Financial Services Skills Commission

Reskilling: A business case for financial services organisations

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pwc

The Financial Services Skills Commission is an independent, non-partisan, member-led body, representing the UK Financial Services industry on skills. We work directly with the sector and advocate for innovative collaboration to increase and diversify the supply of skills and talent into the sector. Members include businesses from across the sector, Chartered Professional Bodies, representatives of industry bodies and higher and further education.

Executive Summary

Technological advancement and changes to the way businesses operate and people work is driving rapid change in the skills requirements for the financial services workforce. 20.8% of the UK workforce in the sector – or 229,000 workers – are at risk of displacement. Redundancies with all the associated costs are a real possibility for workers whose roles might become obsolete. Where new roles are generated, suitable candidates need to be found.

Despite an awareness of this challenge, research shows businesses are not launching reskilling programmes at the scale required. Only 14% of FS CEOs have made significant progress establishing an upskilling programme to tackle this issue. There are many potential reasons for this stasis of activity, not least the urgency of responding to the Covid-19 pandemic.

There is a clear business case in favour of reskilling and strategic workforce planning. Reskilling helps reduce people costs and mitigate important risks, with a positive impact on the bottom line. Reskilling also helps mitigate risks from digital transformation, regulation and reputation, leaving the business in a stronger position overall. The business case for reskilling builds on five foundations.

1. People costs are reduced through cost savings, by avoiding redundancy and recruitment as well as increased productivity. Through reskilling individuals who would have been made redundant can fill the roles that would otherwise have required external hires creating multiple cost savings – up to £49,100 per reskilled worker.

2. The financial benefits from maintaining productivity through reskilling are also tangible. Employees reskilled will maintain their institutional knowledge which would be lost through redundancy. Reducing redundancies also maintains staff morale, an important influencer of productivity. Reskilling might also allow new revenue streams to be explored which increases overall revenue.

3. Achieving the return on investment for a digital transformation project is reliant on staff having sufficient skills to utilise and deploy the technology effectively. This gives reskilling a central role in mitigating transformation risk in an age of technological change.

4. Regulators will be increasingly scrutinising businesses in handling new technology, for example in the case of cyber-attacks. This calls for reskilling for senior management overseeing work, to have sufficient understanding of the processes to be able to identify risks. Reskilling will therefore decrease likelihood of breaches, investigations and penalties.

5. Large redundancy programmes will have an impact on a businesses reputation. Financial services organisations are having their people decisions scrutinized through their own ESG agendas. There is also a social responsibility for large businesses to retain workers in organisations and reskilling often allows this to happen.

In addition, reskilling can bring a range of wider benefits from delivering on strategy, improving management culture and workforce agility.

Through the identified foundations, organisations across FS will be better able to articulate the business case of a reskilling programme to their organisation and also the impact on the wider economy and society. The business case is just the vital first step on the journey to launching a reskilling programme and the end of the report outlines in brief the rest of the journey.

The landscape of work is changing

According to the World Economic Forum (WEF), it is estimated that by 2025, 85m existing roles, globally, will be displaced due to factors such as technology and automation – all exacerbated since the onset of the Covid-19 pandemic[1]. Whilst this might initially paint a bleak picture, the WEF also estimate that 97m new roles will be created in their place.

This vast net displacement of roles represents a risk and opportunity for employees and employers alike. Many individuals with the capacity and desire to do so, will wish to reskill in order to maintain meaningful employment. Similarly, organisations have a complex challenge on their hands – identifying which roles are likely to be displaced in their industry, which new roles will be required in order to compete in a new world, and critically, deciding how to bridge this emerging talent gap by reskilling employees, hiring new people or a blend of the both.

The role of reskilling in ESG

ESG is becoming an increasing focus for companies as their stakeholders expect to see progress on an ever-broadening range of non-financial metrics. In a recent study it was found that 75% of participants wanted to work for an organisation which contributes positively to society[2]. This speaks directly to the "S" in ESG and the increasing emphasis on the impact a company has on its communities and society as a whole. Investing in reskilling puts the focus on retaining people rather than roles, creating a workforce who are more skilled, innovative and committed to the company, alongside supporting the local community[3]. Vital in the business case for reskilling is the long-term impact of futureproofing the business within a supportive community and employees able to grow and adapt within the company.

Why does this matter to financial services?

In financial services (FS), the impact will be significant. The WEF estimate that **20.8%** of current workers are at risk of displacement, which applied to the UK market, represents approximately **229,000 workers**[4]. The size of the downstream impact on personnel and availability of key skills are material risks to arguably every financial services institution.

Of course, financial services is a diverse industry and not every company will feel the impact of this displacement in the same way. The role composition of a listed investment bank is vastly different to a boutique asset management firm, however the impact on roles will surprise many. For example, the roles identified as being increasingly displaced are as varied as 'Data Entry Clerks', 'Bank Tellers' and 'Insurance Underwriters'. In their place, high demand roles are identified as 'Data Analysts and Scientists', 'Digital Marketing and Strategy Specialists', 'AI and Machine Learning Specialists' and 'InfoSec Analysts'.

How are FS institutions responding?

Skills are already high up on the board agenda of many organisations. In PwC's recent CEO survey, **71%**[5] of FS CEOs said they are concerned about the availability of key skills; however, this has not manifested into action. Only **14%** of FS CEOs have made significant progress establishing an upskilling programme to tackle this issue[6].

There are many potential reasons for this stasis of activity, not least the urgency of responding to the Covid-19 pandemic. However, as a 'new normal' emerges from the pandemic, investing in the development of a skills strategy and the resulting reskilling required, becomes critical. For many organisations, establishing a business case will be the first port of call.

The Financial Services Skills Commission was established in recognition of the scale and nature of the skills challenge. Over 30 member firms, representing over 300,000 of the UK financial services workforce are collaborating to develop solutions to addressing the skills and talent gaps the sector faces. This work includes taking a long-term and strategic approach to re-skilling, collaborating as a sector to identify emerging skills priorities and ensuring the sector is attracting and retaining talent from diverse talent pools. Firms are committed to strengthening their existing action on reskilling and collaborating to accelerate progress across the sector.

Five foundations for a FS reskilling business case

When considering investing in reskilling programmes, businesses need to be able to articulate the business case for reskilling. There are five foundations to the business case – two of them concern reducing people costs, while three foundations concern mitigating risk. The business case compares the costs related to a reskilling programme and the associated benefits to productivity to the alternative, which is redundancy combined with recruitment, both entailing significant people costs. The risks involved in not reskilling employees cause concern not just for the business but also for wider society – making mitigation a priority. Each foundation is explained in further detail on the following pages, as well as illustrative figures for the cost savings generated from reskilling programmes. Each foundation must be validated and considered for your organisation individually as not all foundations are relevant in every situation.

1 World Economic Forum, Future of Jobs (2020)
2 PwC, Hopes and Fears (2021)
3 PwC, Why upskilling needs to be a part of your ESG strategy (2021)
4 House of Commons Library (2021)

5 PwC, CEO Survey (2021)
6 PwC, CEO Survey (2020)

Figure 1

Utilise existing workforce			Mitigate risks		
1. Redundancy and recruitment		**2. Productivity**	**3. Transformation risks**	**4. Regulatory risk**	**5. Reputational risks**
"If our people don't have the skills to keep up with change – the costs associated with their leaving are vast"	"Costs of hiring over reskilling are significant, and research tells us that the talent pool is shallower than we'd like"	"Our people are not utilising new or existing technologies that could automate processes – improving our bottom line"	"We've invested £Xm on digital transformation but ROI is at risk if our people don't have the right skills"	"Regulators will increasingly scrutinise digital competencies in the case of a tech-related incident e.g. cyberattack"	"The impending employment crisis will not only impact our people and business, but the wider economy if we don't act"
• 20.8% of existing roles will be displaced by 2025[7]. • Severance packages for longer tenured employees more likely to be displaced will be greatest. • Not all individuals will want to reskill or be able to reskill, but a portion will. • Redundancy will be more disruptive to the business than reskilling which will have an indirect cost. • Long-term planning of talent needs will be essential to prepare for future skills needs.	• Across FS, at least the same number of roles being displaced will be created as new roles. • Hiring new staff is more costly than reskilling existing employees. • These costs could include recruitment fees, onboarding, disruption and higher salaries.	• Reskilling enables employees to better leverage new or existing technologies • Reskilling enables institutional knowledge to be maintained in new roles creating better productivity from day 1 than new hires. • With planning, roles can be filled faster with specific skills through reskilling reducing skills shortages.	• Digital transformation is highly likely to be a critical component of every FS organisation's strategy. • Realising the significant investment being made is critically dependent on people having the mindset, agility and appropriate level of digital skills. • Reducing redundancies maintains staff morale. • Staff reskilling creates a positive feedback loop for making other staff more confident about their own ability to reskill.	• FCA defines competence as having "skills, knowledge and expertise needed to discharge responsibilities." • Widespread knowledge and comfort with digital technologies increasingly important. • Reskilling will therefore decrease likelihood of breaches, investigations and penalties.	• Reskilling could increase global GDP by $6.5tn by 2030, boosting global productivity by 3%[8]. • UN's Sustainable Development Goal 8 is to 'Promote... full and productive employment and decent work for all'. • Each case of unemployment will have a negative impact on the economy and reputation of the employer. • Reskilling is an opportunity to invest to improve the diversity of the workforce in underrepresented skills areas.

7 World Economic Forum, Towards a Reskilling Revolution (2019)
8 World Economic Forum & PwC, Upskilling for Shared Prosperity (2021)

1. Reskilling vs Redundancy and recruitment

Reskilling, redundancy and recruitment all have associated costs to the business. While the training element of reskilling brings direct and indirect costs to the business, these are outweighed by the savings on severance cost and recruitment.

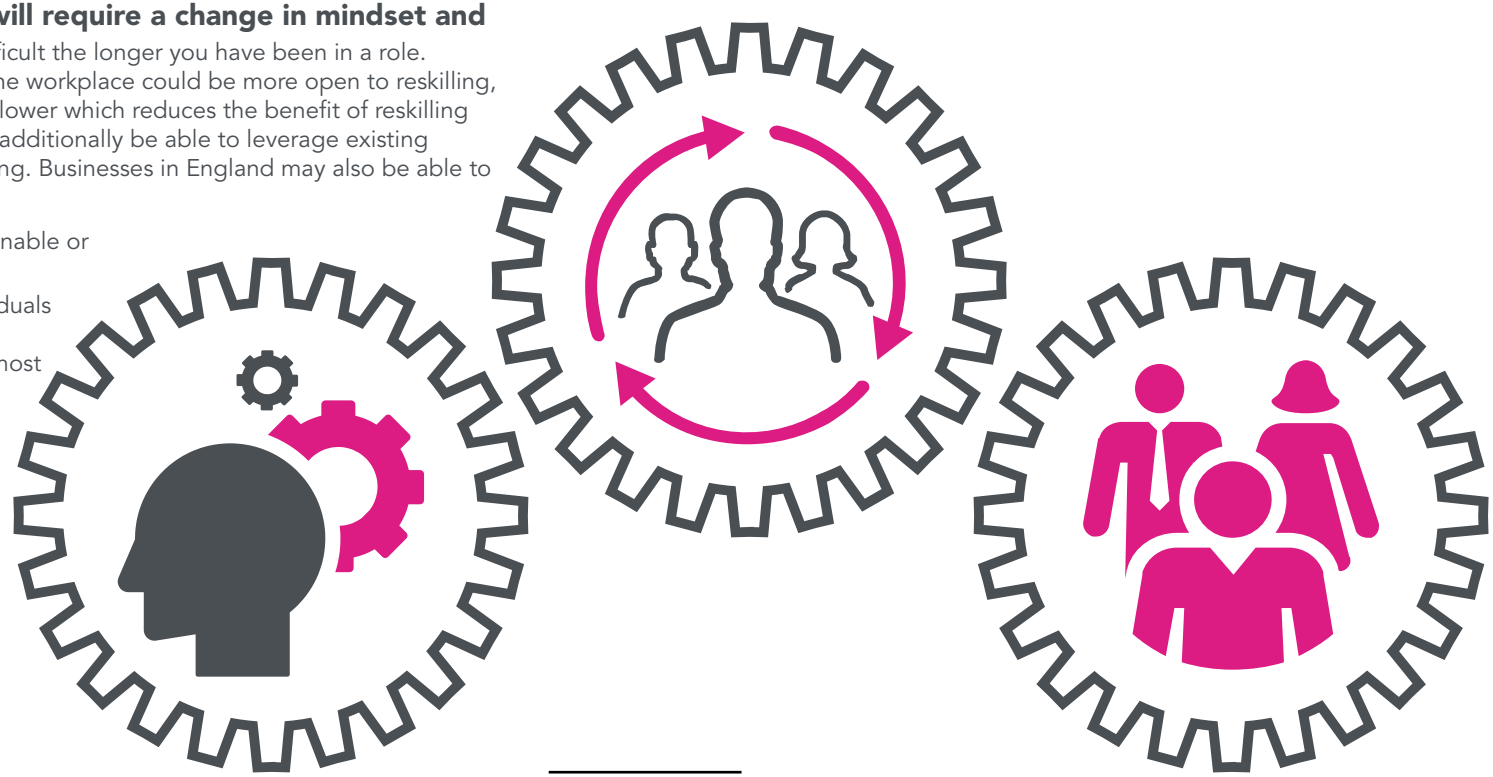
The WEF[9] estimates that **on average it would cost £16,600 ($23,400) to reskill a worker at risk of being displaced out of their current role** into a viable new role. If reskilling is taking part inside work hours, there will also be a productivity cost as a portion of time will be spent on their reskilling training. It is possible that an employee is also likely to reskill into a role of high demand, which alongside a new set of skills might warrant an increase in salary.

The business case for reskilling will vary depending on the individuals being reskilled. Long-tenured employees with greater knowledge and experience will likely have a higher severance package and therefore the business case for reskilling them becomes greater. However, **reskilling will require a change in mindset and approach** which is likely to be more difficult the longer you have been in a role. Employees who have less experience in the workplace could be more open to reskilling, however, their severance package will be lower which reduces the benefit of reskilling compared to redundancy. Businesses will additionally be able to leverage existing available budget for upskilling and reskilling. Businesses in England may also be able to make use of their apprenticeship levy.

Inevitably there will still be staff who are unable or unwilling to be reskilled.

The WEF estimates that **20.8%** of individuals could be positively reskilled into roles of growing demand. This is equivalent to almost **230,000 financial services staff who without reskilling would otherwise be made redundant.**

Whilst not all of these individuals may want to be reskilled, there is still a significant long term strategic benefit to creating a strong pipeline of skills for future needs through reskilling existing staff instead of making them redundant. The alternative to reskilling existing employees to fill new roles is recruiting individuals into the business with those skills already. The number of people employed in financial services[10] is unlikely to change over the next ten years as new roles become available[11], therefore recruitment costs would be in addition to redundancy costs for the employees whose function is being replaced. Recruitment is expensive and time consuming, the average time to hire an individual in financial services is 29 days, there will be a cost to the business of not having someone in the role for this period. Once the new individual is hired, it will take time for them to begin working due to onboarding and regulatory training, something which reskilled employees will already have done. There will also be direct recruitment costs such as recruitment fees which will vary depending on the specialisation of the skills required. Individuals recruited into roles rather than reskilled are in a position to negotiate a better salary as they are moving into the business.



9 World Economic Forum, Towards a Reskilling Revolution (2019)

10 Financial Services Skills Taskforce report (2020)
11 Workable, Average time to hire by industry (2017)

Figure 2

Person X (Reskilled) – Salary £67,500		Notes
Training cost	£16,600	Average cost of reskilling one employee converted to GBP[12]. Each business should include actual reskilling training cost.
Lost productivity through training	£8,500	Estimated based on 6 months training with a time commitment of 25% of weekly hours spent on reskilling training instead of current role. To be calculated in each scenario.
Salary increase	£6,750	Estimated 10% salary increase following reskilling. Will vary by role and reskilling project.
Cost	**£31,850**	Additional cost for year of reskilling
Reskilling Total Cost £31,800		
Person Y (Redundant) – Salary £67,500		
Severance cost	£16,875	Estimated at 25% of salary but will vary depending on tenure and company policy. To be validated in each business.
Severance productivity cost	£11,250	Impact on productivity throughout notice period and through disruption to other parts of the business from redundancies. Based on 4 months of disruption (notice period and discussion period) and 50% reduction in productivity to account for staff being made redundant and disruption to other business units. This is an estimate and should be analysed on a case by case basis.
Cost	**£28,125**	
Person Z (New hire) – Salary £81,000		
Recruitment cost	£20,250	Estimated at 25% of salary based on average recruitment firm fees for hard to fill positions. Will vary on a case by case basis.
Onboarding cost	£10,000	Estimated cost of onboarding including mandatory training, will need to be validated in each business.
Efficiency cost	£9,000	Loss of productivity from not having someone in the role during recruitment and the time period until they can be working at full. Estimated at an average of 33% productivity lost for 4 months (recruitment period plus first 3 months in role). Will need to be validated in each scenario.
Salary increase	£13,500	20% increase in salary based on low supply of talent and high demand. Will vary by role and market.
Cost	**£52,750**	
Severance and Recruitment Total Cost £80,875		
Cost Saving through Reskilling £49,025		

12 World Economic Forum, Towards a Reskilling Revolution (2019)

Costs and risk from not reskilling

2. Productivity cost

When employees leave a business either through redundancy or resignation, the employee takes their institutional knowledge with them. Research shows that **42%** of the knowledge required to do a role is knowledge only the person currently in that role has[13]. When reskilling an employee not all prior knowledge will be relevant, but they will be starting from a much better position than someone who is entirely new to the company.

It is estimated for a business of 30,000 employees that onboarding and day to day inefficiencies from employee turnover, cost employers **£57.3 million a year**[13].

A survey found that **92% of businesses think their productivity and profitability are being impacted by skills shortages,** with staff not able to fully utilise new technologies[14]. Reskilling will allow businesses to utilise technologies they have already invested in, as well as preparing them for future technological advances.

To ensure the productivity gained from reskilling is not lost, organisations will need to continue to invest in reskilling as technology advances, creating a culture of continuous learning for employees. The World Economic Forum also predicts that through better skills matching following reskilling, global productivity is likely to increase by **3%** by 2030[15].

3. Transformation risk

Reskilling also plays a critical role in digital transformation. **Digital transformation spending is expected to cost £4.9 trillion worldwide by 2023** and will continue to grow at 15.5% a year[16].

All FS organisations investing in digital transformation will have expectations of the return on investment of the technology implementation. Staff being able to realise this investment will depend on having sufficient digital skills to utilise new technology as well as the mindset and willingness to learn and implement new processes.

While there is consensus that digital transformation is crucial, it's hard to get it right. **70%** of digital transformation projects do not achieve their stated goals. A major factor is the lack of change to mindset and reskilling can be crucial in unlocking this barrier[17]. Reskilled staff can also act as role models for other employees to change the mindset around being able to reskill, helping to foster a culture of learning.

13 Panopto, Valuing Workplace Knowledge (2021)
14 Hays, 2018 Salary Guide (2018)
15 World Economic Forum & PwC, Upskilling for Shared Prosperity (2021)
16 IDC, Worldwide Digital Transformation Spending Guide (2020)
17 McKinsey, The How of Transformation (2016)

Implementing new technologies, especially automating processes will require employees to reskill to utilise these new technologies or move into another business area, otherwise they will be made redundant. Firms which make employees redundant will find that other parts of the business lose motivation as they feel more at risk of redundancy themselves. By reskilling employees, motivation is likely to rise in the general employee population as they see the firm is working to keep staff employed.

4. Regulatory risk

The FCA and PRA, through supervision, examine whether Boards and staff have the relevant skills and experience to mitigate risks in their activities. With firms increasing their use of technology, from a regulatory perspective it is vital that staff responsible for oversight of these teams and projects have the sufficient skills to be able to understand processes and scrutinise risks. Without reskilling it will be difficult to find individuals with the specific business acumen for the area of the business as well as the technical knowledge and skills. This therefore creates regulatory risk.

Should firms be penalised by the regulators, in addition to financial penalties, which could be significant, there is the damage to trust and reputation. Lack of trust turns away customers creating a direct impact on profit, additionally it makes it harder to recruit, as seen by the drop in applicants to the sector following the 2008 financial crisis[18].

5. Reputational risk

In addition to the reputational damage already mentioned in relation to regulatory action against firms, there is a significant risk to reputations from large scale redundancies. An ESG lens is increasingly being applied to firms' decision making, particularly around people decisions. Falling under the S of ESG, ensuring that employees are not becoming obsolete in their roles and creating a learning and reskilling culture will continue to be scrutinised in greater detail.

Financial Services firms also have a responsibility to the economy and wider society and financial service firms often talk of their social purpose; it is also recognised by the FCA[19]. The benefit to society for every individual not unemployed is estimated at **£23,100**[20]. When this is applied to the number of individuals in the FS workforce who are at risk of redundancy, and the number of those who would be eligible and willing for reskilling, there could be as much as **£2.5 billion** benefit to the economy for reskilling over redundancy. Financial Services firms should factor this into their decision making around reskilling projects.

Furthermore, creating a positive ESG profile for the firm through reskilling initiatives could in turn act as an attractor for top skilled talent who are looking for a place to work with a clear purpose. This has then been shown to boost productivity, further enhancing the business case.

18 Financial Services Skills Taskforce report (2020)
19 FCA, the Business of Social Purpose (2020)
20 Public Health England, Movement into Employment (2017)

Figure 3

Bringing the business case to life

Illustrative figures for articulating the impact of reskilling shown through an imaginative FS organisation and scaled up to show the impact of FS sector-wide reskilling.

Utilise existing workforce			Mitigate risks		
1. Redundancy and recruitment		**2. Productivity**	**3. Transformation risks**	**4. Regulatory risk**	**5. Reputational risks**
UK Financial Institution with 30,000 employees and annual profits of £1bn.	Estimated £75-115m cash saved[21] (or £30-50k per individual reskilled into a new role)	Estimated >£30m cash generated in margin[22] (i.e. Productivity increase by 3% by 2030 through reskilling)	Estimated 40% of all technology spending will be on digital transformation[23]	Penalties avoided plus multiples in terms of time spent and reputation	£55.4m saved for society & cost to reputation of significant layoffs i.e. £23,100 benefit to society for every person not unemployed[24]
UK Financial Services sector	Total costs saved across the entire FS sector could be between £2.7 billion and £4.1 billion[25]	Increased productivity could contribute an additional £396 million to economy[25]	Digital transformation spending across FS is estimated to be growing at 15.5% per year[23]	Increase in trust through reduction in regulatory breaches	Cost to society of not reskilling FS workers is estimated at up to £2.5 billion[25]

21 Based on indicative calculations in figure 2.
22 World Economic Forum & PwC, Upskilling for Shared Prosperity (2021)
23 IDC, Worldwide Digital Transformation Spending Guide (2020)
24 Public Health England, Movement into Employment (2017)
25 Extrapolated from indicative calculations for a UK financial institution

Case studies

Lloyds Banking Group – Building the Case for Investing in Skills

In 2017, Lloyds Banking Group (LBG) set out to forecast the skills they would need over the next three years to help them successfully deliver their new business strategy. To achieve this, they conducted a Group-wide strategic workforce planning exercise. In addition to helping identify their key skill gaps, this approach helped the Group identify the right strategy and balance of actions required to build, buy, borrow, retain or redeploy the skills they would need in the future. These actions and their phasing were identified and agreed at both a Group and Divisional level through a partnership between business leaders and HR experts. The actions were identified by carefully balancing timeliness (when did LBG need the skills), tenure (how long would LBG need the skills) and technicality (how difficult would it be for LBG to build the skills). Consideration then had to be given to the investment required, offset by any cost savings from reduced severance or reduced recruitment costs where the Group could build, retain or redeploy the skills needed. The aggregated numbers helped create a compelling business case for building rather than buying their future skills. This resulted in the agreement to significantly increase the Group's investment in learning to help deliver an additional **5.3 million** development hours over three years to help colleagues build their skills for the future.

Zurich UK – Reskilling and AI

Around two years ago, Zurich in the UK analysed its workforce utilising AI analytics platform Faethm to understand the potential impact of technology on the future of its workforce. It identified the skills that would be in demand and where up to 270 roles – predominately in areas such as robotics, data and cyber – could potentially go unfilled over the next five years. Many of these in demand roles and skills were scarce both in Zurich and the external market. The analysis helped the People Team gain Executive level buy in and develop its strategic response. This covered; reskilling and upskilling, internal talent mobilisation, targeted Early Career programmes and a focus on 'skills and potential' over 'competence and experience' in the recruitment process. This resulted in the development of learning academies – in Data, Automation, DevOps, Leadership, Coaching Skills and Customer and Innovation. Whilst Zurich's automation journey was already firmly underway, the launch of its Automation Academy accelerated this activity. By combining business expertise and the deep customer understanding of its employees with robotic process automation skills, it has enabled repetitive tasks to be automated which include customer payments, management of policy documentation and some regulatory checks. This has led to faster response times and better customer service. The changes have also freed people up to focus on more value-added activity and human interaction outside of these processes. These initiatives contribute to both Zurich's business and workforce sustainability objectives. At the same time, the apprenticeship levy has been utilised where possible to support many of these programmes alongside Zurich's learning and development budget. Zurich estimates that the long-term upskilling of home-grown talent will save the business **£1 million** in recruitment and redundancy costs alone.

Wider benefits of reskilling

The benefits from reskilling do not end there. While these may be harder to include in a financial model of reskilling return on investment, they nonetheless positively impact the business.

Workforce agility gap

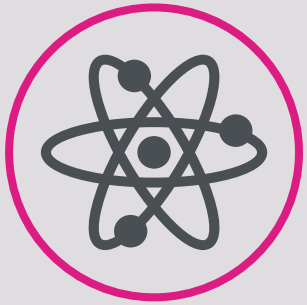
Without embedded reskilling programmes, organisations are slow to respond to new opportunities and threats arising which require staff to be redeployed at pace. Technological progress is exponential – meaning action is increasingly necessary.

Revenue growth through new revenue streams

Reskilling allows new revenue streams to be explored which increases overall revenue. This growth is on top of the cost saving benefits of reskilling employees compared to redundancy and recruitment.

Deliver strategy

Reskilling better prepares teams to deliver on their strategic objectives. Staff are more likely to have the required skills or be able to learn them at pace. Staff will also be more committed to the organisation from the investment that has been made in their own development. Leaders will be better able to manage and motivate staff from their own reskilling.

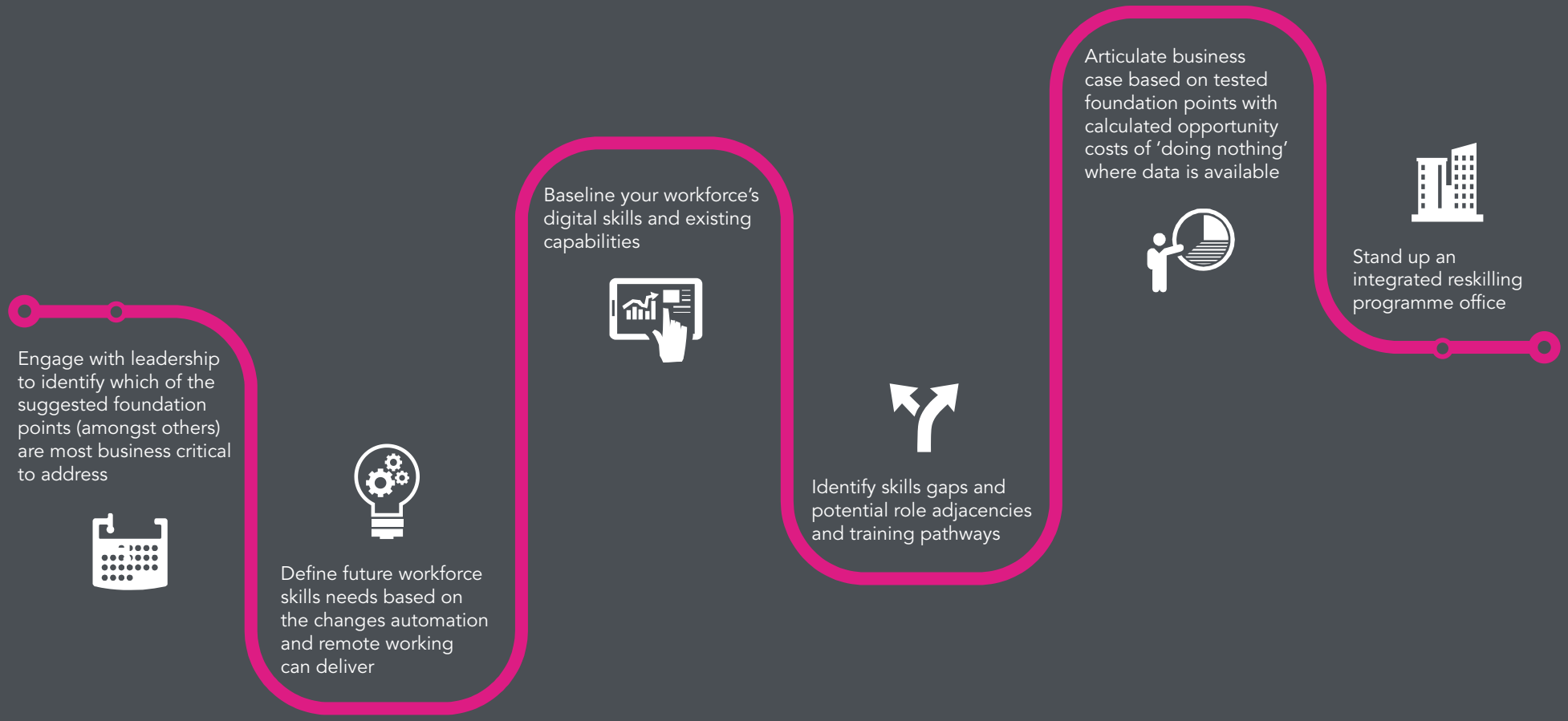


Management culture and conduct

Senior managers are responsible for promoting an appropriate conduct and culture in FS organisations. Reskilling may be needed to ensure managers can effectively deliver on this commitment. Getting managers on board with reskilling will improve wider organisation reskilling programmes and overall uptake from junior staff.

Figure 4: Roadmap for reskilling

Figure 4. Sets out the roadmap for building and validating a reskilling business case from engaging with leadership through to launching the reskilling programme in the business.



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