

The Financial Services Sector in the North West and an Analysis of the Skills Needs.

The purpose of this paper is to communicate information about the Financial & Professional Services Sector and where possible to explain Skills issues particularly relevant to the Financial Services sector.

This information aims to provide background information and guidance to practitioners in Higher and Further Education in the North West who are working with employers in this sector to deliver new demand led/employer driven HE provision. The Financial Services Skills Council's reports have provided an analysis of the key skills issues facing the industry. Where possible, this report has related these skills issues to the North West Financial Services Sector.

The North West Development agency commissioned research into the Financial & Professional Services sector and this report includes information from this source with the aim of providing a contextual analysis for HE work. This information will be relevant should you be considering the submission of a proposal for Higher Level Skills Pathfinder funding for the development and delivery of provision in response to employer led demand.

The Financial Services Sector in the North West

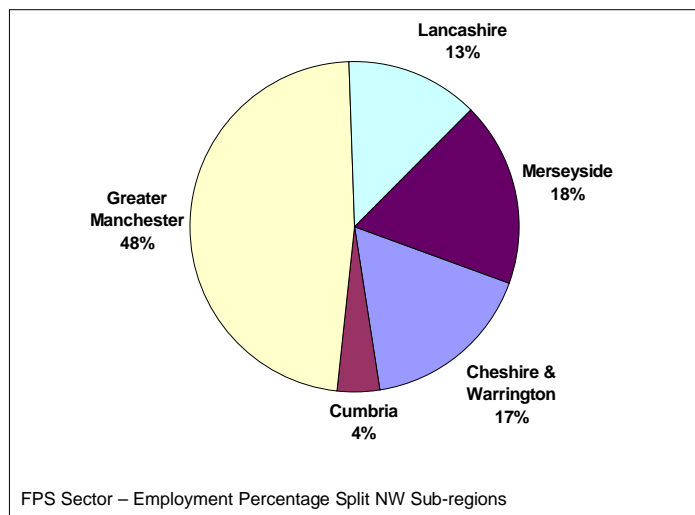
The FSSC research reveals that **Financial Services in the North West is on a par with Scotland vis-a-vis its' contribution to output and employment. The North West accounts for 7% of all financial services out put in the UK, and 10% of all employment.**

Financial & Professional Services in the North West

The North West Development Agency commissioned the consultants KitshoffGleaves¹ to undertake research into the sector. The following information is taken from this source.

- Manchester is England's second city for Financial & Professional Services
- 322,000 employed – 11% of the region's workforce
- Circa 53K jobs growth between 1998 -2004 (an increase of 19.6%).
- Gross Value Added grew from £7.8 Bn in 1998 to £11.7 Bn in 2003.
- Gross Value Added forecast growth is 18% or £2.1 Bn by 2008.

The sector is highly concentrated in Greater Manchester with 48% of the sector's employment. Greater Merseyside and Cheshire and Warrington are the next largest areas with 18% and 17%, respectively. Lancashire provides 13% of jobs and Cumbria 4%.



The NW, in general, and Manchester in particular, has a broad base of FPS firms. Despite a high level in absolute terms of employment, for example, the sector represents a lower proportion of employment than some other regions highlighting the NW's wide portfolio of business strengths.

¹ KitshoffGleaves & Co.Ltd: - NWDA Business and Professional Services Sector in the NorthWest- Strategy and Action Plan. September 2006.

Key Facts and Figures

The NW has strong representation of a wide range of financial and professional service firms. These include:

- Head offices of firms such as the Cooperative Financial Services (Banking & Insurance), MBNA (Europe), Cheshire Building Society, Halliwells and Rathbones.
- Regional (either NW or Northern) offices - such as the Royal Bank of Scotland – many of which act relatively autonomously
- Specialist functions for major national and international firms are also based in the region including Royal London, Bank of New York, esure and the Alliance and Leicester
- The regional presence of many well-known national or international firms such as Rothschilds, PWC, KPMG, Baker Tilly and Grant Thornton (often with several sub-regional offices).
- Since 2004 the region has also attracted investment from the Bank of New York, Bank of America and the State Bank of India

North West Strengths

Although there are no overwhelmingly or uniquely strong sub-sectors in the NW there are some strengths that have been identified during this study including:

- AIM listing capability in Manchester
- Venture Capital in Manchester and the wider NW
- PFI capabilities
- Contact Centres and Shared Service Centres
- Specialist advisory services – environmental and sports – there is scope to build on these, especially where they interact with other NW RES sectors.
- Debt consolidation
- Private wealth management, especially in Merseyside

Financial Services Skills Council - Analysis of the Skills Needs in UK Financial Services Specific Relevance to the North West is Indicated

An Introduction to the Industry

The UK financial services industry includes online car insurers to retail banking giants and from self-employed Independent Financial Advisors to global investment banks. Operating under a light-touch regulatory framework unique to the UK, these firms facilitate the efficient allocation of capital, promote confidence and continuity in life and business by effectively managing risk and maintain the transaction systems that the rest of the economy relies on to conduct its business.

The industry thrives on specialisation and it is pointless to discuss financial services without taking into account the differences between sectors. **Retail sectors serve the daily needs of businesses and the general public;** others provide **wholesale financial services to large institutions and governments**, managing staggering amounts of money – and risk. Each of these sectors has unique skills needs.

The industry's contribution goes far beyond the 8 per cent that it adds to total output in the UK. A truly global industry, financial services is possibly the biggest source of competitive advantage for the UK, providing a lifeline of net exports and a means of penetrating the world's fastest growing markets. These contributions would not be possible without a highly skilled workforce.

For the purposes of the assessment of skills needs, the FSSC footprint was instead broken down into seven sectors:

1. Banks and building societies
2. Insurance (retail) and pension funding
3. Financial advice
4. Wholesale financial services (banking and insurance)
5. Investment and fund management

6. Credit, finance and leasing
7. Third party administration

On a sector level, the analysis reveals:

- benign labour market conditions and a strong skills base in the **wholesale markets**, as well as **investment and fund management**.
- adequate skills, but challenging labour market conditions in retail **insurance** and **financial advice**.
- a need to improve the skills base, coupled with reasonably good access to skills in the labour market in **credit, finance and leasing** and **third party administration**.
- a skills base that has been unable to keep up with growth and difficult labour market conditions in **retail banking**.

Key Recruitment Issues

Employers have depicted an industry in which the supply of labour and skills cannot always keep up with rapid growth and increasing sophistication. The UK's pool of skilled and experienced people is finite and heavily contested. Already more than 12,000 vacancies (one-third of total vacancies for the industry) are proving hard-to-fill and fierce competition between employers is raising compensation levels to unprecedented heights. Employers are adding to the problem by opting for aggressive recruitment practices rather than developing their own employees and by failing to provide meaningful career paths for support staff.

The industry's main recruitment priorities are:

- to ensure a steady supply of skilled and qualified professional and technical staff
- create, improve and signpost entry routes into the sector
- to develop and retain more skilled and experienced managers.

Key Skills Issues

Currently, some 7 per cent of all financial services staff are not proficient at their roles. That translates to 80,000 individuals. It must be understood, however, that the skills challenge for the individual employer is not for employees to remain competent in their roles, but for the organisation to stay ahead of competitors. In some sectors, this means staying ahead of the best in the world. Consequently, 83 per cent of all employers feel the need to improve skills among their employees.

Major priorities for skills include the following:

- To help new entrants, including school leavers and graduates, up a steep learning curve: e.g. an understanding of the industry and its products is generally low among these employees and many are not adequately prepared for work.
- To equip junior staff with better business language, communication and interpersonal skills. Employers stress that this is a task for the educational system.
- To ensure that managers can effectively manage staff relationships.
- To maintain the current level of expertise of professional and technical staff as the industry continues to innovate. There is a need to promote understanding of customer needs and ensure that organisations can leverage all sources of specialist expertise through better teamwork.

Projections of Growth

Forecasts of the shape of UK Financial Services in the future are made against the backdrop of a healthy economic environment, strong growth globally, an increasingly wealthy and ageing population, a very extensive but shrinking regulatory pipeline, technological innovation and improvements in the skills base.

The industry's prospects are good although the growth rates of the very recent past are unlikely to be repeated. **Employment is forecast to grow by around 1 per cent annually until 2011, creating around 10,500 new jobs per year, with almost half of them in Banking and nearly half of them in London.** Output will grow by an average of 3.5 % each year, necessitating strong increases in productivity.

Growth in the North West will be focused in those areas where financial services clusters have already been established including Greater Manchester and the Merseyside – Chester axis. The North West is expected to see job gains of more than 1,000 a year in financial services. 700 jobs are forecast to be in Banking and other lending activities.

Increasingly, growth and employment will be driven by higher value-added occupations in higher value-added sectors.

Drivers of Productivity

Investment in information technology will continue to be the major driver of productivity gains, although in the wholesale markets and asset management the potential for further returns on ICT investments will be smaller; much work has already been done in this area. In the retail markets, compliance requirements will also present a challenge to productivity and growth.

The workforce's technical skills will become ever more prominent in the industry's skills agenda as specialisation and innovation become the greatest drivers of competitive advantage and growth. Employers will now increasingly begin to demand relevant, focused qualifications, both professional and educational: attainment that does not convey technical knowledge and skills will not contribute much to productivity in financial services.

Against this backdrop, demand will shift to ever-higher levels of qualification. The option of competing on a mediocre skills base, as far as it exists at all, will disappear completely over the next decade.

Priorities for the Skills Agenda

The Skills Bill published by the FSSC in March 2007 stated that “ **20% of the financial services workforce will retire over the next five years –about 220,000 individuals will leave the industry, taking their skills and experience with them.**”

Higher Level Skills and technical skills will come to the fore as productivity will need to be maintained.

The shift to high value-added activity and roles will be accompanied, in the near future, by a shift to higher levels of qualifications attainment. In financial services, the focus of attainment will finally shift from NQF level 3 to level 4. **The fastest growth in demand will be recorded for level 5 offerings, including Master's Degrees.**

Employers appear to have a clear vision of what improvements are needed to maintain the industry's current levels of success and improve its position in the future. **The following key priorities emerged from the FSSC's research.**

- Improving the reputations and attractiveness of the retail banking, financial advice and insurance sectors, while providing clearer entry routes and career paths for new entrants.
- Improving the business and interpersonal skills of school leavers and graduates, and assisting new entrants along the learning curve. Further engagement with the educational system will be necessary.
- **Investing in management development**, as well as expanding it to earlier stages in the career path and roles outside of management, to ensure a steady supply of skills to these roles. **Relationship management skills will be a priority.**
- Safeguarding the technical edge of professionals and technical staff, with better leverage of it to ensure innovation remains strong. To achieve this, they must complement ad-hoc technical training with **increased awareness of customer needs and better team-working skills.**

In the North West, employers seeking to grow by continuing to innovate, reported extensive skills gaps as they seek to maintain their current level of expertise in professional and technical staff. The FSSC research revealed a lack of team-working skills among professionals and technical staff. The key is to ensure that managers can effectively manage staff relationships. There is a need to invest in management development, to ensure a steady supply of skills in these positions.

The research also revealed a lack of industry knowledge in customer service staff. There is a need to help incumbent staff and new entrants including graduates to understand the industry and its' products.

It is evident that skills attainment which does not communicate technical knowledge will not contribute much to productivity in financial services.

Skills in a Global Economy

As the industry becomes increasingly global, retaining competitive advantage will rest on the ability of UK financial services to deliver appropriate and appropriately priced offerings across the globe.

To penetrate diverse and sophisticated foreign markets, financial services companies have to provide tailored and innovative products, which can only be achieved by leveraging the expertise and experience of skilled staff. Skills will prove increasingly important for global competitive advantage. Commoditised products will put a premium on efficiency, which UK financial services firms will have to pursue through investment in the complementary areas of ICT and skills.

Ensuring the supply of skills is not enough for the industry to maintain competitive advantage: skills and productivity gains must also consistently outpace those of competitors. Readers will be familiar with the treasury commissioned **Leitch Review** – ‘Prosperity for all in a Global Economy’². Leitch says the way to achieve this is by having a world class skills base. Leitch stated that in 2006 over 70% of the workforce for 2020 had already completed their compulsory education. Demographics show there is a reduction in the number of young people coming through. This means there is an increased focus on **upskilling the current workforce**. In a global context this is of paramount importance. While skills levels are rising across the world, they are rising even faster, albeit from a lower base in the emerging economies. **China and India each educate over 2 Million graduates a year compared with over 250,000 in the UK.** The UK’s competitive advantage in Financial Services cannot be taken for granted.

In essence, increases in UK productivity will come from the existing workforce. The scope for the expansion in the supply of financial skills is limited by suitably qualified school leavers and University graduates. The gradually increasing trend of educational attainment is being countered by the number of people moving through the education system. Due to students’ subject preferences there has been a sharp decline in the numbers qualifying in Mathematics and Economics, which are subjects relevant to Financial Services.

Over the next five years, the sector’s main defence against skills shortages will be the rising productivity of existing employers. Productivity growth will be linked to investment and improvements in the capability of the existing workforce. This is a situation that will persist over a prolonged period. FSSC research revealed that in 2015 the average age of the UK population will be 40 whereas in India it will be 27. Due to our ‘older’ age dependency, skilled labour in the UK economy will be under pressure to be replaced.

The Higher Level Skills Pathfinder for the Sector will also cover the development of courses to meet the skills needs of employers in Financial Services Companies who operate Shared Service Centres. This is on the same basis that only Financial Services Call Centres will be considered for any course development for Pathfinder funding. The section below is for those readers who have an interest in Shared Service Centres.

Shared Service Centres³

Shared Service Centres (SSCs) are in-house operations that fulfil centralised specialist support activities. As it stands they are collections of professional services offered in-house to corporations. **In terms of Higher Level Skills Pathfinder funding the focus will be on Financial Services companies.**

SSCs were defined by Deloitte Consulting as “a business unit that performs administrative transactions for numerous divisions or subsidiaries of the same company, rather than having those transactions conducted in every division or subsidiary.”⁴

² Leitch Review: prosperity for all in the global economy – world class skills. See the website at: hm-treasury.gov.uk/leitch

³ Kitshoff Gleaves & Co. Ltd – Business and Professional Services Sector in the Northwest- NWDA Strategy and Action Plan September 2006

⁴ Source Deloitte Research “The Future of Shared Services” 2003 cited in Shared Service Centres, UK Trade and Investment

These functions are usually associated with ‘support’ services such as finance, human resources, payroll and property management or any function that is essential to the day to day running of a business, whereby there is a need for processes to be standardised and streamlined. Where Call Centres could be viewed as serving the external customers of a business, **SSCs serve the internal needs and employees of a business**. This in essence is providing the ‘back office function’ for large organisations.

The top 10 Financial Services provided by shared-service centres⁵ are shown in table 1. These are very much horizontal activities that would be relevant for a firm in any sector.

Table 1

1. Accounts payable	6. Cost accounting
2. Accounts receivable	7. Credit and collection
3. Fixed assets	8. Cash management
4. Travel & entertainment	9. External reporting
5. General accounting	10. Freight payment

According to Collinson Grant⁶ shared service centres enable

- lower labour costs through greater focus bringing productivity gains from reduced duplication of tasks and increased potential for automation depending on economies of scale.
- better use of technology - best practice can be developed and then used consistently for all similar operations / transactions within the organisation.
- better practices and procedures, organisation and policies. Examining these during the process of establishing SSCs provides the opportunity to discontinue or outsource activities that add little value.

A report by Xayce Consulting for MIDAS⁷ states that the North West has one of the highest concentrations of SSCs in Europe. It reports that there are at least 40 SSCs in the NW with 25 in Greater Manchester.

Up to date information⁸ indicates that this figure has now grown to 50 SSCs in the North West and 30 in Greater Manchester. The reason for this growth is that Companies have merged different sites across the country into a centralised national shared service centre in the North West for their standard Financial Services.

North West Shared Services Forum⁹

A North West Shared Services Forum has been created to allow regional SSCs to share best practices. In addition, Skills Solutions (part of Manchester Enterprises) delivers a BTEC Intermediate Certificate for SSC employers. Both of these add to the regional capabilities for supporting SSCs. Client facing skills are important and the BTEC has two compulsory modules covering Customer Service and IT.

The North West Shared Services Forum is run in partnership by MIDAS, Manchester’s Inward Investment Agency and the North West Development Agency.

The North West Shared Services Forum is cited as one of the benefits of hosting a shared service centre in the North West and is a good example of how networking and interaction with sharing of best practices can help to catalyse a “clustering” effect.

The North West Shared Services Forum comprises in excess of 40 member organisations spanning public and private sector Shared Service Centres across the North West of England.

A full list of members may be viewed on the members profile section of the website:

<http://www.sharedserviceforum.org.uk/member.asp>

⁵ Source: The Hackett Group, European Finance Shared Services Organisations Study, 2002 cited in Shared Services: Moving into Central and Eastern Europe, Economist Corporate Network Report, February 2003

⁶ Collinson Grant, Shared Service Centres, Some Pros and Cons, April 2001

⁷ “Shared Services in the North West”, Xayce for MIDAS, October 2005.

⁸ Rachel Green of MIDAS

⁹ www.sharedservicesforum.org.uk/

Financial Services companies include AXA, HBOS plc, Royal & Sun Alliance and the Royal Bank of Scotland.

The North West Shared Services Forum aims to:

- Enable members to share best practice and knowledge through round table discussions, presentations, meetings and online activity.
- Create a dynamic website that enables online discussions, information sharing and promotional activity.
- Facilitate high quality networking opportunities.
- Drive the sector forward through meetings and events.
- Encourage high level debate and interaction with key influencers.
- Organise an annual conference with high profile keynote speakers and a series of inspirational and informative workshops.
- Drive the sector forward in the North West under the stewardship of a steering group that oversees its governance and member services.
- Facilitate dynamic Sub Forums e.g. People Management. Purchase to Pay and Helpdesk Networks
- Optimise marketing and PR opportunities for members including a cost effective presence at exhibitions and recruitment fairs.
- Provide regular e-bulletins featuring news and events.

Rachel Green, Business Development Manager at MIDAS can be contacted on Tel. 0161 772 2824 / Email: rachel.green@midas.org.uk) should you require any further information on the work of the North West Shared Service Forum.

Skills Issues in Shared Service Centres

The nature of shared services as a largely new business phenomena means information on the skill requirements and issues faced within them is still not readily available, as little research has been undertaken in this area. **The majority of SSCs are finance orientated and there is increasing growth driven by internal business consultants in 'going up the value chain' to produce Annual Reports, and undertake fund management.**

What is evident is that the shared service model creates significant issues and opportunities to the organisation. In particular **the transformation of roles to a shared service centre requires significant project and change management skills.** Any organisational initiative aimed at making some savings is likely to involve staff changes and reductions. **It will also encompass cultural and role changes which will need to be sensitively managed to achieve the efficiency gains that the shared service model can generate.**

In particular:

- § workforce transformation
- § introducing e-services
- § redesigning jobs to be more customer-focused
- § redesigning jobs to be more standardised
- § working across different professional boundaries

The SSCs serve their internal customers within the same organisation which means that Customer Client Relationship/Facing skills are extremely important. Many of the workers in SSCs are studying AAT, CIMA and CIPD courses on a part-time basis but it is apparent that they need to develop Vocational skills in conjunction with their Academic Skills.

Eddie Keating January 2008

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