagnating • Falling
Financial services output	Total value added in the sector	• Rising • Stagnating • Falling

Source: DKRC/Economix

5.1.3. Interdependence matrix

The interdependence matrix shows the links between these descriptors using the classification mentioned above. All descriptors are classified and ordered by their active and passive sums in Table 27. The classification is based on the evidence from mapping the sector, information gained through literature analysis, expert interviews, and the debates conducted during the scenario workshops. The principles of economic theory are also included.[3]

[3] The matrix nevertheless reflects the theoretical understanding of sector which the authors of the scenario developed. In order to reveal this understanding and open the discussion, the matrix is published in detail.

The red cells of the matrix indicate the direct links between the descriptors and the orange cells indicate the strong indirect links. The weak indirect links are light blue and dark blue signals no interdependency. Due to the ordered presentation of the descriptors, most of the direct and strong indirect links can be found in the upper right hand corner, while weak indirect and non-links are in the lower left hand corner.

This description of interdependencies is based on the present status. It does not include forecasts of how the role of the descriptors will change during the scenario period. Therefore, the scenarios will also consider how the impact of the descriptors (and drivers) will change in the future and which implications will arise from these changes.

The picture, however, is rather scattered and does not reveal a clear dominance of one of the descriptors or a group of them. A series of descriptors appears to be both strongly active and strongly passive. This could be understood as a contradiction, but it is the indication of strong interdependencies among the descriptors.

Table 27 Interdependence matrix

	Demography	Emerging countries	Wealth distribution	Public supervision	Rescue programs	LS administrators	Mergers & Acquisitions	Risk management control	Back office relocation	Rebuilding trust	Self-control	Global capital markets	Outsourcing of services	Retail channel	Internet banking	Econ. growth in Europe	Consumer confidence	R&D knowledge	Training system	LS professionals	Skills struct.	FS value added	FS employment	Process innovation	Product innovation	Active Sum
Skills structure	0	1	1	1	1	3	1	1	2	1	2	2	2	2	2	2	2	3	3	3	-	2	2	3	3	45
Product innovation	0	1	2	2	1	1	2	2	1	2	2	2	1	2	2	2	1	3	2	3	2	2	2	2	-	42
Self-control	0	0	1	3	3	1	1	3	1	3	-	1	2	1	3	1	3	2	2	2	2	1	1	2	2	41
R&D knowledge	0	2	1	1	1	1	1	1	1	1	1	3	1	1	2	2	1	-	3	3	3	2	2	3	3	40
LS professionals	0	2	2	0	0	1	1	0	1	1	2	3	1	1	1	2	2	2	3	-	3	2	2	3	3	38
Process innovation	0	0	0	1	1	3	1	1	3	1	1	2	3	2	3	1	1	2	2	3	2	1	2	-	2	38
Rescue programs	0	1	2	3	-	0	1	3	1	2	2	1	1	1	1	3	3	1	1	1	1	3	3	1	2	38
Rebuilding trust	0	0	1	2	2	1	1	3	0	-	3	1	1	2	2	1	2	2	2	2	2	1	1	2	3	37
Consumer confidence	1	0	1	2	2	0	2	2	0	3	2	0	1	3	3	2	-	1	1	1	1	2	2	1	2	35
Risk management control	0	1	2	3	3	0	0	-	0	2	3	1	0	0	0	3	3	1	1	1	1	3	3	1	3	35
Training system	0	2	1	0	0	3	1	0	1	1	1	1	2	1	1	2	1	3	-	2	3	2	2	2	2	34
Internet banking	0	0	0	0	0	2	2	0	2	1	1	0	2	3	-	1	2	3	2	2	3	1	1	3	2	33
Public supervision	0	1	2	-	3	0	0	3	1	3	1	1	0	0	0	3	3	1	1	0	1	3	3	1	2	33
Global capital markets	0	2	1	1	1	1	2	1	1	1	1	-	1	1	0	1	1	2	1	2	2	2	2	2	3	32
Retail channels	0	0	1	0	0	1	2	0	2	1	1	0	2	-	3	1	3	2	2	1	2	2	2	2	2	32
Back office relocation	0	2	0	0	0	3	2	0	-	0	1	2	2	1	1	1	1	2	2	1	3	2	3	2	0	31
Economic growth in Europe	2	1	1	0	1	1	1	0	1	0	1	1	1	1	1	-	2	1	2	2	1	3	3	2	2	31
Mergers & Acquisitions	0	1	0	1	1	1	-	1	2	1	1	3	2	2	1	1	1	2	2	1	1	1	1	2	2	31
Wealth distribution	0	1	-	2	2	0	1	2	1	1	1	1	0	2	2	1	1	1	1	2	2	2	1	1	3	31
FS Employment	0	1	1	2	2	2	0	2	1	1	0	1	1	0	0	1	1	1	2	2	1	3	-	2	1	28
Outsourcing of services	0	0	0	0	0	1	2	0	2	1	2	2	-	3	1	1	0	1	2	1	3	1	1	3	1	28
Emerging countries	0	-	1	1	1	1	2	1	2	1	0	3	2	1	1	1	2	1	0	1	1	1	1	1	1	27
FS Value added	0	1	1	2	2	0	1	2	0	1	1	0	1	1	1	1	1	1	0	1	0	-	3	2	2	25
LS administrators	0	0	1	0	0	-	1	0	3	1	0	1	2	2	2	1	1	0	1	1	2	1	1	3	1	25
Demography	-	2	0	0	0	1	0	0	0	0	0	0	1	0	1	1	0	0	1	2	1	1	1	1	1	14
Passive sum	3	22	23	27	27	28	28	28	29	30	30	32	32	33	34	36	38	38	39	40	43	44	45	47	48	-

Classification categories: 3 = direct dependency; 2 = strong indirect dependency; 1 = weak indirect dependency; 0 = no dependency;

Source: DKRC/Economix

5.2. The drivers

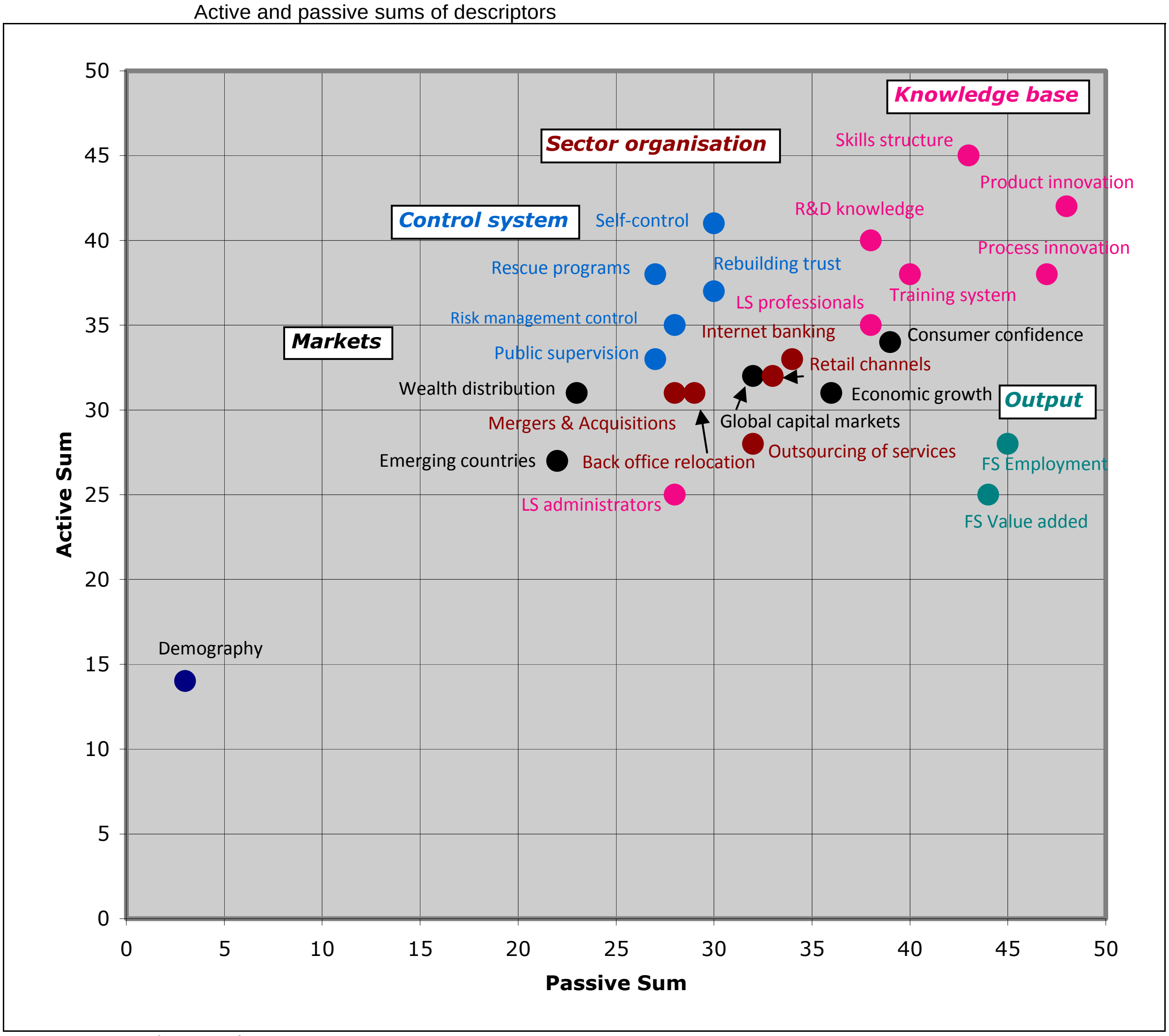
The comparison of active and passive sums of the interdependency matrix reveals the importance of the descriptors (Chart 5). In brief, the financial services sector is strongly driven by:

- knowledge of the sector
- control systems which will be established and reorganised in the near future
- organisation of the sector
- market developments

The result is in the two output categories of value added and employment.

Demography appears to be the least active but also the most independent factor in this set of descriptors.

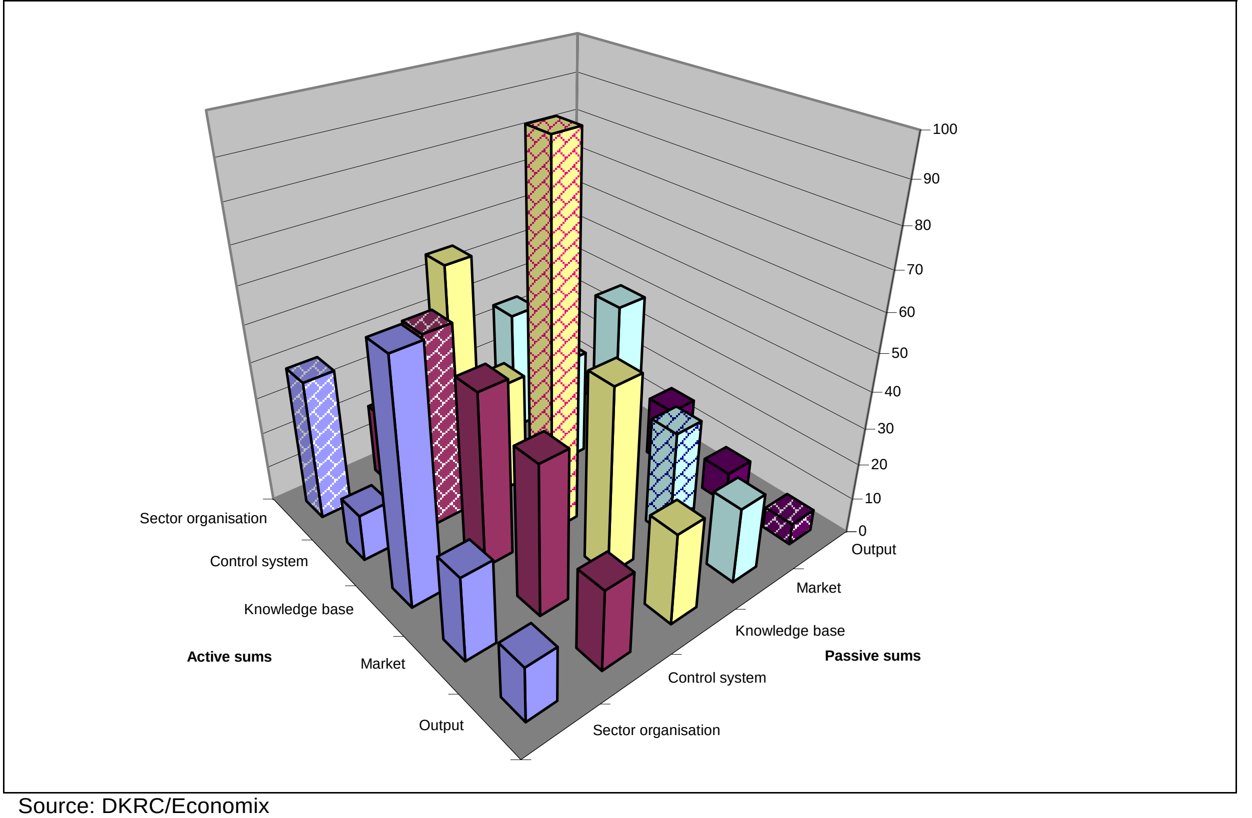
Chart 5 **Drivers**
Active and passive sums of descriptors



Source: DKRC/Economix

The high interdependency of the descriptors requires a more detailed look at the linkages between the drivers. This can be seen in Chart 6, below, which shows the active and passive sums for drivers, including the internal links among the descriptors of a driver. The active sums are arrayed in a North-West direction while passive sums follow a North-East direction.

Chart 6 **Links among drivers**
Active and passive sums of drivers



Source: DKRC/Economix

According to Chart 6, the driver "Sector Organisation", in the bottom right, strongly affects the driver "Knowledge Base", ordered as the third driver in the North-West direction. It also has important internal links, visible as the bar with the brick pattern. This means that sector organisation depends not only on one of the descriptors but on a variety of them which are closely interlinked. Similarly, the creation of "Control Systems" has strong internal links, in addition to important effects on markets and the knowledge base.

The "Knowledge Base" affects markets and sector organisation, but – most importantly – shows the strongest internal link among all the drivers. This means that the "Knowledge Base" is a driver which reinforces itself. While it depends on the type of sector organisation, the structure of the control system and market developments (North-East dimension of "Knowledge Base") the decision to invest into the human competences appears as a (partly) independent option in the scenarios. More so than the internal links of other drivers, this option can be expected to have self-enforcing effects.

5.3. Three scenarios up to 2020

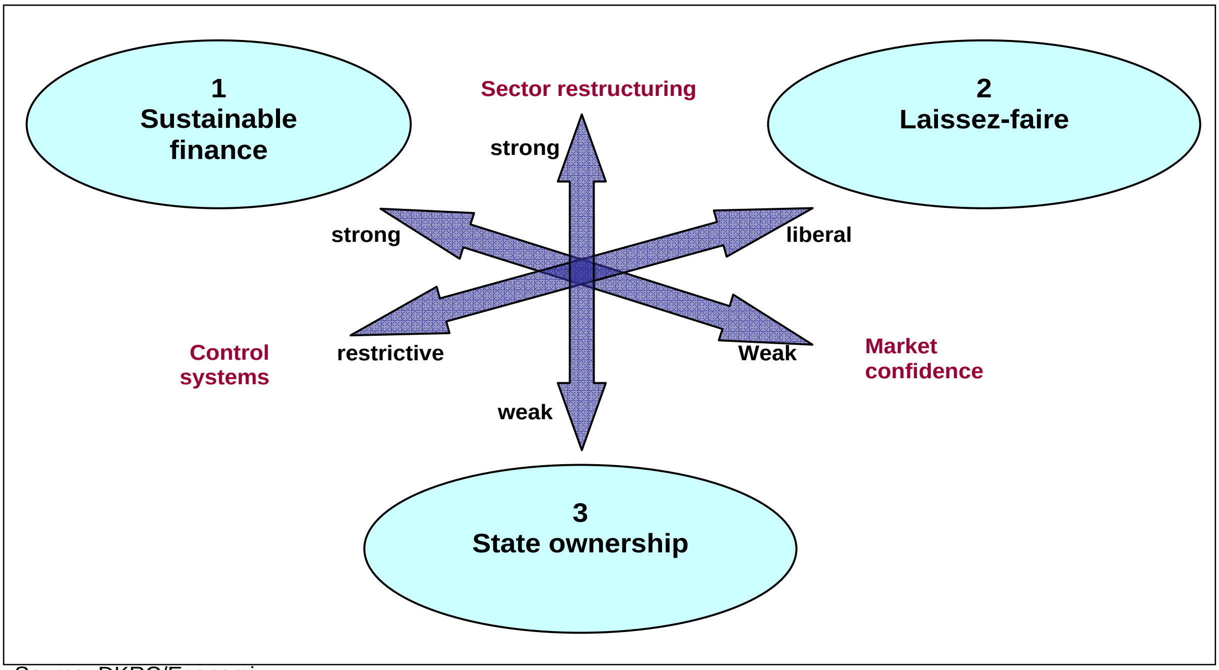
5.3.1. Overview

The scenarios start from both the fundamental drivers identified in the previous sections and the present knowledge about the financial crisis. It appears obvious that the European banking and insurance sector will be affected by the crisis more than the other sectors. In particular, the failure of liberalised capital markets and the inability to supervise these markets will have a strong impact on future developments. The scenarios therefore put the organisational answers to the crisis into the focus of considerations:

- How will the European financial services sector reorganise its activities and markets? Will it develop a new and sustainable business model which avoids the errors of the past or will it continue with the free-market approach of the last decade?

- How will governments develop their supervisory instruments? Will they be able to achieve the necessary international agreements or will they act nationally? Will the financial and economic crisis force governments to take large parts of the banking industry into state-ownership or will a rapid recovery allow for a more relaxed system?
- How will banking clients and financial investors react? Will financial institutions be able to rebuild consumer trust or will the crisis raise uncertainties in the long-run?

Chart 7 Drivers and scenarios



Source: DKRC/Economix

When these considerations are combined, three alternatives appear to be crucial for the future of the European financial services sector (Chart 7):

- Scenario 1: **"Sustainable finance"** describes the self-healing of financial markets. It is a combination of strong self-governed restructuring of the sector, restrictive control, and the application of an innovative, market-oriented approach which targets rebuilding market confidence. The focus is on the development of self-enforced and self-regulating control systems, which will overcome the short-term orientation of the financial business. A new business model will be developed which considers risk analysis and consumer trust as its core elements. Strong investments into new financial products with superior characteristics will be necessary, based on a long-term development strategy for the knowledge base of the sector.

- Scenario 2: **"Laissez-faire"** sees the main actors of the financial business avoiding significant restructuring of the sector. They will try to blur the consequences of the financial crisis and continue with the present business model as far as possible. Public control will remain liberal or ineffective, particularly in global capital markets. New products will continuously be developed for investment rather than consumer markets. Financial services and products will become increasingly standardised. Mergers & acquisitions will be undertaken on a large scale. It is the scenario which successfully returns to development trends from before the crisis.

- Scenario 3: **"State ownership"** assumes that the crisis will run out of control and public authorities will be forced to maintain the basic functions of banking and insurance. It is the "Great Depression" scenario. As a last resort, public control over the financial system will be enforced. The banking sector will return to the "administrative" approach without providing many sophisticated services. Following public regulation will become more important than serving clients. The sector will concentrate on process innovation rather than developing new business models. Consumer confidence will remain weak.

The scenarios are not developed for the driver "economic growth" as this will happen in all three scenarios, for better or worse. Nevertheless, they differ in the economic performance of financial services as well as in the overall economy.

Expert panel views

To the great surprise of the authors, there was a principal consensus among the expert panel participants about the relevance of the scenarios and their realistic opinions. None of the scenarios were excluded or located to the "world of fantasy". There was also consensus that the financial crisis is going to reduce employment in the sector considerably.
The broad discussion about the scenarios revealed that scenario 1 attracted many participants as the "desirable" future which will, nevertheless, face many obstacles and strongly depend on the regulatory framework of capital markets. Scenario 2 was assessed as the least probable. As one of the participants expressed: "there will be no free market any more!" Scenario 3 was characterised as the hell we might have to cross. Nevertheless, it was seen as a transition phase which may lead to a gradual recovery of private banking.
Of course, the scenarios were criticised as being too general and not directly applicable to specific countries or parts of the sector. The authors apologise for not focussing on every detail.

Table 28 Scenarios for the European financial sector up until 2020

Driver	Scenario 1 **Sustainable finance**	Scenario 2 **Laissez-faire**	Scenario 3 **State ownership**
Business model	Trust- and consumer-oriented	Profit-oriented	Control-oriented
Self-control by the sector	Strong	Weak	Strong
Public control	Restrictive	Liberal	Very restrictive
Mergers & acquisitions	Weak	Strong	Strong
Market growth	Restrained	Unstable	Weak
Product innovation	Strong	Strong	Weak
Product standardisation	Low	High	High
Process innovation	Medium	Strong	Strong
Globalisation	Controlled	Uncontrolled	Restricted
Outsourcing/relocation	Medium	High	Low
Training activities	Strong	Strong	Weak
Employment	Recovery after recession	Short-term fluctuations after recession	Long-term reduction with late recovery

Source: DKRC/Economix

They are also not separated by technical or work organisation alternatives. While these drivers are seen to be important, they very much depend on other drivers. The key to future development seems to be the prevailing business model which may be a completely new approach in the case of Scenario 1, the return to the past business model after the crisis in Scenario 2, or the end of an economically independent financial sector in Scenario 3.

Table 28 contains assumptions and outcomes of the scenarios in a synoptic way. The rationale of the scenarios is described in the following sections. The scenarios cover all 27 EU member states.

5.3.2. Scenario 1: Sustainable finance

Facing sensitive customer reactions regarding all news about bank losses and experiencing a high level of mistrust in interbank business, the banking sector will recognise the need to develop an alternative business model – a business model which intends to rebuild trust into the long-term stability of the sector and the security of deposits. The heavy government intervention in the banking business, which will continue for some years, will be realised as the failure of liberalised capital markets. It will become evident that short-term profit maximising strategies were one of the major reasons for the crisis, as they systematically underestimated long-term risks. It will also be realised that businesses turned a blind eye to long-term risk assessment for a long time.

This analysis being broadly accepted, the banking business will start a process of principal re-structuring which targets regaining consumers' and investors' trust by reducing long-term risks. Internal restructuring rather than external intervention will drive this process. The business will accept demand from its clients and the public to avoid the recurrence of a financial crisis, and will see the need to offer a convincing approach. This will result in a completely new business model.

At first, the banking sector will establish stringent risk assessment models. These will consider long-term investments as the standard and thus include a wider scope of economic risks. Banking management will be forced to assess risks in a transparent and obliging way. This will be en-forced by government regulations, which strengthen the position of bank customers by making banks liable for investment recommendations. Customers will prefer investments with clear risk analysis and bank liabilities. The reforms will mainly address the banking sector but will have side-effects on insurance. Life insurance in particular will have to adjust to the new liability stan-dards and provide evidence of security and returns on investment.

Secondly, this will reduce large parts of the investment banking business, not only through its actual breakdown during the financial crisis, but also in the long run as it will appear being too risky. New forms of investments, like speculative derivatives and insurance CDS, will be scruti-nised with respect to their profit/risk ratio and investments will be avoided if only short-term ad-vantages appear.

Restructuring will be in favour of traditional investments where long-term profitability can be ex-pected. Life insurance will particularly profit from this development. This will be at the expense of profit rates in the banking sector – a rate which was exaggerated in an unsustainable way before the 2008 financial crisis. The sector will learn that profit rates are worthless to convince custom-ers. It will realise again that banking is a very peculiar business with a high degree of public ac-countability. Markets will accept only those companies which will be able to demonstrate such a responsibility. In favour of a sustainable financial business the sector will therefore abandon great parts of its derivatives markets.

The transition process will give advantages to banks with less stringent profit orientation. This will be the co-operative banking sector and savings banks rather than strictly private banks. At least during the first years of the crisis, clients will put more trust into banks with a strong link to public budgets. Private banks will nevertheless undertake great efforts to re-establish their reputation through rigorous adjustments of their portfolios. The combat on banking markets will thus be on private equity and consumer banking rather than investment banking or mergers and acquisitions.

The development will also be against standardisation – another main trend in actual business. Computerised risk assessment will lose much of its importance in favour of individual risk evalua-tion and investment consulting. Banks and insurance companies will considerably expand their efforts to collect information on their clients. Their demands will go into the details of the clients' businesses and try to get access to the most updated information. Supervisory systems will be established which will lead to an early identification of risks. Continuous reporting on business changes will be obligatory for company clients. Sales related employees will be responsible when selling products to customers, through ethic rules and through certifications.

Banks will also improve their consulting services with better risk assessments for different investments. Rating agencies will undergo a principal reform. By law they will have to be independent from financial institutions. Investors rather than suppliers of financial products will refund the agencies. They will clearly indicate the degree of uncertainties included in their ratings. Moreover, they will be reliable for severe cases of misjudgements.

Remuneration systems will be changed with a stronger financial commitment from top management. Bonus systems will include malus components for financial losses. The independence of supervisory boards will be strengthened in line with their liabilities. Brokers and investment bankers will also see a stronger impact of financial risks on their remuneration.

The switch to the "sustainable finance" strategy will solve the financial crisis through a "cultural shock" which will not only reverse most of the present business principals, but will demand for a new category of bankers and insurers. The present group of leaders and professionals will become increasingly obsolete and a new type of management will take the responsibility with a long-term vision and strong customer commitments. Public accountability of the financial system will be a major business value rather than private profitability. Top management in most of the companies will be changed in order to achieve the "cultural" change. Former managers and supervisors will be incriminated for the extent to which they were responsible for losses during the financial crisis.

5.3.3. Scenario 2: Laissez-faire

The European financial sector will come to the conclusion that the financial crisis was an accumulation of unfavourable events that disrupted the formation of a new and promising type of global finance. The unhealthy expansion of the US mortgages markets and the cyclical downturn of the world economy will be identified as the main reasons for the crisis. The short-term orientation of the banking business and – in particular – the expansion into highly speculative types of financial products however will not be questioned.

The plans for strict public supervision of the banking business will fail due to severe differences among the G20 governments about the optimal structure of global capital markets. Most of the European governments will try to establish stringent supervisory systems, however, the US and parts of Europe will continue to appraise liberal capital markets as the superior solution – after having saved the financial systems with public support. Short-term capital flows will be seen as indispensable for the flexibility of the world economy, and investment banking as a necessary market innovation. Only minor regulative restrictions will therefore be implemented.

Governments have nevertheless pumped large amounts of money into the tumbling banking sector in order to avoid the catastrophe of a severe world economic crisis. This will appear to be rather efficient in that the crisis will not be extremely serious and the existing banking system will survive.

The side effect of these rescue programmes however, will be low pressure on sector restructuring. As nothing will appear to be as serious as it was expected, neither banking management nor banking clients will see strong reasons for changing their behaviour. The banking business can undertake a relieved restart after having transmitted the "toxic" parts of its portfolios to public authorities. Banking clients on the other side will see most of their deposits guaranteed by public budgets, and thus will continue to maximise short-term revenues without adequate risk assessment. Switching to an alternative business model will fail.

Negative effects on the banking business will emerge only gradually through rising taxes in order to serve the tremendous debt accumulated during the crisis. Moreover, central banks will follow a restrictive monetary policy in order to curb the inflationary effects of money supply expansion during the crisis. Slow economic growth will therefore be the price of this strategy.

Private banks will be the main profit takers from these developments, as they will be able to continue their business model without substantial adjustment. Public and semi-public banks will stay in their sub-optimal position, where they already were in the past. Moreover, they will be restricted in their operational activities because of stronger public regulation. Public owners will demand for compensation of previous financial help and thus will take great parts of their profits.

Investment banking will recover after the sharp decline during the financial crisis. New markets will be developed with continuous innovation of new products for investment banking and insurance. Private equity will expand. The short-term orientation of global capital markets will be revived.

Consumer banking will experience further standardisation with automated risk assessment. Internet banking will strongly expand, including real-time stock trading and online consumer credits. With the economic recovery, private clients will increase their participation in speculative trading again. Banks will distribute more and more insurance products to make their networks more profitable.

However, these conditions will not be able to avoid future imbalances. The next economic upswing will therefore create another financial bubble, as market dynamics will create similar expectations among participants and drive their investment decisions into uniform directions. With the repeated expansion of speculative market segments, the financial sector will remain vulnerable to changes of short-term expectations and economic trends. Instability will therefore be another major price of the strategy.

5.3.4. Scenario 3: State ownership

Triggered off by the US mortgages bubble, the world economic crisis will accumulate to a wave of destructive power. Even financial investors with no engagements in highly speculative markets will be strongly hit by the depreciation of stocks and credit failures. The sharp economic recession will cause a series of bankruptcies in the non-financial sector which the majority of banks will be unable to evade. Economies will be on a strong downturn worldwide, whilst also dragging the healthy parts of the economies into the crisis.

Governments will fight against the breakdown of the financial systems throughout the world, but will be unable to keep their economies at a normal level. They will have to accept shrinkages of between 10% and 20% below potential capacities. The crisis will escalate to a worldwide depression with a long duration.

Facing this situation, governments will be forced to take the majority of banks under state control in order to guarantee the minimum functions of capital markets at low risks. This will appear as unavoidable because state guarantees and funds alone will not be able to impede bankruptcies in the private financial sector. The banking sector will come under state ownership. Some of the insurance companies involved in CDS and other “toxic” products” will follow them.

State ownership will mean that only the basic functions of the banking system will continue at low interest rates, with minimum standards for client services, and the focus will be on operational functions rather than new markets. It will be lean banking in its depressive meaning; targeting at survival, not at being efficient.

Recession and state control will dry up the new markets almost completely. Investment banking will not see a future for at least a decade. Private equities markets will have shrunk considerably due to the devaluation of properties and poor economic prospects. Consumer banking will be run at a low level providing only the basic functionalities.

Insurance business will also be hit by the depreciation of stocks and other property. In particular, those companies which are strongly linked to capital markets will be in danger,. Economic pressure on mass insurance will nevertheless be heavy due to the economic recession which will reduce premium incomes considerably. Insurance companies therefore follow a clear separation from banking and a specialisation on insurance markets. A large part of the sub-sector will, however, be able to avoid state ownership.

Intermediaries will see strongly declining markets. State control will be expanded to niche markets and companies will (officially) only be able to offer products supplied by state banks. Parts of the intermediaries' business will therefore shift to black capital markets.

Innovation activities in the banking system will concentrate on process innovation with a special focus on the improvement of controlling instruments. New financial products will only be developed within the narrow range of public capital market regulations, which demand low risks and standardised products. In order to keep control over banking operations, the number of products will be significantly reduced and products will be simplified. Control efforts will be undertaken to check compliance with administrative regulations rather than efficiency or profitability.

Due to the severity of the crisis and the suspension of markets, an effective recovery from depression will only be seen by the end of the scenario horizon. Similar to the financial crisis which happened in Japan during the 1990s, the economies will suffer from the losses of property and markets for a long time. This will be due to the fact that the breakdown of the economies will largely exceed the initial effects of the financial crisis, and governments will be overburdened with stopping the avalanche. While this will lose its power after some years, the destruction of markets will be serious. Trust and economic optimisms will be difficult to re-establish.

At the end of the scenario horizon between 2015 and 2020, private banking and insurance will slowly recover. Governments will start to release state-control and extend the accreditation for financial services. This will herald the reconstruction of a strongly controlled private business.

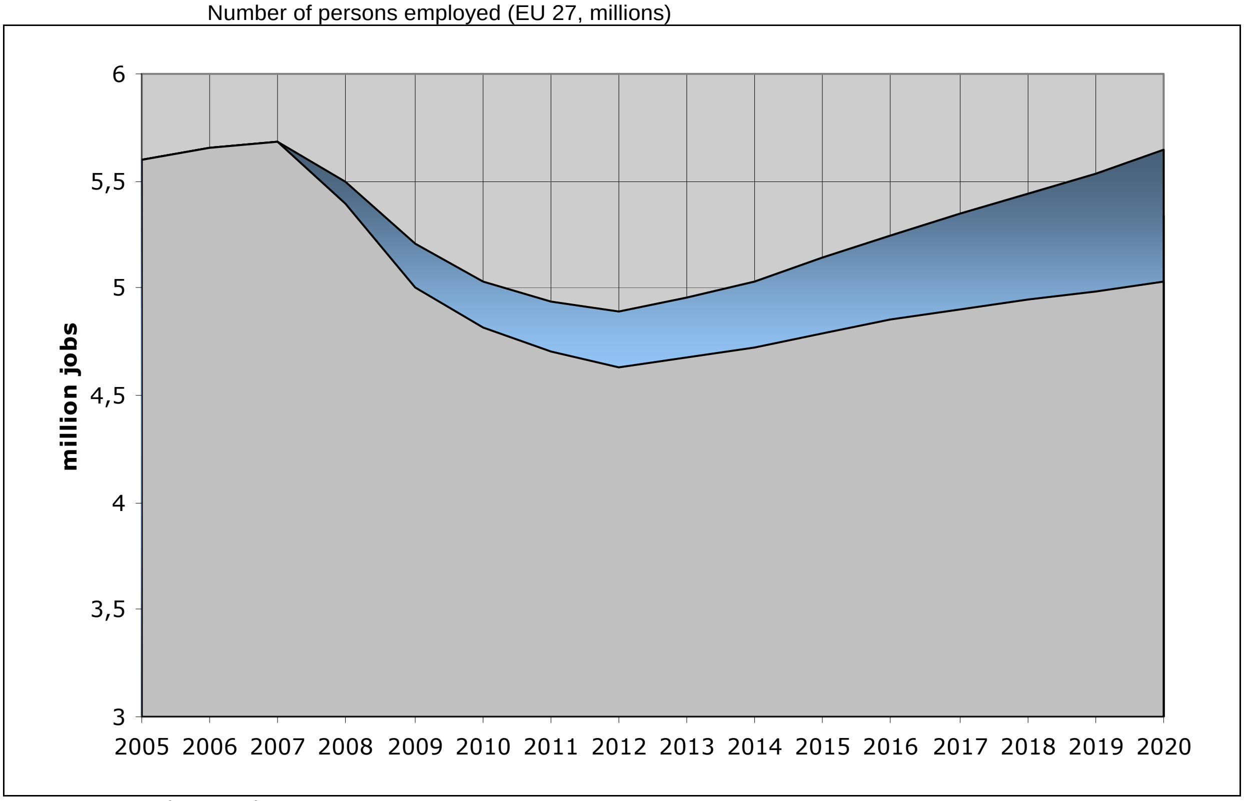
5.4. Employment effects

Estimating the employment effects of the scenarios is an even greater endeavour than writing the scenarios. As there is no econometric model available to reflect the changes described by the scenarios, quantitative results must be based on differentiated employment figures for the sub-sectors in 2006 and assumptions on growth perspectives associated to the scenarios. The employment figures estimated for the different scenarios are therefore given for demonstration purposes only.

5.4.1. Scenario 1: Sustainable finance

European financial services will have to go through the crisis with substantial job losses. The sector can be expected to lose 15 % of its employment by 2012 but will increase the number of jobs afterwards (Chart 8)[4]. Even under positive assumptions however, the employment level of 2007 will not be achieved until 2020. This will be due to the cut in the volume of investment banking and also to the effects of the economic downturn worldwide. The recovery after 2012 will be accomplished with the restructuring process during the crisis. Forceful consumer orientation and visible improvements in the quality of investment consulting will contribute substantially to rebuilding trust. Nevertheless, it will take years until the markets are convinced of the sustainability of the new business model.

Chart 8 **Employment trends in the "Sustainable finance" scenario**
Number of persons employed (EU 27, millions)



Source: DKRC/Economix

Insurance markets will able to profit from the crisis as their products have never been under serious liability suspicion. Insurance companies will take advantage of favourable consumer assessments and expand their product portfolio with respect to long-term risk minimisation. Life insurance will experience a new revival due to the security orientation of the population.

4

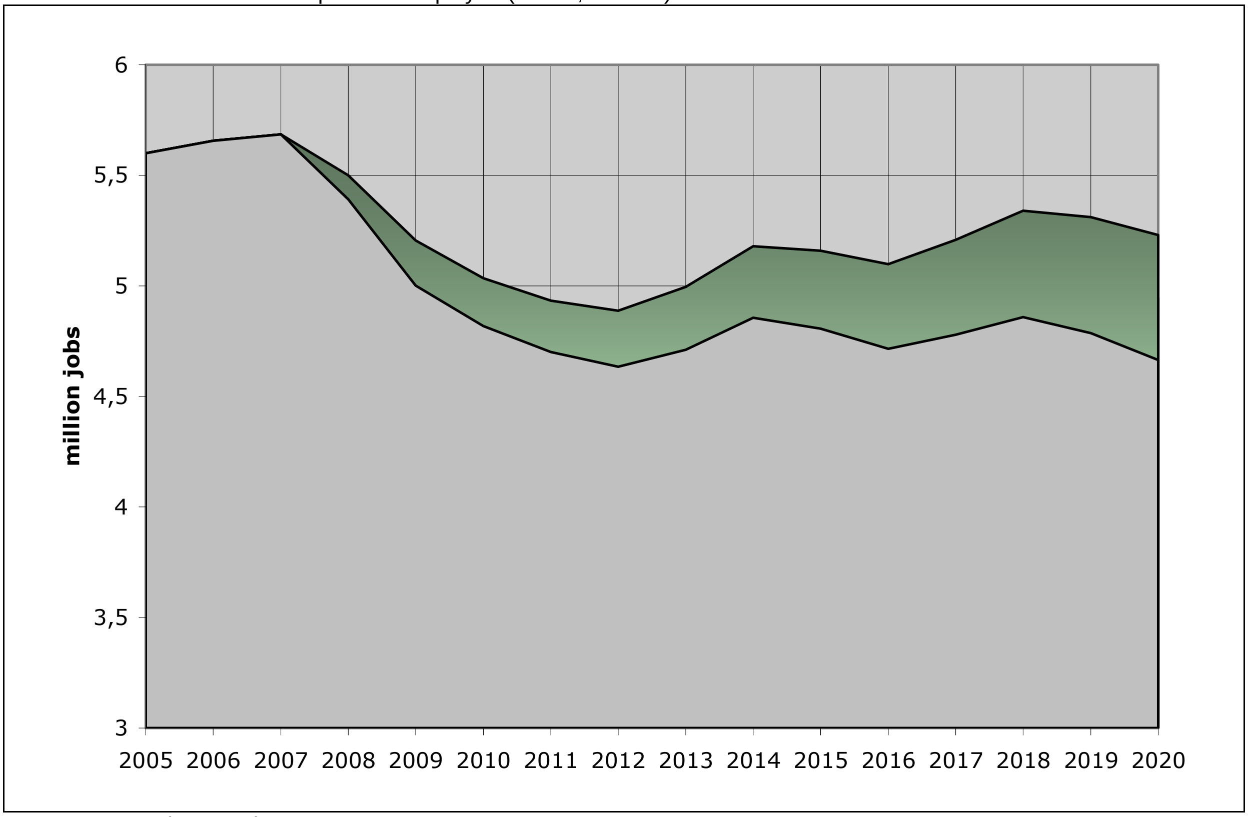
Intermediaries will also be less affected by the financial crisis, but will nevertheless experience shrinking markets during the first years. They will be able to recover from this sooner than the banking sector and will try to play their consulting and advice role. Improvement of the banks' consulting services, however, will be a continuous threat to the expansion of intermediaries' business, which will grow with the overall trend in financial services.

By 2020, the financial services sector can be expected to employ fewer workers than in 2006. Following the assumptions of this scenario the volume of job losses up until 2020 might range between 50,000 and 600,000, depending on the strength of the recovery after 2012.

5.4.2. Scenario 2: Laissez-faire

In the "Laissez-faire" scenario, the European financial services will enter a phase of unstable employment with short-term recoveries only. The number of jobs will continue to decrease up until 2012 due to the effects of the current crises. Fundamental conditions of the world economy will not allow an earlier recovery. The sector will however profit again from the succeeding upswing and expand its labour force in investment banking, mergers and acquisitions, and private equities. However, this cannot be expected to be sustainable. The banking business will therefore enter the group of sectors which are highly sensitive to cyclical fluctuations.

Chart 9 Employment trends in the "Laissez-faire" scenario
Number of persons employed (EU 27, millions)



Source: DKRC/Economix

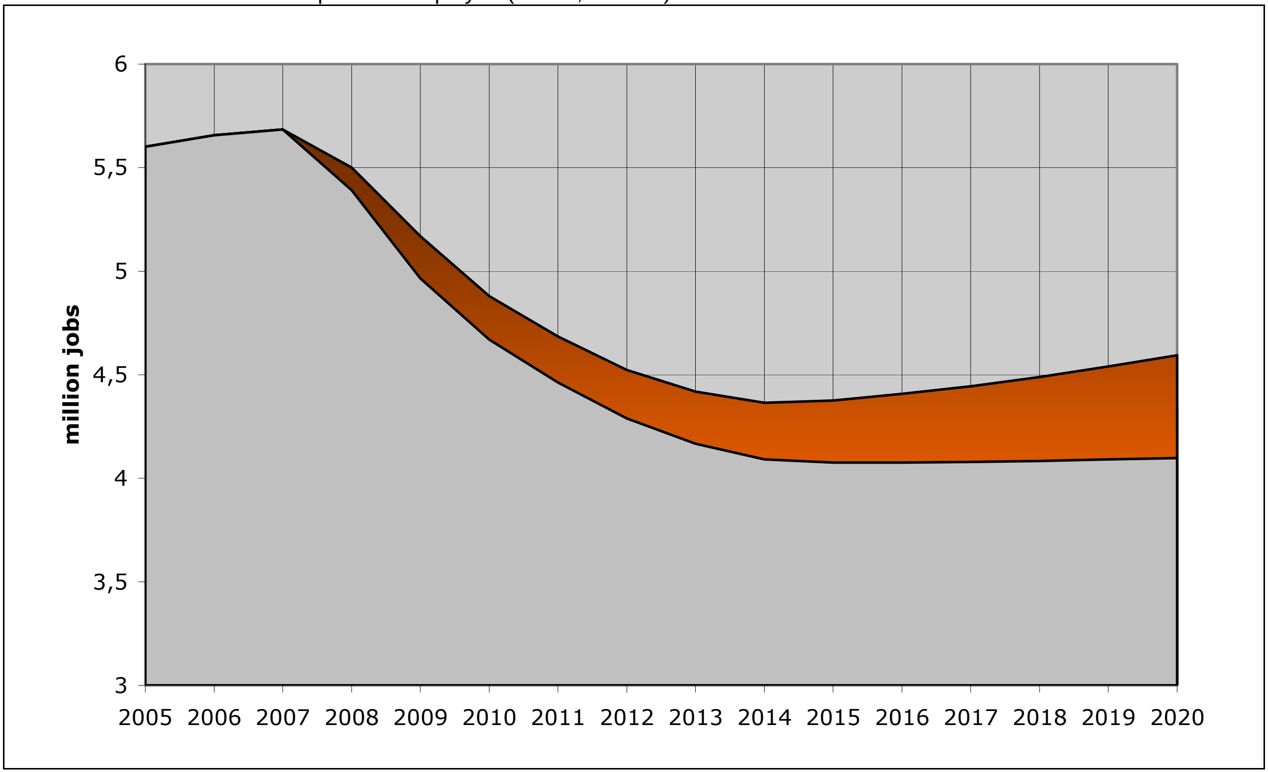
In the long run, the recurrence of high financial risks will undermine the trust in the banking business. It will not be perceived as a business that fully complies with its peculiar public accountability. This will limit the expansion of the private banking sector in favour of public or semi-public banks and the insurance industry. Being less affected by the ups and downs of global capital markets and having applied long-term investment strategies professionally for a long period of time, the products from insurance companies – life insurance in particular – will become more attractive to private investors. Moreover, independent intermediaries will profit from the uncertainty in capital markets, as high quality consulting is strongly appreciated by investors.

By 2013 the sector can be expected to have lost around one sixth of its 2007 labour force and will escape from the negative trend only for a short period. The major burden of this decline will have to be taken on by the banking sector, while insurance and intermediaries will be able to expand, at least in relative terms.

5.4.3. Scenario 3: State-ownership

The number of jobs within the European financial services will remain at a low level, even after the immediate effects of the financial crisis which is expected to be more severe and to take longer than in the previous scenarios. By 2020, the European financial sector will have lost almost 25 % of its 2007 level. Job losses will continue until 2015 and then turn into a slight increase afterwards. Nevertheless, employment growth will remain limited due to slow market expansion.

Chart 10 Employment trends in the "State Ownership" scenario
Number of persons employed (EU 27, millions)



Source: DKRC/Economix

The major burden of this decline will have to be taken on by the banking industries, but insurance and intermediaries will also lose jobs. Insurance will perform relatively better. Intermediaries, however, will lose substantial parts of their workforce.

Employment losses will concentrate on formerly private banks, particularly in the area of investment banking and private equity. Public and semi-public banks, co-operative banks and savings banks, however, will mainly be affected by the overall economic downturn. While this will happen during the first phase of the scenarios up until 2015, later employment growth will result from high cost pressure and labour saving technologies.

5.5. Impact on skills

5.5.1. Scenario 1: Sustainable finance

As indicated above, the restructuring process will imply considerable changes of both the type of competences needed by the banking sector and the occupational structure of employment.

Table 29 Change of occupational structures in the "sustainable finance" scenario
Tendency of % change; EU27; 2006-2020*

Occupation	Banks	Insurance	Intermediaries	Total financial services
Managers	=	=	=	=
Computing professionals	=	=	=	=
Business and finance professionals (sales and marketing)	++	+	++	++
Business and finance professionals (new products)	+	+	=	+
Business and finance professionals (organisation, controlling)	++	+	=	++
Clerks	–	–	–	–
Service and sales workers	+	+	+	+
Craft and related trades workers	–	–	–	–
Elementary occupations	=	=	=	=
** Change of % shares of area total:*	*++ strong increase; + increase = no change – – strong decrease; – decrease*			

Source: DKRC/Economix

The upcoming competence profiles will demand:

- Strong consumer orientation of the whole business. This will be the major battlefield of competition among financial services providers. It will be governed by the ambition to provide the best consulting services possible. Reliability and trust will be the goals to be achieved from all marketing activities. Individual consulting will be provided and long-term consumer and business relations will be established.
- Strong risk awareness instead of short-term profit maximisation. Consultants will have to be trained in assessing investments risks from a long-term perspective. They will return to "conservative" investment strategies in favour of better security.
- Investment banking and parts of short-term capital management will be abandoned. This will not be required in capital markets following a sustainable strategy.
- R&D specialists will be needed in order to improve risk analysis and customer consulting rather than the development of new financial products. This will raise the demand for risk analysts, market analysis specialists, mathematicians and statisticians.
- Internet banking will experience a certain upper ceiling, as consumers prefer individual services. Nevertheless, it will be used for daily banking operations. Back office operations will be reorganised further. Thus ICT specialists will see a continuous expansion of labour demand.

5.5.2. Scenario 2: Laissez-faire

Skills trends remain rather unclear in this scenario, as cyclical fluctuations will have a strong impact. In particular, investment bankers and brokers will find themselves in a similar position to engineers in the manufacturing sector. Strong fluctuations in labour demand will create cobb-web cycles in these labour markets. These will be driven by rising labour demand, initiating increasing training efforts, which will arrive in labour markets at a time when demand will be in decline again. Unemployment risks will therefore increase for these types of professionals.

Competence profiles in the upper segment of the business will nevertheless reveal some stable trends:

- R&D specialists will be required for product innovation and risk assessment
- Specialists for business organisation and ICT will restructure back office administration and develop the instruments for expanded internet banking
- Marketing specialists will be used to regain market shares for private banking
- Controlling specialists will be needed to keep control of a standardised and automated consumer business

Table 30 Change of occupational structures in the "laissez-faire" scenario
Tendency of % change; EU27; 2006-2020*

Occupation	Banks	Insurance	Intermediaries	Total financial services
Managers	=	=	+	=
Computing professionals	++	++	=	++
Business and finance professionals (sales and marketing)	+	+	++	+
Business and finance professionals (new products)	++	+	++	++
Business and finance professionals (organisation, controlling)	+	=	=	+
Clerks	– –	–	– –	– –
Service and sales workers	=	+	+	+
Craft and related trades workers	–	–	=	–
Elementary occupations	–	–	=	–
** Change of % shares of area total:*	*++ strong increase; + increase = no change – – strong decrease; – decrease*			

Source: DKRC/Economix

The scenario will strengthen the trend towards a dual labour market, split into a high-skilled segment for investment brokers, R&D specialists, organisational and marketing specialists, and a low-skilled segment for sales and call centre agents, clerks and other support staff. This will be due to the segmentation of financial markets into a sophisticated area of investment banking and asset management, and standardised consumer markets which will increasingly operate with internet tools. Big service providers will be established which will take a major part of day-to-day operations in accounting, mailing, and internet operations. This part of labour demand will become effective in other sectors than financial services.

5.5.3. Scenario 3: State-ownership

Skills structures will change in opposite directions compared to the pre-crisis period:

- A greater need for back office professionals will emerge, due to a stronger emphasis on controlling and general administration. This will also increase the need for computer specialists.
- The middle office jobs will grow.
- Front office professionals in the fields of sales and marketing but also in R&D for new products will see declining demand.
- Lean management will be introduced at the expense of the broad middle management groups in particular.
- Clerks will keep a relatively good position due to the fact that administration will become more regulated.
- Service and sales workers will see declining demand.

The new type of bankers demanded by the state-owned banks will need the competences of civil servants rather than the strategic and market oriented competences of a private banking system. They will need to have a sound education in law, a clear perception of tasks and legal competences, and an orientation towards public targets rather than company profits.

Table 31 Change of occupational structures in the "state ownership" scenario
Tendency of % change; EU27; 2006-2020*

Occupation	Banks	Insurance	Intermediaries	Total financial services
Managers	–	=	–	–
Computing professionals	+	+	+	+
Business and finance professionals (sales and marketing)	– –	=	– –	– –
Business and finance professionals (new products)	– –	–	– –	– –
Business and finance professionals (organisation, controlling)	++	+	++	++
Clerks	+	–	+	+
Service and sales workers	–	+	–	–
Craft and related trades workers	=	–	=	=
Elementary occupations	=	–	=	=

** Change of % shares of area total:* *++ strong increase; + increase*
= no change
– – strong decrease; – decrease

Source: DKRC/Economix

The new strategic orientation will bring a radical change to bank management in particular. Top management will be largely exchanged and the middle management will have to follow the new rules rapidly. Moreover, remuneration will be significantly reduced. Bonus systems will expire, and overall wage levels of the banking system will decline in relation to other sectors.

Investment bankers and brokers will have to look for jobs in other areas as financial specialists in the non-financial sector or as consultants. The rising need for administrative professionals and controlling specialists will be covered by other occupations.

6. Strategic impacts from the scenarios

6.1. Human resource policies in a declining industry

In most of the EU countries, the financial sector expanded for many years. This is changing radically due to the current financial crisis and will lead to a substantial loss of employment, whatever is assumed for the long-term future of the sector. With the downturn of employment, human resource policies will face new conditions in internal and external labour markets which will be similar to other declining industries. This Section shortly reviews the particularities of these branches.

The reduction of employment will affect both labour supply and labour demand in a significant way. It will result in:

- high unemployment risks for the staff employed – certainly a new and alarming experience for much of the workforce
- a small number of job openings for those entering the sector – a surprise for many of the students and trainees in professional schools and colleges, and also for those who are in the process of deciding about their educational career
- a lower wage increase due lower profits and rising unemployment

- a generally poorer attractiveness of the sector compared to other sectors – a new condition for the human resource departments

This will not make human resource policies easier: while labour supply will be more than sufficient due to the rising number of lay-offs, it will become difficult to recruit specialists from the non-banking sector (ICT specialists, marketing specialists, mathematicians, statisticians etc.). These groups will recognise higher unemployment risks in a sector which, until recently, was perceived as providing secure jobs. Even financial specialists will look for job opportunities outside the financial sector. Selecting those who are the best qualified will become more difficult.

Company restructuring appears to be difficult in such a situation. While markets demand a rapid restructuring in all areas – products, technologies, organisation – the human resource policy in companies is determined by low labour turnover, the great importance of internal labour markets, and an ageing work force. Particular skills shortages appear among emerging skills, which are scarce due to competition among employers.

6.2. Adjustment strategies at company level

In the short-run, many financial institutions will be forced to consolidate and to adjust activity levels to declining financial markets. In the long-run however, companies will follow different types of strategies which appear clearly separated in the three scenarios (Table 32).

Table 32 Main adjustment strategies

Adjustment strategy	Scenario 1 **Sustainable finance**	Scenario 2 **Laissez-faire**	Scenario 3 **State ownership**
Diversification strategy	●		
Trust and security oriented strategy	●		●
Globalisation strategy		●	
Specialisation strategy		●	
Standardisation strategy		●	●

Source: DKRC/Economix

Five principal strategic orientations might determine the prevailing business models:

- *Diversification strategy:* banks in particular recognised the importance of consumer deposits and credits for the stability and security of the business. The wide distribution of risks appears to be fundamental, as well as participation in a wider scope of markets. Universal banks are the ideal business model of this strategy. Mergers between banks and insurance companies appear to be attractive.
- *Trust and security oriented strategy:* the financial crisis also revealed the importance of consumer trust for the long-term sustainability of the sector, and it made clear that profit orientation disagrees with this principle. The strategy requires long-term orientation rather than short-term profitability, and results in a fundamental change in product development, investment consulting, and investment decisions.
- *Globalisation strategy:* big is not only beautiful but efficient. The economies of scale in financial markets are strong and make cross-border mergers attractive. This creates big institutions in interbank markets and re-insurance, but also in private equity, asset management, and back-office services.
- *Specialisation strategy:* this is not only the separation of banks and insurers, but the institutional specialisation on mortgages, business credits, different types of asset management, investment banking and other market segments. The economies of this strategy are based on specialisation rather than size. A high degree of professionalism is required for market success.
- *Standardisation strategy:* products for mass consumer markets are standardised in a limited number of alternatives and automatic risk assessment. The internet plays a dominant role for the business. Big back office service providers execute the administrative tasks. Individual services are an exemption.

The scenarios contain different combinations of these strategies:

- Scenario 1 mainly refers to the trust and security oriented strategy in order to rebuild consumer confidence. Also, for security reasons, a diversification strategy is followed.
- Scenario 2, in contrast, applies a strongly economic approach searching for favourable market positions in global capital markets. This can also be achieved through specialisation in niche markets and standardisation of consumer markets.
- Scenario 3 applies a trust and security oriented strategy by the means of a public banking system. In order to be efficient, a high degree of standardisation must be achieved. The heterogeneity of consumer preferences is not directly relevant.

The different strategic options of the scenarios also imply different adjustment measures regarding human resource policies. The importance of these measures is indicated in Table 33:

Table 33 Adjustment measures of companies

	Scenario 1 **Sustainable finance**	Scenario 2 **Laissez-faire**	Scenario 3 **State ownership**
Changing work organisation	+++	++	0
Retraining of labour force	+++	++	+
Recruiting unemployed	0	0	+
Recruiting young	++	+++	0
Recruiting from abroad	0	++	0
Improving working conditions	+++	0	+
Outsourcing / relocation	0	+++	+
Networking	++	+	0
Improving career structures	+++	+	+
Knowledge transfer	++	+	+
Raising wages	+	0	0
Improving image	+++	++	+

+++ very important; ++ important; + relevant; 0 not relevant;
Source: DKRC/Economix

Scenario 1 "Sustainable finance" will lead the companies towards a customer oriented organisation, putting a strong weight on "face-to-face" work situations. This organisation is based on a high level of competences for the counsellors, loan officers, insurance agents, and intermediaries. They need a high level of education to analyse the clients' needs, the knowledge of a large range of financial products, and a good assessment of potential economic and financial risks. They have to maintain this level throughout their career by taking part in frequent training programmes. Their motivation needs to be strengthened by serious career management, by knowledge transfer measures and the experience of internal and external networking.

Scenario 2 "Laissez-faire" is based on an industrialised organisation and on lean production models with large service centres and big call centres for product sales. Turnover will be encouraged by profit-based remuneration. Young people will be hired on low wages to work on sales platforms and in call centres, but also for highly professional jobs in investment banking. New products will be continuously developed by special R&D staff. Training courses will be used to continuously update employees' knowledge on innovative products. Particular attention will be paid to soft competences and communication.

Scenario 3 "State ownership" will lead to an administrative sector demanding reinforced controlling skills, and people with a strong knowledge of regulations and general law in order to apply national and international rules. The middle office will be the most developed function. Employees must participate in training courses to develop their regulation and law knowledge.

6.3. Strategic choices for sector organisations, training institutions and governments

The scenarios also require different strategies to be followed by sector organisations, training institutions and governments (Table 34):

Table 34 Adjustment measures of sector organisations, training institutions and governments

	Scenario 1 **Sustainable finance**	Scenario 2 **Laissez-faire**	Scenario 3 **State ownership**
Image of the sector	Sustainable sector with a high degree of public accountability	Modern and dynamic sector	Strongly security oriented sector providing low-cost products
Career guidance	Strong client orientation, risk oriented decisions	Flexible and innovative, Profit oriented decisions	Strictly task oriented
Vocational training	Communication skills, risk assessment and controlling	Specialists for financial products, global financial markets, business organisation	Business administration, controlling
Cooperation between education and industry	With a focus on the princi-ples of trust and security oriented financial business	Specialised continuing training for professionals	Law and public administra-tion
Labour markets	Regional labour markets very important	International recruitment	Internal labour markets important

Source: DKCR/Economix

- In *Scenario 1,* sector organisations will support the image of a sustainable sector with a high degree of public accountability. A high degree of client orientation will be demanded from persons in consulting and management positions, combined with strong risk awareness. Communication skills and a sense of responsibility will be particularly promoted, together with the principles of a trust oriented and security oriented financial business. Recruits will mainly be from regional labour markets as direct communication with local clients is important.
- *Scenario 2* will present the sector as a modern and dynamic business which demands flexible, innovative and profit oriented professionals. Vocational training should train specialists for various financial products, global financial markets, and business organisations. Life-long learning will be particularly important to keep professionals updated with the rapid path of innovation. Specialists will be recruited from international rather than local labour markets.
- For *Scenario 3* an image campaign is not really needed as the sector is reduced to basic financial operations. Nevertheless, it appears as a security oriented business which targets providing financial services at low costs. Career promotion will select strictly task oriented employees. Vocational training is reoriented towards business administration and controlling. Training centres will focus on law and public administration. The majority of recruits will be from internal rather than external labour markets.

6.4. Policy choices

The specific policy mix applied in the three scenarios is as follows (Table 35):

- For *Scenario 1* a broad policy approach is required to achieve the reorientation of the financial business towards the “sustainable finance” model. Training policy creates the basis for this by means of a broad enhancement of competences at all skill levels. The workforce has to be “re-educated” from the previous profit orientation towards risk awareness. This requires strong investments in new tools for risk assessment and strategic controlling. Regulation policy will enforce these changes with strict control in risk management and rigorous liability rules for financial consulting. Global capital markets will be controlled by international supervision and monitoring standards.

- In *Scenario 2* the training policy will concentrate on highly-skilled professionals who are needed to develop new financial products and reorganise administrative processes. Low-skilled workers will only be trained in short courses for restricted tasks. Financial institutions will have a wide scope of action to reorganise markets and business processes. Controlling will not significantly exceed the present level, particularly not in global capital markets.
- *Scenario 3* does not develop an explicit training policy as it has to operate with the existing labour force rather than a high volume of recruits. Innovation policy will concentrate on improving controlling systems and operational rules will be adjusted to public administration. Global capital markets will be restricted and international capital flows will be controlled nationally.

Table 35 Policy measures

	Scenario 1 **Sustainable finance**	Scenario 2 **Laissez-faire**	Scenario 3 **State ownership**
Training policy	Broad competence enhancement at all skills levels	Focus on highly-skilled professional	Limited efforts No explicit training policy
Innovation policy	Risk assessment and strategic controlling	New financial products Standardisation Back-office services	Controlling systems
Regulation policy	Strict control of risk management Rigorous liability rules	Control of risk management at national level	Public administration rules
Globalisation policy	International controlling and risk management rules	Free international capital markets	Nationally restricted capital markets with state control for international transfers

Source: DKCR/Economix

6.5. Critical competences

The scenarios require employees who developed strongly different sets of competences (Table 36):

- *Scenario 1* relies on a new type of “banker” and insurance employees who forget most of the principles which were developed over the past decade. This starts with general management which acts on a long-term vision rather than short-term profit orientation. In order to change of the business model, managers need to be experienced in change management. Marketing and sales staff are financial professionals who are strongly client oriented even at the expense of lower short-term returns. They communicate their social responsibility and are able to build trust and long-term relationships with clients. Administration is independent from the sales departments and strongly committed to short-term monitoring of business processes and strategic controlling. Strategic controlling means that the check list of controllers focus on the assessment of principal business targets rather than detailed operations. Research & development provides the instruments needed by the controllers and process re-engineering achieves a high degree of flexibility which allows serving a wide range of consumer demands.

Table 36 Critical competences

	Scenario 1 **Sustainable finance**	Scenario 2 **Laissez-faire**	Scenario 3 **State ownership**

General management	Risk oriented rather than profit oriented Long-term vision Change management	Global orientation Strong profit orientation Short-term flexibility	Security oriented, Low-cost oriented, Change management
Front office / Marketing and sales	Financial professionals Strongly client oriented Socially responsible	Market oriented sales specialists Product oriented	Limited marketing efforts
Back office / Administration	Strict monitoring and controlling	Rapid adaptation to product changes	Strict controlling according to administrative rules
Research & development	Risk assessment Controlling instruments Customised products	New financial products Internet-based sales Standardisation of products	Standardisation of products
Middle office / controlling , process engineering	High flexibility of processes due to heterogeneous client demands	Standardisation of processes Relocation of back office services	Standardisation of processes

Source: DKCR/Economix

- *Scenario 2* continues with the short-term profit orientation which was followed by the financial business in the past. It reaffirms the principles developed by the present leaders rather than demanding for a change of business models. The competences needed by this scenario, therefore, are in line with existing trends: global orientation of managers and professionals, market orientation of sales specialists, and flexibility at all levels of the rapidly changing business. This is mainly addressed to R&D staff who will have to develop the new financial products. Markets are strongly separated into global financial products and consumer markets. While product innovation will mainly happen in global markets, consumer markets will be strongly standardised. Internet technologies will be developed to provide efficient instruments for this market. This will considerably reduce the need for administrative staff. Moreover, relocation of back office operations will reduce the demand for this type of labour.
- *Scenario 3* will be a similar “shock” to the financial business, just like scenario 1. It will make large groups of innovative professionals in the banking business redundant, in particular investment brokers, asset managers, private equity consultants etc. The skill profile of this scenario will be reduced to the needs of standard banking and insurance operations. A strong focus will be on controlling. Employees will therefore return to the principles of public administration. Market orientation will be exchanged for low-cost orientation. Marketing and sales staff will be hardly needed. Civil servants will take the responsibility for company management and insure the application of public rules. Low-costs will be achieved by standardisation of products and processes. R&D staff will therefore concentrate on controlling instruments and lean service production.

7. Human resource strategies to meet skill needs

This part is written from the human resources management point of view. We had specific interviews with HR managers in companies, with responsible training institutions and with experts, and we analysed literature about qualifications, training and HR management in the financial services sector.

7.1. Facing the demographic challenge

For the banking sector the analysis relies on the demographic development study conducted in 2006 by the social partners at the European level (UNI EUROPA Finance, EBF, ESBG and CEAP): "The impact of demography on the human resource policies in the banking sector", November 2006. The basic results of this study (which covers 14 countries) correspond to the facts analysed in this report.

This very interesting study shows for several Western European countries (with the exception of the UK where the employees in the banking sector are relatively young) that the number of people retiring will be quite high from 2010 onwards. Even if total employment decreases (that is the outcome of all the three scenarios), there will be certain needs for newcomers.

After the presentation of the population pyramid in different countries, the study on demography examines how the sector would face challenges whilst adapting itself to population changes:
- recruitment of new staff members
- retention of older staff
- utilization of "life cycle policies" as a tool to attract newcomers
- updating skills of older staff

The interviews conducted for our study and also the national studies from the European social partners both show that the big financial groups can take advantage of these important retirement figures to realise productivity gains, and to now face the systemic crisis and the decline of employment.

- In the back offices in Western European countries, replacements are realised at the rate of one appointment to two retirements. According to the scenarios, back office employment (clerks, technicians) will decrease. This may be a function without recruitment.
- In the insurance sector, the number of employees working in the administrative services or preparing contracts will be reduced. The use of new computer programmes renders the knowledge of the ageing employees whereas obsolete and retired employees are not replaced.
- Similarly, in the banking sector new software and new computer systems accelerate the preparation of credit offers which in turn are replacing retired employees.
- As to the management function, the replacements are realised at the rate of two appointments to three retirements. If the companies should go to a “low cost” scenario and want to realise budget economies, this proportion would be changed and the volume of managers would decrease.

7.2. Hiring young people with university degrees

The most common answer to the massive need of new competencies and the need to renew the workforce is the recruitment of young graduates with post secondary and tertiary education:

- Highly educated and highly specialised graduates for business and investment banking activities, for the functions of risk management, actuaries consultants for companies, and to a large extent for retail activities.
- Two to three years of study in post secondary and tertiary education for people working in call centres and partly in retail activities.

Following this strategy there will hardly be recruitment in this sector for graduates with a level inferior to university entrance qualification plus 2 years of studies or training. However, the possibility to recruit young graduates will be linked to the attractiveness of the sector.

The financial sector is recruiting very few newcomers who are in the middle of their professional career with some exceptions:

- Groups of salesmen in the companies are not always satisfied with the performance of young university graduates and started poaching employees in the large consumer service sectors such as in travel agencies or big retail companies.
- For the employees in the sub-sectors of agents and brokers, where the more entrepreneurial status is attracting young employees with some years of professional experience in a classically large company are available.
- For the employees in marketing functions where the companies hire employees from sectors where the marketing aspect is highly developed (mass consumption product sector).
- In the UK where the turnover in the companies of the sector is important; the companies prefer recruiting employees with some years of professional experience.

In the old member states the companies' view point just before the crisis was that they do not have any problems in finding and attracting the young graduates they need. The financial services sector is attractive to young graduates who are drawn in by the prospect of a high income, good working conditions including good career possibilities and significant professional advancement prospects. The financial crisis can be expected to change this situation.

Example: In the capital cities, especially in London which represents the most advanced innovation hot spot in Europe, young professionals find a large number of possibilities to change from one company to another or to be internationally mobile and change from one country to another. Additionally, in these business activities salaries paid in London are 20% to 30% superior to the salaries paid in Germany, France or Italy. A survey conducted by Fed Finance and the Grant Thornton group shows that 80% of the new employees in London are satisfied with the training they get in Europe, regardless of the country. However, they are now in turmoil and a lot of jobs are going to be cut in London.

However, the FSSC (Financial Services Skills Council) in the UK points out problems regarding the recruitment of young graduates: "Recruiting and retaining young people in our industry is becoming increasingly difficult." (2008). Le FSSC defines itself as "licensed by the UK Government to work in partnership with employers to provide strategic and responsible leadership for training and education".

The quoted demographic study shows examples in countries like Cyprus, Italy, Portugal "where the banking sector keeps on being attractive thanks to the benefits that are given, the above average wages, health plans etc. But in Denmark, representatives from the employers regard the sector as very attractive whereas the employees representatives highlight that the banking sector is often considered as a stressful environment and for this reason not very attractive". The English Union Amicus points out that the financial sector is very stressful and becomes less and less attractive for employees.

However, in the New Member States, despite the fact that the financial sector is attractive, the number of young graduates trained in financial areas of expertise is not sufficient to meet the recruitment needs of the companies. In addition to this, young graduates tend to leave to work abroad (Ireland, United Kingdom, Sweden, the US) and presently the companies and the professional organisations are trying to bring them back to their home countries. For the bank SEB in Lithuania: "The challenge now is to attract people coming back from abroad. 200,000 people are working abroad, in all sorts of sectors, salaries are increasing in Lithuania, people are starting to come back. Potentially attractive candidates are graduates from foreign universities."

7.3. A possible answer: retrain older staff

To a high degree the finance sector made use of early retirement systems. Today and prior to the present financial crisis, a rethinking in the companies of the sector and a change of strategy can be witnessed in all countries:

- On one hand at national level in every country general measures are implemented to postpone the statutory age of retirement.
- On the other hand at company level new policies are just starting to be implemented.

The study of the social partners in the banking sector gives some examples:

- In Denmark, part-time employment is now a legal right for employees who are over 58 years old.
- In the Netherlands, employees older than 57 can reduce their working time.
- In Germany, many banks offer the possibility of part-time work for young parents (to reinforce the attractiveness of the sector) as well as for older workers.
- In the UK, the non-discrimination policy was renewed.
- In Portugal, co-operative banks institute a discount on pensions in case of early retirement etc.

If the finance sector is faced with difficulties in recruitment, this could lead to making better use of the older workers, however, they will face job cutting plans, and early retirement could be a solution.

In France in July 2008, an agreement between the social partners was negotiated in order to rise the effective retirement age in the sector (at present the average retirement age is 58.5 years old). The companies have to offer every employee a so-called “mid career interview” when they are 45 years old and a development report on this issue is published every year.

Training employees is a response to the need of new skills; it is even more necessary to retain the older employees in the job. "Maintaining the employability of staff is not only a question of updating competencies, it also requires that the working environment allows people to stay in employment until they reach normal retirement age": that was the conclusion of Mr Olivier Roethig (Uni Europa Finance) during the conference dedicated to the demographic study mentioned above.

In some countries the banking and insurance companies created special training programmes for aged workers: in Belgium, in Austria based on different modules (in Sweden with the programme SenKO for those older than 55 years old and in Portugal with the programme SABERES+).

7.4. Vocational training for employees

A tradition of companies engaged in training (EU15)

For a long time big companies in the banking and insurance sector as well as all countries in Western Europe have focused their long-term orientated human resource management strategy on managing their internal labour market.

Until the 1990s, workers with a lower educational level were recruited and it was the companies which guaranteed their employees long professional careers (lifelong careers) with the possibility of continuous further training and internal professional advancement. More than other sectors the

financial services sector was characterised by its internal vocational training and promotion possibilities.
The Labour Force Survey statistics shows an important proportion of "senior and management officers" who only have a relatively low initial qualification level. This corresponds with this tradition.

In view of important changes in this sector and the need to increase the general skills level, big companies in the sector have resorted to permanent training in all Western European countries. The technological changes, product innovations, changes in the customer relations, the changes in the distribution channels and now the need to rebuild confidence with the clients make the companies in this sector the most active regarding internal training of their employees.

The European CVTS ("Continuing Vocational Training Survey") study coordinated by EUROSTAT for the whole economy and carried out in 1993, 1999 and 2005, proved that the practices of the European companies became more and more similar.

Expert panel views

There was consensus among the expert panel participants that training is the key to future development in the financial sector. The long-term re-orientation as well as ethic change has to be communicated by the training system. Training should be improved at all levels of formal training. Diversity will be important as well as standards and certification.

A strong debate emerged about financing vocational training: the responsibility of company is to maintain employable staff while the responsibility of the employee is to continuously update their competences and sense of ethics and responsibility.

The financial service sector, which mainly consists of large companies, is in line with the tendencies described. Companies in Austria, Germany, Denmark, Estonia, the Netherlands, the United Kingdom, France, Sweden, Luxembourg and the Czech Republic are active in the field of further training of their employees, be it in the form of training courses or in less classical training methods ("on the job learning") like in the United Kingdom.

In contrast, Bulgaria, Hungary, Poland, Lithuania and Greece are less orientated towards training their employees. Only 16% of their employees are trained once a year. The other European countries are in between these two groups.

The German example of BVR (Bundesverband Raiffeisenbanken – National Association of German Co-operative Banks) shows a strong investment in permanent training. The German co-operative institute provide banking training from a medium level to university level as well as initial vocational training and further training. These institutes also provide training for social competence, relational competence and communication skills. 90% of the employees of the German co-operative banks benefits from this training.

In addition to this, most of the big German companies in the sector have their own "internal schools" (for example the insurance group Allianz, interview with Dr Daniel DIRKS, Executive VP Group HR). The German insurance industry provides a network of organisations for vocational training (BWV). The network offers services to over 400 German members of the association. In 2007, the German insurance industry spent an average of 1,300 euros per employee on vocational training.

Similarly in France, 80% of employees in the banking sector receive annual training. Continuous professional training represents 4.2% of the total wages in all companies. (Source: Association Française des Banques, rapport d'Activité 2007.) For the French insurance sector 87% of employees receive training every year and the investment of companies in training represents 5.4% of the total wages.

The Swedish group SEB (Scandinavian Enskilda Banken) has also a highly developed further training policy: managers can continue their studies and pass a MBA or a PhD (which is financed by the company); "training budget is decided every year and there is an unwritten rule that each employee has to participate in two seminars a year. Training budget is stable". This interview proves that the Swedish model of the "teaching enterprise" was "exported" to Lithuania. This practice has not always been the case in the New Member States and further training will strongly need to be developed.

In Italy the BNL (Banca Nazionale di Lavoro), bought by the BNP-Paribas group, has, since 2007, raised the number of training hours for its employees up to a yearly average of seven days per employee.

In Poland the Polish Association for Insurance and re-insurance brokers provides training programmes according to BIPAR propositions (interview with the Lithuanian Central Credit Union). It offers training programmes for its members in order to ensure they have the required qualifications that consist of regular training about IT , accounting, internal control, risk management, time management, planning etc., and it often participates in European projects.

7.5. Relocation

In general the relocation of certain activities – call centres, administrative services, IT services – are not an answer to the lack of competencies, but it represents more of an answer for productivity problems and cost problems (UK with the examples of AVIVA, a large group of insurers, the banking group HSBC which relocated some units in India, and the example of France with the AXA insurance group creating new platforms and new services in Morocco).

From experts' and human resource officers' point of view, relocation will not concern a large part of employees in the financial service sector, except if they adopt the low cost business model.

8. Implications for education and training

8.1. Implications for the initial vocational training system

8.1.1. Two different training streams for occupations in the financial services

The increasingly strict separation of purely financial activities (investment and business banking, corporate banking, assets management, operations on the global capital market) and the sales services for financial products (retail banking, savings for households and professionals, retail banking for SMEs, life insurance products, non-life insurance products) leads to two very different training schemes:

- On one hand, the personnel for financial "retail" activities are recruited at a minimum of mostly university entrance qualification level + 2 to 3 years. They could be trained in vocational schools and institutions linked to the professions, or in the context of the dual vocational training system, which does not necessarily require university entrance qualification level (Germany, Nordic countries). They could also be recruited when they graduate from university and then get a first period of training in the company (for example, the Italian group UNICREDIT has installed a training course in cooperation with a university institute, the UTU Technical School, to train new employees).
- On the other hand, the personnel in the core financial activities (who represent about 10% of the employees in the sector) will always only be recruited with a tertiary education degree (at least 5 years of study) from business schools, university management departments or sometimes from engineering schools. The high level of knowledge in mathematics, economic theory and IT, which is standard in these institutions, is increasingly appreciated in the financial activities. This level of knowledge is considered a plus for the profession of an actuary, for prognostic tasks and forecasting models, for traders and of course for statistical tasks. European universities and business schools have now adopted the American curricula and now the decision makers in the business banking sector consider the training received in Europe, including the New Member States, as being of very good quality.

Despite the fact that universities, business schools and engineering schools regularly have an exchange with the companies in the banking sector, competition among the young high graduates for their first job is very strong. As an example, the Frankfurt School of Finance and Management is a foundation in which all the big German banks are involved (see Interview with Dr Thomas Heimer). The recruitment offices point out that when leaving these higher training institutions the three most attractive sectors are banks, auditing and consulting companies and IT service companies.

8.1.2. The increasing need for graduates with higher education

All the scenarios show an increasing need for graduates with higher education and this holds true for all countries to replace some of the people leaving for retirement and to develop new activities.

In the New Member States of the European Union, the distinction between the two models of initial vocational training is, and will be, less strict because, as we saw in Chapter 3 (mapping the employment in the sector), the employees in the financial services sector generally have a higher university degree compared to countries in Western Europe.

This means that in the future the competition to hire young graduates when they leave vocational schools and universities will be much stronger. The interviewed companies in the New Member States point out that they already have a shortage of qualified labour.

It cannot be excluded that the companies in these countries have to change their recruitment policy and hire new staff at a lower educational level (2 years of post secondary studies instead of 5) and then develop the professional competence and the qualification level of their employees. In addition to this, the employment of workers in positions for which the employee is overqualified can be a reason for dissatisfaction and create problems concerning the human resource management. Without any doubt a significant part of the high rate of job turnover (yearly about 25% in the countries covered in this study – Romania, Poland and Lithuania) is due to this reason.

Germany represents a specific situation in this respect: a high number of employees in the financial services sector are “medium qualified” employees who are recruited and qualified in the system of vocational training also often called the “dual vocational training system” (see the Tables on the structure of employment and on the education attainment). But today this form of training is sometimes criticised and in order to meet the needs of a high qualification level, this system has to change in the coming years. In the opinion of experts, the presence of this high number of “middle skilled” employees seems to be one reason for the relative delay of German banks concerning their modernisation. Also, the Head of the Faculty for Finance and Management of the Frankfurt School of Finance and Management stated that "our school tries to overcome the German separation between non-graduate and graduate vocational training, and to make careers more conductive and flexible. The number of intermediaries’ skills will decline substantially in favour of highly trained specialists" (Interview with Dr Thomas Heimer).

As for the BVR representatives, they think that the system has to be improved, but successfully serves trainees and co-operative banks alike. It can be the basis for further development, and university level courses and degrees can be obtained after successful completion of the vocational training.

8.1.3. Developing new apprenticeship systems

Similarly, companies have to review their recruitment policy; many training experts in the sector think that the training through apprenticeships should be developed in many countries.

This is the case in France and Belgium where the number of apprentices – at all educational levels – is continuously increasing.

This is also the case in the United Kingdom were the FSSC (Financial Services Skills Council) states that "to often employers report an escalating shortage of work-ready young talents". In different regions of the UK, in 2008 the FSSC developed new forms of apprenticeships (especially in Scotland and Wales). This was a response to the skills gap which can be observed in many regions in the country.

8.1.4. The controversial question on how to recruit and train the sales force

While the whole service sector is developing towards a strong demand for graduates with post secondary degrees, human resource managers in the sector ask themselves what are the skills which are really needed for the employees in the sales sector.

Firstly, we can state that the companies use the term “salesmen and sales women” to describe any employee working in direct contact with the client: for example a "customer consultant” who answers all questions asked in an agency. But the characteristics of a good “salesman” correspond to clearly defined skills: understanding the needs of the customer, conviction, persuasiveness, the ability to build confidence. Those who are responsible in the company have understood that high graduates are not necessarily good salesmen (ING Direct, UNICREDIT, confirmed by the training managers: Dr Thomas HEIMER, Gabriella TUDOR, director of the Romanian Banking Institute), and are asking for changes in the recruitment policy: "we have a change in favour of less skilled sales-workers" (Dr Heimer).

"For customer advisers, we are looking for skills profiles as acquired in mass distribution and travel agencies", declared the head of human resource management of the French bank Credit du Nord. (Le Monde, 11.09.07).

8.1.5. Focus on the New Member States

While in the Western European states a shortage of employees is only observed in the financial sector, in most New Member States there are general recruitment problems linked to the necessity to develop the sector despite the crisis.

Also in Romania, the managers of Bancpost (Valentin Pauna, Country HR Director and Mihaela Mindristeanu, Head of training) claim that the education system only provides 30% to 40% of the labour needs. The number of students studying courses which will prepare them for banking occupations is not sufficient and there is a need to raise the student numbers in the future.

Hired employees come from different study courses (university entrance level plus 3 to 4 years of university studies) and then have to be trained when they start their banking career. Bancpost has established an obviously insufficient two week training module on financial products and customer relations, the newly recruited are then tested and trained on the job.

In the case of Romania it is the entire further training system which needs to be improved: "We could be innovative in our approach to training. I want to build a complex programme in order to provide each employee with specific training for her/his post" (Gabriela Tudor, Head of the Romanian Banking Institute).

To summarise:

- Increasing demand for graduates with higher tertiary education in all countries: no risk of labour shortage in the western countries but problems in the New Member States.
- A need for more high level study courses for the financial services in the New Member States including their modernisation and their orientation towards financial services. Otherwise, the development of financial services consultancies for individuals and companies will be hampered.
- A need for a first phase of “professionalisation” of the work force (if there is no dual vocational system).
- A need for "salesmen and sales women" with a lower qualification level but with social competencies, communication skills and sense of responsibility.

8.1.6. The skills needs of intermediaries (insurance agents and brokers)

The intermediaries dispose of a more differentiated initial education and training profiles.

This sector is dominated by SMEs – often with 1 to 4 employees – where experience counts for more than a diploma. However, a need for more qualifications is also visible in this sector: for the past few years a qualification level corresponding to university entrance qualification plus 2 years of training is required at European level to open an office. However, the European regulation also allows for some years of professional experience in this sector as an equivalent qualification.

Like in the other sub-sectors both the managers and the employees in the SMEs increasingly need a double competence: on one hand knowledge about and experience with different financial products, yet on the other hand they have to be competent in IT applications. Insofar as the distribution of financial products is developing in the direction of “multi channel” contacts with the clients, the training for banking jobs and for insurances and brokers must be very specific and combine the knowledge of financial products and IT skills. This is the reason why the initial education for jobs in the financial services sector has to be specific and designed in close cooperation with the professionals of the sector.

As an example, in Poland the Polish Association for Insurance and reinsurance brokers, set up a “ continuing professional education” taking into account the numerous and variety of insurance products, the fields of law, and the need of responsibility.

8.2. The new needs for further training and lifelong learning

8.2.1. Structural training needs in the New Member States

We could observe that the big companies in the Western European States are very engaged in the training of their employees, but so far in the New Member States this engagement is not sufficient.

Different professional education institutions are aware of this problem and try to use European programmes to solve it (FSE, Leonardo etc.). However, it is necessary to encourage the creation of new private organisations and institutions offering education and training.

Moreover, in these countries especially the subsidiaries which are not encouraged by their holdings to invest more in further training have to make an effort.

In the upcoming years, companies and training institutions in the New Member States have to make a big effort to develop their further training structures to respond to the new skills needs.

As long as the initial training structures do not respond to the needs of the sector and do not train enough graduates specialised in financial services, recruitment is more open to graduates from all disciplines. If the further training efforts fail in closing the knowledge gap, the quality and efficiency of the services could suffer and so weaken the whole sector. Moreover, this could lead to an increasing importance of low cost structures, characterised also by lower job stability.

It is well known that the EU member states would need to more than double their investments per tertiary-level student to match the spending level in the US. Since the adoption of the Lisbon strategy, public investment in education and training as a percentage of GDP has grown significantly and is comparable with the US level (and higher than in Japan). However, rates of private investment in educational and training institutions are modest in most Members States compared to the leading countries in the world (European Social Fund support to education and training 2007-2013).

The need of intermediaries for further training deserves special attention. In most markets the training infrastructures for intermediaries is well developed and continues to be enhanced further. New regulation imposes the minimum qualification, and the development of the distribution methods of the financial and insurance products force intermediaries to focus more on tailored consulting functions for the clients. Consequently, they will have to continue and acquire these skills where not yet done.

8.2.2. Training needs in the context of structural changes and crisis

Beyond the need of permanently updating the content of further training (new technologies, new products, new competitive environment, new regulation instruments, new customer relations etc.), the fundamental changes and the impact of the crisis in the sector will also completely change jobs. One major change concerns the diminution of the administrative back office jobs and the rise of front office jobs, which are in direct customer contact.

Since the 1990s (and since 2000 in some countries such as Italy, Greece, Spain and Portugal), companies have already had to face the changes in this business. Two possible strategies have been developed:

- external recruitment from outside the company, new people with new skills for new jobs
- organising internal redeployments and, with the help of large training programmes, internal conversion programmes

The first strategy has often been used in the case of setting up call centres or telephone platforms: “tele-consultants” have been recruited in the external labour market (UK, France, Germany where a different collective agreement was negotiated). In this case, the skills level of the existing staff rose only slightly.

The second strategy was widely used by the Swedish banks at the beginning of the 1990s when they faced a big restructuring crisis. A special fund (the labour fund) managed by the social partners was created for the banks as well as the insurance companies. The aim of these funds was to support the conversion process with further training. In some cases the conversion to other sectors was also supported. More recently, Swedish banks facing the financial crisis and job cutting plans are not hesitating to propose jobs in public agencies such as the Finance Inspection Agency and the Agency for Endebtment.

In the United Kingdom, some companies have negotiated with trade unions (especially the Union BIFU) and the "staff associations" partnership agreements to favour internal staff mobility and therefore provide the required training at company level (or at the sector level in the case of Sweden). One can find similar examples in the Netherlands and in Belgium.

The Belgium group KBC (Kredit Bank Central) – shareholder of Warta in Poland - has established a huge retraining programme: "As a result of the centralisation process for administrative operations, people from back offices (administrative staff) were transferred to headquarters and sales functions" (Anna Bugalska, HR and Development Director of Warta, Warsaw).

The Western European financial groups which developed their business in the New Member States are using the same practises regarding personnel management: as in the Swedish group SEB (Scandinavian Enskilda Banken) in Lithuania, "the back office was reduced by the process of centralisation (five years ago there was a back office in each branch) and administrative staff were "changed" into sales forces". In some cases the structural changes even have a “cross-border” effect: SEB has restructured its Riga office in a way that it is now working for the 3 northern states.

9. Main recommendations

While European governments are actually combating for the survival of the financial system, this report develops a longer perspective which goes beyond the present turbulences. Our recommendations for human resource related policies for the European financial sector suggest a long-term strategy for skills and competences which is able to reduce the risks of such a crisis happening again.

We are convinced that human resource policies play a pivotal role in the reform of the financial systems. The financial sector was obviously unable to establish a sustainable business model and assess risks correctly. This is not only a matter of management and business regulation but it also depends on the deep understanding of the functioning of financial markets. Employment-related policies should therefore address the need for adequate training and increased R&D investments in this sector. Two priorities emerge in this context:

- Training policies should be reoriented towards the economics of capital markets, the principles of decent client consultation, controlling and risk assessment. Governments should take initiatives to implement these new types of training in the financial business sector.
- As the tools of risk assessment failed to indicate long-term risks, R&D programmes should be launched to improve these instruments. Controlling principles should be reappraised in order to develop strategic controlling.

Human capital appears as the key to restructuring in this sector, and public institutions can raise the pressure on the financial sector to develop a sustainable business model. Education and training is one way to proceed along that route.

The following Section develops our recommendations under six headings:

- Reform of the financial system
- Employment and human resource policies
- Skills adjustment
- Equal opportunities
- Regional policies

- Knowledge of skills

The recommendations are addressed to different policy actors at European, national and regional levels. Moreover, companies and social partners are included (Table 37).

Table 37 List of recommendations

Topic 1: Reform of the financial system

EU	• make European regulatory systems more efficient • maintain and develop a pluralistic financial sector • develop a supervision culture in Europe • protect customers and investors by introducing more rigorous liability rules
National authorities	• participate in international regulation of financial markets • reinforce national regulations • improve market transparency and obligatory client information • reform bonus systems and top management remuneration
Companies	• rebuild trust with clients • develop self-controlling and reinforce the middle office function • promote transparency and provide liable information to customers • reform bonus payments and top management remuneration

Topic 2: Employment and human resource policies

EU	• prevent high replacement demand • contribute to human resource investment • support active ageing policies • support good practices in restructuring
National authorities	• contribute to human resource investment • support active ageing policies • support good practices in restructuring
Companies	• preserve the knowledge base • refuse early retirement schemes • set up good HR practices and career path developments to struggle against turnover and attract newcomers in the sector • build mobility solutions within the sector instead of lay-offs
Social partners	• support HR policies without early retirement and an effective ageing policy, new career paths • promote agreements about employment, restructuring, ageing policies

Table 37 continued

Topic 3: Skills adjustment

EU	• reinforce new competence standards to promote sustainable business models • promote R&D in financial services in the areas of risk assessment and strategic controlling
National authorities	• promote the introduction of sustainable business models by improved training standards • reinforce training institutions in the sector • promote R&D in financial services in the areas of risk assessment and strategic controlling • raise training standards for intermediaries • support cooperation between companies and training institutions
Companies	• develop lifelong learning • develop middle office apprenticeship training and trainee periods for newcomers • develop finance related ICT knowledge • adapt labour force to the principles of sustainable finance • invest into R&D in the areas of risk assessment and strategic controlling
Social partners	• reinforce involvement in training issues

Topic 4: Equal opportunities

EU	• encourage female students towards scientific studies and IT courses
National authorities	• encourage female students towards scientific studies and IT courses
Companies	• promote women in management positions • improve the proportion of women in IT-jobs
Social partners	• support and negotiate agreements about equal treatment of men and women

Topic 5: Regional policies

Regional authorities	• support decentralised banking and insurance services • attract innovative capacities • develop regional centres for supportive services • address restructuring in financial services and void risks of high specialisation in a single sector
Social partners	• address employment issues at the local level

Topic 6: Knowledge about skills

EU	• develop a monitoring activity for employment and skills in the sector • improve the European classification and statistics so they are more relevant for the services sector (ISCO, ISCED)
National authorities	• support prospective sector studies
Regional authorities	• support prospective sector studies
Companies	• support skills monitoring • present regular and transparent information
Social partners	• develop social dialogues for employment, skills and training needs • promote a common understanding of the sector and develop a strategic view

Source: DKRC/Economix

9.1. Reform of the financial system

The only possible way of ensuring a sustainable development of Europe's financial sector is by reforming financial services. This appears to be an indispensable precondition to re-establish the strength, dynamics and future development of this business and to safeguard workplaces in face of the present systemic crisis. Even though this is not the theme of this report, we will briefly indicate the principles of this reform:

- *Making the European regulatory system on financial markets more efficient,* and if possible improving worldwide regulation: We can keep in mind some of the conclusions of the OECD Economical Outlook (2008): "Reform of financial market supervision and regulation is clearly necessary to build a more resilient financial system. Our efforts need to be focussed on identifying the markets imperfections that gave rise to the incentives for excess risk taking and high leverage, as well as the regulatory failures that together cause this unprecedented financial crisis. This will involve strengthening and streamlining the prudential oversight of financial and capital market and plugging the gaps in regulatory regimes. It also requires enhancing transparency of market instruments, transactions and the governance rules that determine corporate incentives and decisions. The tendency for pro-cyclicality of financial markets (fair value rules) and macroeconomic policies also has to be corrected and ideally reversed." (Klaus Schmidt-Hebbel, OECD Economic Outlook, November 2008).

- *Moving towards more transparency and better information for the clients*: the present crisis leads to a wide lack of confidence. Confidence in global financial institutions and markets has been badly shaken. It will take a long time to rebuild this relation with customers and citizens. Restoring confidence is one of the major tasks and the financial services staff will have a role in achieving this task. This can hardly be done without raising the liabilities of financial consultants and rating agencies.
- *Developing a pluralistic financial system*: Europe is a pluralistic society and economy. For the financial services sector this means developing different types of financial institutions: private banks and insurance companies, co-operative banks and mutual insurance companies, savings banks, local public financial institutions. This development should be conciliated with the need for improved capital strength, also through consolidation of the industry in Europe. This should be complemented with efforts to build a *single European market for financial services* and creating a real European supervisor.
- *Creating a European culture of supervision*. Rating agencies are under heavy criticism, notably for having made errors of judgement in rating structured products. One of the reasons is that they have been paid by the issuers of the financial tools rather than financial investors. The other reason is the weak liability rules. They must be scrutinised by international regulators and public authorities, and they must be made liable for their judgements.
- *Protect customers and investors*: there is a wide range of guarantee regulations for physical products. Consulting services, however, can be provided without such commitments. As consulting is a core element of financial services, traceability of services has to be improved and liabilities of service providers raised.
- *Reform bonus systems and top management remuneration*: extraordinary incomes from investment banking are seen as one of the major reasons for the development of the financial bubbles. Moreover, top management remuneration often does not include adequate malus components. This needs to be changed in order to reflect long-term risks in remuneration systems.

9.2. Employment and human resource policies

Prevent high replacement demand with human resource investments
Regardless which scenario will become a reality by 2015, the number of employees in the sector will certainly decrease in Europe. However, the population pyramid clearly shows that there is a significant need for replacing retiring employees. In some cases, as in the UK and the NM10, the need for recruitments also stems from high labour turnover.

Support active ageing policies
Companies will have to keep employees in their jobs for longer as national retirement regulations are changing. This also represents an important instrument to avoid possible skill gaps. This can happen in the following way:

- Abandon the possibilities for early retirement even when the crisis obliges to reduce staff.
- Develop special training programmes for seniors and make sure that permanent further training programmes in the companies are also open for them.
- Establish lifelong career paths and management schemes.
- Reorient employees towards second careers within the company in either customer or service oriented functions.

All these measures have to be prepared and negotiated with the representatives of the employees in the company and at sector level.

Support good practices of restructuring

The restructuring process will become more severe in the course of the financial crisis. It will therefore be important that the restructuring of the financial services will not simply be left to market forces. Governments will have to support the emergence of a sustainable financial business. They should promote pluralistic business models, safeguard competition among service providers and support innovation. Public accountability of the financial system will have to be reinforced.

9.3. Skills adjustment

Reinforce new competence standards to promote sustainable business models

The introduction of new competence standards is crucially important for rebuilding trust and confidence. This is not only addressed to sales and consulting staff but reaches most if not all functions: risk assessment, controlling, management. External and internal training should be complemented with ethical standards and the principles of trust-based client relations. Training policies should be reoriented towards the economics of capital markets, the principles of decent client consultation, controlling and risk assessment. Governments should take initiatives to implement such new types of training in the financial business sector.

The European level can be useful for exchanging experiences and building partnerships. In this context, the EBTN example is interesting: a network of banks for education and training with the first concrete results in 2008 – the creation of a European Accreditation and Certification of knowledge and competences.

Support R&D in financial services

As the tools of risk assessment failed to indicate long-term risks, R&D programmes should be launched to improve these instruments. The application of approved risk assessment tools should be mandatory. In all the companies self-control must be reinforced.

A second focus for R&D should be put on controlling principles. As controlling practices appear to be inefficient for assessing strategic targets adequately, new methods should be reappraised in order to develop strategic controlling.

Create sufficient training capacities

As skills requirements are increasing, companies will increasingly appeal for graduates with a tertiary education. In some countries the number of graduates in study areas of “business”, “finance”, “banking management” and “insurance techniques” is not sufficient because these studies also have to supply graduates to other sectors. It is necessary that professional organisations, decision makers in the education and training system and social partners are very attentive in this respect and that they ensure that developments are monitored regularly. In the New Member States it is necessary to strengthen study courses in universities and encourage the creation of new training institutions.

Develop the middle office with apprenticeship training

It may also be important that social partners at sector level and companies take more initiatives to develop apprenticeship training in financial services. In countries which apply apprenticeship training this proved to be an efficient instrument for raising skills and competences at the intermediate level. Moreover, internal training to professionalize young graduates coming from other study courses will be important to improve their efficiency at intermediate functions.

Develop finance related ICT knowledge

In all countries the professions related to the financial services are directly connected to the development of information and communication technology (ICT): these are the professions with twofold competencies. That is the reason why all study courses for financial professions have ICT training modules integrated. The function of ICT within the sector is of strategic importance: the number of ICT employees and the required skills level is constantly growing: for these jobs there are worries of shortages all the more so as the recruiting companies are in competition with the IT companies or IT supplier companies. There will be a convergence concerning future employment developments in the IT function of the financial sector and the sectors directly devoted to the IT industry.

Raise training standards for intermediaries
The occupations executed in the sub-sector of the intermediates need a certified financial expertise and entrepreneurial skills: this can represent opportunities for younger applicants with some years of experience in the sector or the possibility of second careers. These occupations should be better known and recognised in all countries.

A high level of financial specialisation continues to be required for a number of jobs for financial activities and for all wholesale banking activities: the preparation for these specialisations requires co-operation between higher education, research institutes and the companies in the sector. These networks should be developed in all countries where they do not exist yet.

9.4. Equal opportunities

In all the sectors there is a strong presence of female employment, and their share in employment is growing. In the New Member States female employment is even more important both in absolute numbers and as regards their shares in management positions. But this is not the case in all countries, yet. Spain and Italy are marked by substantial backwardness in this respect, Moreover the jobs in IT functions still remain strongly male dominated. Programmes should therefore be engaged to open up the frontiers.

This should be done by *encouraging female students to participate in IT courses and promote women in management positions*

The search for job equality for men and women still remains a strong need in many countries and a demand of many trade unions. Social partners should therefore continue to emphasise this point by *negotiating equal treatment of men and wome*n.

9.5. Regional aspects

The problems of regional developments are not decisive for the financial sector. However, the following needs have to be considered:

- It is important to ensure a more *balanced regional redistribution of the capacity for innovation*, which is currently strongly concentrated on agglomerations. This issue also concerns the division of capacities between the MS15 and NMS.
- According to the scenarios, the development of client relations based on telephone and internet, particularly in the case of a low-cost scenario, could lead to centralised processing in big administrative units and call centres. Suburban regions should *develop as regional centres for supportive services*. This might work if cost differentials are used in combination with upgrading skills.
- For rural areas, the *persistence of semi-public or mutual banks will remain important*. Area-wide networks of local insurance agencies and banking branches in proximity with the client will remain important if a sustainable finance strategy is implemented. The other scenarios, however, will deprive numerous rural areas of financial services. The extension of internet services and the privatisation of postal banks could reinforce such developments. More than in the past, the territorial presence of financial services in link with the ageing population will be important.

9.6. Developing knowledge of skills in the financial sector

The work conducted in this skills scenario study showed the importance of a profound knowledge of evolutions in different functions, occupations, professions and skills. This knowledge needs to be developed at different levels:

- At the European level, the introduction of *sector-related monitoring systems in the area of employment, skills and competences* will be important. Common statistical standards and harmonised statistics covering the entire financial services would be very much welcomed.
- A *revision of ISCO and ISCED classifications* could be thought of to take the specificities of the services sector into account. In particular, occupational data should be classified by multi-dimensional data, allowing to describe occupational tasks in more detail and make them comparable across countries.
- There is a need to improve *statistics on intermediaries*.
- The work tools for obtaining *sector-based analysis and prospects of future developments should also be promoted at member state level*. For the time being they are not developed in the new members states in particular.
- The *tools for the anticipation of change* should be developed within the social dialogue.

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