Financial services organizations around the world face a growing number of challenges with regard to their ability to manage their talent, risks and reward programs.

The pace of change in the competitive landscape of global players is accelerating, and every company in the industry is under intense pressure to make bold strategic moves while continuing to control costs and improve execution in an environment of growing scrutiny from stakeholders, regulators and the general public. Industry players are realigning themselves for success in a landscape dramatically altered by converging forces:

• Increased regulation and more stringent solvency requirements affecting the viability and profitability of key products and services
• An uncertain business climate, emerging economies and new technologies raising the cost of entry into new markets — and challenging long-established approaches to marketplace differentiation and dominance
• Stakeholders — from shareholders and employees, to customers and regulators — who are more diverse, vocal and demanding, better informed and often have conflicting needs

A New Road Map to Value Creation

Banks and other financial institutions need fresh thinking and ideas on the roles executives and employees should play in driving value for the business, both now and into the future. To capture an advantage, you need to incorporate many dynamics into your business strategy, including how to develop talent management and reward programs that are sustainable through the ups and downs of the business cycle. We recommend getting started by asking the following questions:

• Who will create the next generation of innovations in products, services, design and delivery?
• Which combinations of markets, services and products will deliver growth over the next decade?
• Does our talent pipeline have the breadth and depth to support that growth?
• Does our executive team have the right competencies and incentives to propel the organization forward effectively?
• What will it take to build an organizational culture that drives the right employee behaviors and appropriate levels of risk taking?
Global Advantage Begins With Talent

Identifying, developing and managing talent in an industry as global and complex as financial services is a constant challenge — as well as a business imperative. Industry staffing levels have changed dramatically over the last three years, with companies increasing staff before the crisis hit, reducing staff as the crisis unfolded and rebuilding staff again as the recovery gained ground. Financial services companies now remain focused on growing the talent base in the emerging markets throughout Asia and Latin America.

What’s more, many organizations are increasingly concerned about their ability to attract top talent in particular. For example, the ability to recruit top-level talent is being undercut by rules around guarantees, deferrals and clawback features. At the same time, companies are looking outside the industry to staff key infrastructure areas (IT, Finance, Legal and HR).

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Critical Success Factors for Growth

Financial companies are realigning their businesses, organizational structures and cultures in response to new regulations and increased demands for transparency. Through our extensive experience consulting to the industry, we have identified three areas of focus that are essential for meeting transformation and growth goals:

- **Reframing the employment deal and building a total rewards strategy and programs** that reinforce the desired culture and values; ensure market competitiveness; differentiate people’s roles, skills and level of contribution; and deliver the right employee behaviors at a cost that delivers solid ROI
- **Aligning the organization’s talent management and workforce practices** with required shifts in the business model, compliance processes and strategic focus
- **Embedding sound cost and risk management principles** into the design, financing, funding and delivery of core workforce and benefit programs
These changes and new realities demand an innovative and robust talent management strategy. Towers Watson can help you:

- Identify future workforce needs in light of anticipated areas of business growth
- Evaluate options for sourcing key talent pools in various parts of the world, and weigh the relative advantages and costs of the various staffing approaches, ranging from traditional employment to contract and outsourcing models
- Align performance expectations — in terms of both specific business goals and employee behaviors — with investor expectations and regulatory requirements
- Ensure that performance and career management processes provide sufficient differentiation in developmental activities, high-potential programs, compensation and other rewards
- Determine the specific engagement and retention drivers for people in pivotal roles or in highly valued talent segments to build into programs and processes for leaders, managers and key contributors
- Increase overall employee engagement to drive improved performance at individual, unit and divisional levels
- Design and execute communication strategies and tactics to help you educate and engage employees about their total rewards

**Talent Management and Organizational Alignment**

How do you keep the right people in place, engaged and contributing to business performance? Our holistic approach to talent management begins by aligning your critical human capital issues with your strategic business goals. Our evidence-based model and talent management diagnostic is backed by best-in-class experience from our consulting with industry leaders around the world.

**The Five Principles of Evidence-Based Change**

Our talent management approach doesn’t depend on anecdotes; it’s a proven approach that enables HR leadership to foster a common understanding about the value of talent management and develop a compelling business case for investment in talent programs and initiatives.

It’s based on the five principles of evidence-based change pioneered in the field of medicine and applied to human capital to yield the following results-based principles:

1. **Logic-driven analytics**: Defining the talent metrics and scorecard to measure the impact of talent management investments on business performance — and translating business strategy into logical components
2. **Segmentation**: Creating a differentiated focus on talent segments — and building processes and programs to fit the needs, capabilities and contributions of these different segments
3. **Risk leverage**: Understanding the full spectrum of HR risk and approaching it with a mindset of leverage (not avoidance) — transcending risk management to understand the full spectrum of workforce risks, and factoring risk identification and leverage into work
4. **Integration and synergy**: Realizing the promise of talent management by taking an integrated view across programs, functions and organizations
5. **Optimization**: Deploying investment dollars to make the biggest difference — resulting in better ROI, reallocation of talent budgets and profitable growth
Your Employee Value Proposition and Total Rewards

As the financial industry continues to recover from the economic crisis, cost pressures continue to strain the pay component of rewards, requiring organizations to reevaluate their “employment deal” — or employee value proposition (EVP). We view the EVP as an implicit contract between employer and employee that describes the nature of the experience the employer offers in exchange for the employee’s expertise, productivity and engagement. It encompasses every aspect of the employment experience — from the organization’s mission, values and culture, to people’s jobs and colleagues, to its total rewards portfolio.

The total rewards program is the most visible manifestation of the EVP to employees. It includes the broad combination of monetary and nonmonetary investments required to attract, retain and engage the people needed to operate successfully. Our approach to total rewards is based on our insights from global employee research and the three categories that employees themselves typically think about in evaluating a program:

- **Foundational**, which cover the rewards provided to all employees as a condition of employment, including salary and core benefits
- **Performance-based**, which are incremental rewards provided for superior performance, including short- and long-term incentives
- **Career and environmental**, which includes programs to help employees manage their careers and enhance their work environment, including performance management, training, career development and communication

Equally fundamental to our approach is a consistent set of principles that underlie the design, implementation and delivery of all the programs in the total rewards mix. Specifically, they must:

- Align with business strategy
- Deliver an appropriate return on investment
- Drive required employee behaviors

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Explicitly focusing on these outcomes in shaping your total rewards program helps support a number of related needs, including:

• Clarifying how employees across business units, functions and levels deliver value to the business
• Identifying what people in different workforce segments value and need from their employment deal
• Defining the nature and scope of an effective deal for different businesses and geographic locations, including which elements should be core and universal, and which should be tailored to the unique needs of the business, local culture and competitive marketplace
• Allocating reward investments where they will matter most to ensure the optimal return on investment in behavior and performance
• Differentiating the EVP to provide a competitive edge in the marketplace as an employer of choice — both now and in the future
• Evaluating and modifying executive remuneration programs to ensure they deliver locally competitive annual and long-term compensation within a framework that defines appropriate levels of risk taking and realistic short- and long-term performance criteria and hurdles

Data, Analytics, Insights and Experience — From a Leader

Building the optimal set of talent and reward programs demands comprehensive, reliable and up-to-date information on industry norms and competitive practices — which is all the more critical in an industry as competitive as financial services.

Towers Watson is a leading provider of data and benchmarks for compensation, benefits, employee opinions and employment practices in the global financial services industry. Our data, backed by the world’s largest database of employee opinions and industry norms, encompasses the industry’s key sub-segments, ranging from commercial, retail and investment banking to insurance, asset management, and capital market sales and trading. We collect and analyze data from nearly 40 countries, covering:

• Pay levels and structures, including short- and long-term incentives and deferred compensation
• Benefit levels and plan designs
• Employee norms on engagement, culture, leadership and other key workplace factors
• Human capital metrics (for example, turnover rates)

The prominent role of incentive compensation in financial services has added pressure on the industry to address compensation.

Shareholders, governments and new regulations are forcing companies to reexamine — and even redefine — their reward mix. This includes addressing the “how” versus the “how much” of your pay-for-performance strategies and programs.
“We help you define the critical capabilities that underlie your organization’s strategy, value drivers, pivotal roles and skills required to execute on them.”

We apply our analytic tools to this extensive data to make sense of it all for our clients. And our advanced survey techniques help you better understand your employees — what keeps them engaged and working hard for your organization. We help you define the critical capabilities that underlie your organization’s strategy, value drivers, pivotal roles and skills required to execute on them. And we help determine current (and project future) workforce needs and potential gaps or surpluses that could affect your plans for sourcing, selecting, developing, deploying and engaging people in different parts of your business.

The breadth and depth of our data and analytic tools let you stay on top of critical talent, reward and workplace trends in a rapidly evolving global marketplace, and ensure your programs optimize human capital investments.

Gaining Better Control: Workforce Program Costs and Risks

Towers Watson is one of the largest employers of actuaries and investment consultants in the world. This makes us uniquely qualified to help financial services companies identify the underlying cost drivers and liability exposures in their benefit programs.

Financial organizations are struggling to understand and control the steady escalation in the costs and risks associated with employee retirement and health care programs. Retirement plan financial volatility has sparked growing concern, spurring companies to ask these questions:

• To what extent have we been adversely affected by rising cash requirements, expense or balance sheet deterioration from pension, medical or stock programs? How can we rein in cost volatility?
• How do our postretirement plans affect cash flow, profitability and capital structure, and how do they compare to those of our competitors?
• Does the design of our programs support their financial objectives?
• What options are available to de-risk or eliminate certain programs, and what impact would this have on our talent and workforce strategies and needs?

Towers Watson helps develop and implement approaches to improve the efficiency and effectiveness of program operations, reduce volatility and manage costs. Specifically, we help you:

• Identify short-term actions to reduce cash costs and the impact of compensation and benefit programs on financial statements
• Benchmark cost levels and financial policies against peers and best-in-class organizations
• Develop financial management policies — funding, accounting and investment — that produce financial patterns consistent with corporate objectives
• Create journey plans, risk transfer and exit strategies to minimize any uncertain obligations that the organization retains
• Evaluate whether to outsource or insource program operations, select appropriate vendors, and create and manage risk transfer solutions
• Develop pooling alternatives to simplify overall investment processes
• Simplify the design, administration and communication of benefit programs

“Choosing the right transactions to complete — and integrating effectively — has never been more important.”

Managing M&A: Positioning for Deal Success

Throughout the ups and downs of any economic cycle, many institutions consider mergers and acquisitions as viable paths to renewal and growth. It comes as no surprise that many financial services organizations continue to look to an acquisition, merger, divestiture or spin-off to expand market share or competitive strength, cut their losses on unprofitable or nonstrategic businesses, or otherwise reorganize for efficiency and growth.

Particularly in an industry where consolidation may be one of the only choices for survival, it’s more essential than ever that companies become experts at “cracking the deal code.” That means moving faster and more effectively to deliver on both strategic purpose and financial promises without assuming undue risk.

Whatever the state of the global economy over the next few years, business risks, complexities and pressures to demonstrate the financial value of deals will likely continue to increase — along with new opportunities to grow, create efficiencies and realize cost savings. In particular, choosing the right transactions to complete — and integrating effectively — has never been more important.
We believe there are three criteria fundamental to deal success:

- **Strategic Rationale.** Having a clear, shared and well-articulated business basis for the transaction that holds through market cycles
- **Focused Due Diligence.** Evaluating all of the obvious and not-so-obvious financial risks and benefits of a proposed transaction with requisite speed and appropriate caution
- **Effective Execution.** Putting full organizational muscle behind the execution process — and beginning planning very early in the transaction cycle

Towers Watson helps you through each stage of a transaction — from target evaluation and due diligence, to post-deal integration. Our breadth of experience and knowledge of the employee mindset and human resource and reward issues help you make the right decisions for your organization and workforce.

**Capture (and Keep) Your Competitive Advantage**

Seizing a marketplace edge starts with drawing a new talent road map to attract the best talent for your requirements — and managing it optimally to get the best ROI.

Towers Watson can help you do that.

To learn more, contact Mark Shelton (mark.shelton@towerswatson.com) or Christopher Fabro (christopher.fabro@towerswatson.com).
About Towers Watson

Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. With 14,000 associates around the world, we offer solutions in the areas of employee benefits, talent management, rewards, and risk and capital management.