

# Mapping Skills Gaps in Financial Markets

A Study for FIRST FINANCE

KREAB & GAVIN ANDERSON  
WORLDWIDE



**EMBARGOED UNTIL 00:01 FRIDAY 3 JULY 2009**

## **Table of Contents**

Executive Summary .....	3
Introduction .....	5
Methodology .....	6
The Results.....	7
Financial Market Knowledge .....	8
Working with Clients and New Business .....	10
Risk Assessment & Management.....	12
Knowledge of Regulatory Standards.....	15
Valuation & Funding .....	17
Ethics .....	18
Communication & Management Skills.....	20
Appendix 1 – Respondents.....	23
Appendix 2 – Questionnaire.....	24

## Executive Summary

Managers in UK financial institutions believe that their biggest skills gap is in their knowledge of regulatory standards, according to this research.

FIRST FINANCE, a leading global learning & development solutions provider, commissioned a survey to examine where there are skills gaps among established teams in financial institutions.

51 divisional managers and learning and development managers were asked about the skills and knowledge of their staff and they named regulatory standards as their number one concern. In fact, 45 per cent said their own teams were average or poor in their knowledge of regulatory standards. New proposals announced by the EU and UK authorities are causing a high degree of concern about knowledge in this area.

The largest skills gaps are:

- Knowledge of regulatory standards (45% identified a skills gap)
- Management and Communication skills
- Risk Assessment and Management

Interpersonal skills, such as communication and management, were also a failing area with some respondents commenting that many individuals with excellent technical knowledge had poor soft skills. Some HR managers felt that many individuals with excellent technical skills had been promoted into management positions without the necessary people management ability.

Another area which received relatively negative responses was risk assessment & management, which appears to be a larger priority for many of the managers taking part in the survey. This gap was particularly evident in areas of investment banking which need to be most competent at risk assessment and management.

Employees in financial markets have recently received a great deal of negative publicity about their ethical behaviour. Although scores in this category were relatively high compared with other areas covered in the survey, around one in five managers still highlighted their team's knowledge of ethical standards as a weakness – which remains a high proportion of the sample. However, few participants suggested that ethics would be an important focus of training activity in the next 12 months.

Respondents also gave high scores to their technical knowledge of products as well as their analysis and modelling techniques. However, there were a number of qualitative responses underlining the importance of developing new products and being innovative, particularly in the area of new funding techniques.

Notably, even the highest-scoring questions in the survey still indicate a cause for concern in key business areas. These were:

- Understanding of company code of conduct
- Product knowledge
- Understanding of business ethics

Learning and development (L&D) managers often scored their satisfaction levels even lower than operational managers. Subsequent interviews strongly confirm that L&D managers believe that line managers are not recognising weaknesses within their team and that skills training is not being prioritised by operational managers.

## Introduction

Financial services companies have had to come to terms with huge turbulence over the last two years. Asset prices have fallen, M&A deals have dried up, debt financing is scarcer and therefore more expensive and governments are bringing forward tighter regulation of the whole sector.

The FIRST FINANCE group is the leader in Finance Learning and Development with offices in London, Paris, New York and Singapore. The single goal is to train financiers and bankers in best practice - the skills they really need, whatever their professional area.

In this context, FIRST FINANCE commissioned research on skills levels of financial services employees. Managers in the following departments were targeted in this research:

- Capital Markets
- Risk
- Product Control
- Quantitative Finance
- Private Banking
- HR/Learning & Development
- Corporate finance

The primary research question was:

*Where are the skills gaps in financial services?*

In order to answer this question, 51 heads of business units or heads of learning & development within banks and other financial services institutions were asked about the strengths/weaknesses of their teams in the following areas:

- Financial Markets and Products
- Customer Knowledge & Skills
- Risk Management
- Valuation
- Due Diligence
- Ethical Behaviour
- Communication & Management
- Knowledge of Regulatory Standards

This was followed up with interviews with learning & development managers to discover their views on skills issues.

This report summarises the responses and findings as well as giving insights into the qualitative responses from the respondents.

## Methodology

The survey was conducted in May 2009 with 51 managers in financial services institutions.

This quantitative study was done anonymously because of the sensitivity of the individual results. Many respondents were concerned not to publicise critical messages about the quality of employees in their firm. The anonymity of the survey meant that they could answer frankly.

The targets were departmental managers. Initially, the researchers targeted the tier-1 institutions in order to ensure they were well represented in the sample. The final result was a broad range of respondents from large and small firms. The researchers also targeted a range of different specialisms to ensure that one area did not dominate the answers.

The respondents were approached by phone or email and the questionnaire was administered by phone because self-administered online or postal questionnaires would have received a poor response rate.

The questionnaire was developed with FIRST FINANCE to obtain the managers' opinions of the different competencies of their team. The Likert scale (1-5) was used to produce standardised answers that could then be analysed. The questionnaire is available in Appendix 2. Respondents were asked to answer with a number from 1-5 where:

- 1 = very poor
- 2 = poor
- 3 = average
- 4 = good
- 5 = very good

We needed to ensure that the data was reliable. For example, participants may have felt the need to present an overly optimistic view of their team's skills. This was combated by assuring participants of the confidentiality of the survey and that we wanted their truthful rather than upbeat response.

The researchers used were independent of FIRST FINANCE.

## The Results

This report is about skills gaps, not about skills strengths. We have therefore presented the data to highlight what percentage of respondents thought their teams had a skills gap.

We defined a skills gap as being where a response was average, poor or very poor. These gaps were particularly large in the related areas of risk management, regulation, communication & management.

Nearly half of the managers surveyed were not satisfied with their teams' knowledge of regulatory standards.

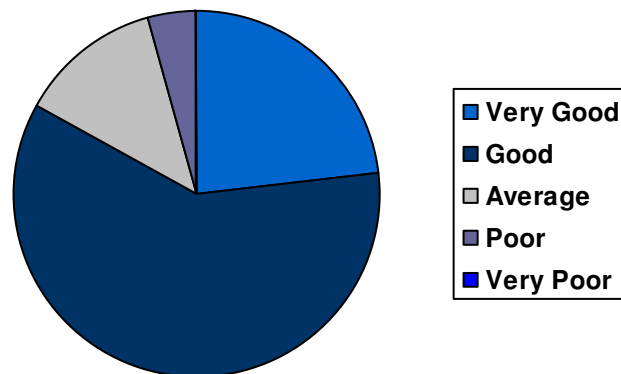
This report also comments on differences in the responses of managers in different specialisms (corporate finance, capital markets, product control, risk, learning, and private banking) because there were differences between how different divisions fared on each question.

Interestingly, Learning and Development managers often had a rather more pessimistic view of the capabilities and strengths of operational teams than operational managers.

## Financial Market Knowledge

---

How satisfied are you with your team's knowledge of financial market products?



This question tested knowledge of the plethora of financial products that have developed in markets over the last decade. These include the exchange and over-the-counter markets.

Although this is not the lowest-scoring category in the survey, the number of managers who were not satisfied with their teams' knowledge in this area is still significant:

- 19% identified a skills gap
- 4% said the knowledge of their team was poor in this area

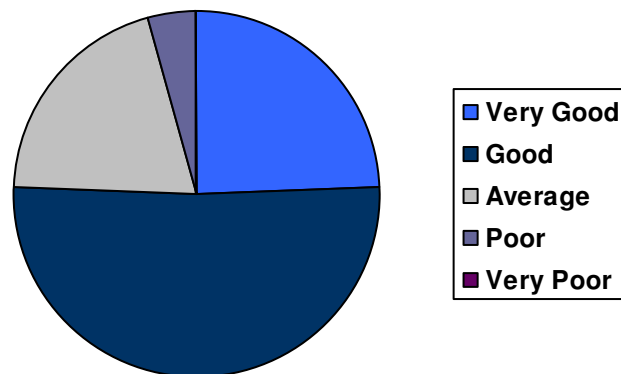
The fact that nearly one in five divisional managers has identified a skills gap in this area could be seen as a cause for concern, since knowledge of these products is so fundamental for financial services professionals. Notably, capital markets teams were particularly satisfied with their knowledge of financial markets products. No single category emerged as having a particular problem with product knowledge. HR managers said that training in this area had become less focused on the more exotic types of product and more focused on the risk attached to those products.

*"Before the crunch, derivatives and technical product knowledge was getting increasingly complicated. You would have seen us putting large numbers of people through options, swaps and volatility etc. training and beginning to focus more on exotic and structured products. I think what you'll find, these days, is that the approach is more about knowledge and understanding of the fundamentals: credit issues, risk and regulatory issues, and compliance."*

*"We know as much as we need to know in this area so I am pretty satisfied with the knowledge of the team,"* was a typical response from line managers.

A Learning & Development Manager said: *“Product training is relatively easy and individuals are often promoted on their technical skills. So it’s not surprising that most departments perform well.”*

### How satisfied are you with your team’s knowledge of financial market skills?



This question tested knowledge of skills such as modelling, market analysis and financial mathematics.

- 24% of respondents identified a skills gap
- 4% said the knowledge of their team was poor

The mean answer was relatively high in this section. However, training professionals and trading managers stood out as being more pessimistic about professionals’ abilities. Some respondents said that where modelling was part of the job description they had recruited individuals who brought considerable mathematical skills to the firm. Others said they had well designed training courses that ensured that new employees with strong analytical skills were able to put them into practice. Training managers said it was easy to convince employees and managers that training in this area was important because it appeared to impact very directly on the team’s performance.

*“We employ five PhDs in this department and because of that recruitment we have very good analytical skills.”*

*“Quantitative and analytical type training is an easy sell to line managers in the revenue-raising divisions because it’s easier for them to see that it impacts directly on the bottom line.”*

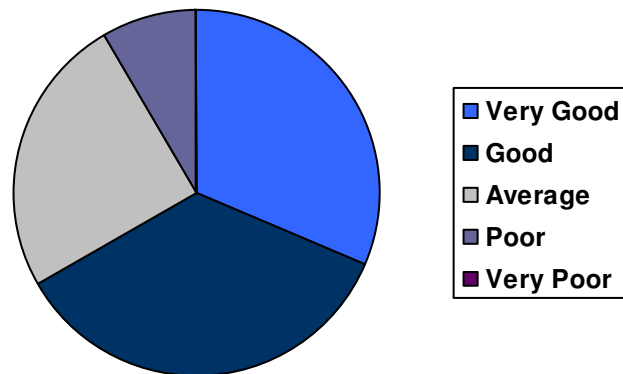
*“It’s easy to measure technical skills and therefore there is a lot of concentration on getting them right. A lot of our people are very analytical with really excellent technical skills.”*

*“For the analysts coming into this firm we send them away and teach them the theory and the practice. It’s important that we do this well.”*

## Working with Clients and New Business

---

**How satisfied are you with your team's understanding of client/industry needs?**



This question assessed financial teams' client knowledge and included internal customers where necessary. Managers scored their teams relatively poorly.

- 33 % of respondents identified a skills gap
- 8% said the knowledge of their team was actually poor

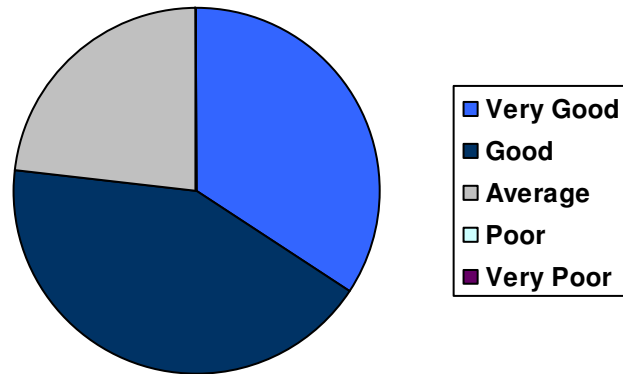
Surprisingly, there were some poor or mediocre results from corporate finance, equity research and product development professionals where these skills might be considered important. Learning managers were often in the dark about employees' abilities in this area.

*"We talk to line managers and provide training where necessary,"* said one learning & development manager.

*"I am not aware that we have any issues with client management but it would be difficult for me to say,"* said another.

A line manager said: *"I think we could improve our client relationships. For starters, we don't really know what they think of our service levels."*

**How satisfied are you with your team's ability to offer solutions that meet the client need?**



This question tested a team's ability to come up with innovative or creative solutions in different disciplines. It scored highly with respondents who generally felt that their ability to offer creative solutions to client problems was very positive.

- 23% identified a skills gap
- No respondents described their teams as poor

Although responses were generally positive the most negative responses came from learning and development professionals.

Some respondents talked about the importance of product development.

*"Who knows what products will be the next big thing so being able to turn knowledge of existing products/other business areas, and adapt that to the products of the future will be important,"* said a line manager.

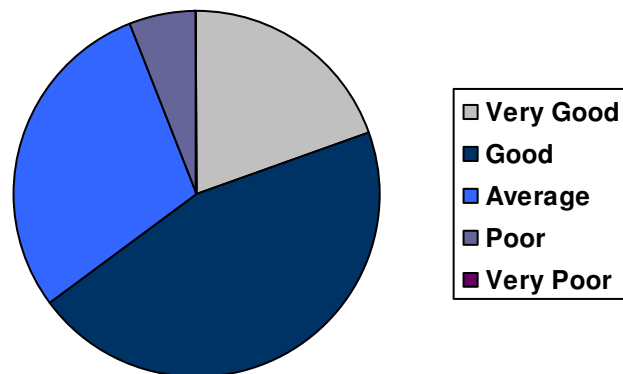
A learning & development manager highlighted the importance of communication.

*"A few of our people are not so good at communicating with clients and that's where there can be problems. They're brilliant in many other ways but communication can be a problem."*

## Risk Assessment & Management

---

How satisfied are you with your team's understanding of risk assessment?



- 35% reported a skills gap
- 0% said the knowledge of their team was poor

Risk assessment and management are clearly much bigger concerns for managers.

The failure by many treasury departments to spot the risks in credit products linked to the US mortgage market has highlighted the need for better risk assessment and management.

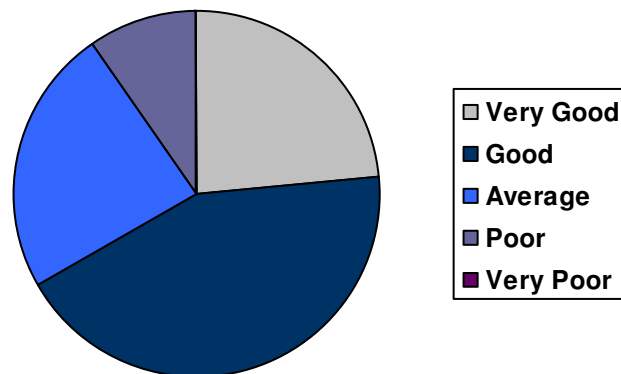
A relatively high number of managers in our survey were worried about the risk assessment skills of their employees. The overall average masks a variety of worries within different areas of investment banking.

While corporate financiers overwhelmingly answered these questions positively, there was a great deal of concern coming from heads of trading and capital markets where risk assessment and management should be more integral to the job.

*“Risk management skills have gone up our list of priorities”, said one L&D manager.*

*“There is a lack of good quality training in risk & compliance. I would really like to find some blended training that really engages our people on these subjects,” said a training manager in private banking.*

## How satisfied are you with your team's understanding of risk management?



- 33% reported a skills gap
- 0% said the knowledge of their team was poor

Our question about risk management was also answered relatively negatively. Interviews with learning managers also recorded a high degree of concern about risk management skills and attitudes to risk in some teams.

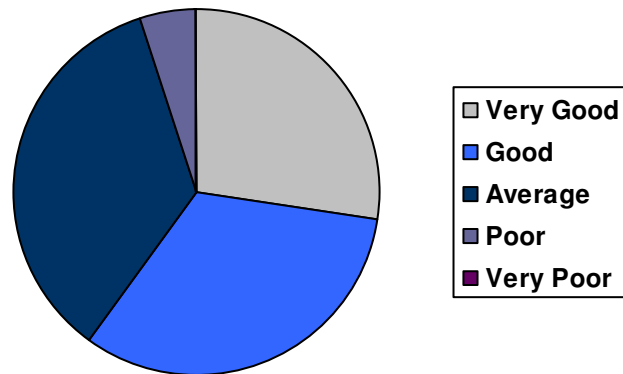
Some commented that those banks with stronger risk cultures had weathered the downturn in the economy much more effectively than their competitors. Others said that specialist risk teams had strong skills but were sometimes unable to influence front-of-office staff because of their poor communications skills.

Particular concerns came from equity research departments although none of the respondents commented on the reasons for these poor responses. Learning and development managers also voiced some concern about risk management skills.

*“Front-of-office people often have quite poor risk management skills while risk specialists often have very good technical skills. The problem is that risk functions often hide behind the front-of-office. They don’t have great influencing skills and so their views are not listened to.”*

*“We are pretty good on technical risk knowledge that’s connected with the products. We have rolled out a lot of training but I don’t know yet how much we’ve managed to develop a risk culture.”*

## How satisfied are you with due diligence skills?



- 40% reported a skills gap
- 4% reported their teams were poor in this area

Due diligence is the investigation of a company or product before purchase and is most relevant for corporate financiers involved in offerings of equity investments, mergers or acquisitions. However, it is a term that has been adapted for use in other situations particularly in the investment and hedge fund sector.

About 20% of respondents - mainly quants and traders - did not answer the first question in this section because they felt that due diligence was not important to their department.

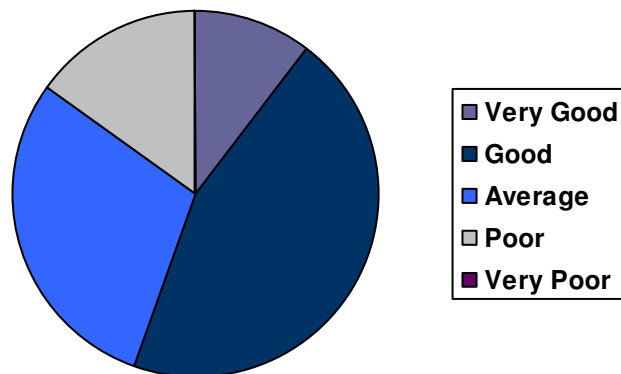
Among those that did respond there was a relatively high rate of dissatisfaction with due diligence research skills.

*A corporate finance head said: "It's all about asking the right questions before doing a deal. I think in the past that some firms have not been asking the right questions but we've certainly been paying this a lot more attention."*

## Knowledge of Regulatory Standards

---

How satisfied are you with your team's knowledge of international regulatory standards?



- 45% of respondents reported a skills gap
- 15% said their teams were poor in this area

This was by some distance the question which scored the weakest responses.

The surge in demands for tighter regulation of financial services companies is clearly concerning managers. Many respondents said they were struggling to get a grip on the amount of regulation coming from the UK and EU governmental bodies. Within the last two months the Turner Report has proposed tighter capital ratios for banks and the European Commission has proposed stricter regulation of hedge funds and private equity companies.

The low scores for this question reflect bewilderment from all sections of the industry about encroaching regulation.

*"It is probably our number one priority to keep up with the latest regulatory changes,"* said one leading training & development manager.

*"Increasingly our job will involve advising on the regulatory environment within which clients will have to operate and the aspects affecting transactions - regulation is on the change, and likely to increase - therefore so will its impact on derivatives deals."*

The wide-ranging nature of the proposed regulation coming out of London and Brussels is creating concern across the board. Quants, corporate financiers, traders and HR managers all identified problems. However, there were a

handful of respondents who felt that compliance was less important for their teams.

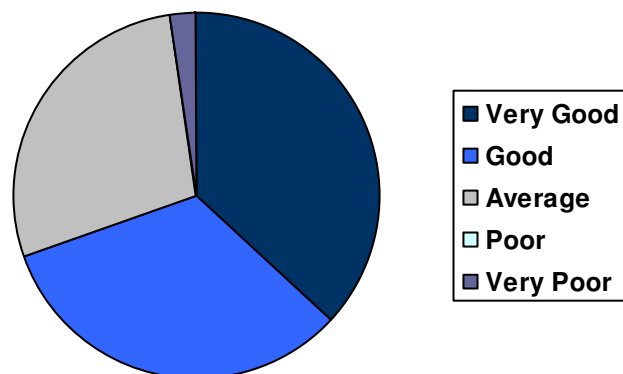
*"We have people that monitor that kind of thing [regulatory standards] for us,"* said a line manager in capital markets.

A L&D manager said: *"A lot of risk managers have been caned with new regulation and so they are talking about it a lot... I don't know how much they value the new rules though."*

*"The amount of money that we are going to put into training on regulatory standards will be rising. We are working on this with line managers,"* said a training manager.

*"Front of office is very organised and know exactly what kind of training they need. We had a request the other day for IFRS training because they knew they had a weakness on that topic."*

### How satisfied are you with your team's knowledge of market abuse rules?



- 30% of respondents reported a skills gap
- 2% said their teams were poor in this area

One training and development manager from a leading investment bank said their team was extremely poor in their knowledge of market abuse rules. The highest levels of concern came from capital markets bosses.

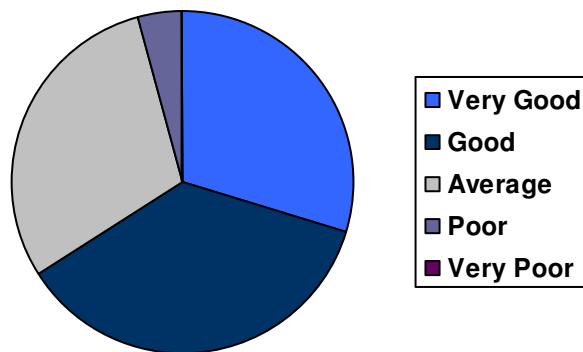
One head of capital markets said: *"The question is do they need to know [about the rules] or do they need to know the right people to ask? I know that I'm sure they have to know a minimum amount."*

## Valuation & Funding

As the credit crunch has developed and sources of funding have dried up, respondents said they were looking for more innovative and imaginative funding skills. Responses on both valuation and funding were comparatively poor. However, the poor responses were generally in departments that have less need of valuation skills. Corporate finance managers scored their skills in this area highly.

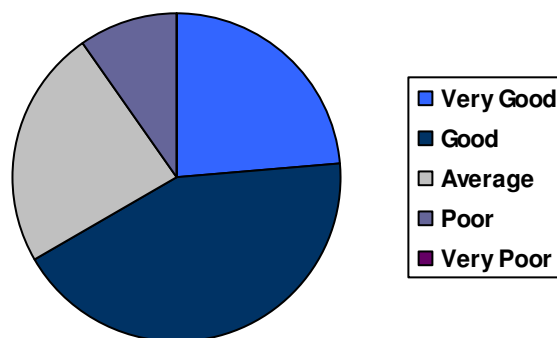
### How satisfied are you with your team's understanding of valuation techniques?

This question assessed valuation skills and clearly this will mean different things to different departments. With corporate financiers this is corporate value while for derivatives specialists this might be options pricing. All departments seem to have expressed concern about valuation skills.



- 34% reported a skills gap
- 4% said their teams were poor in this area

### How satisfied are you with your team's understanding of funding techniques?

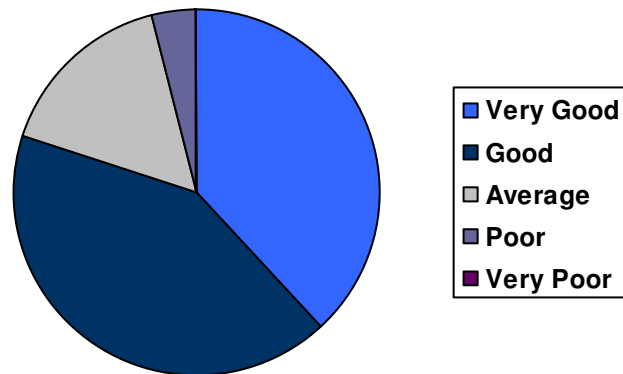


- 36% reported a skills gap
- 16% said their teams were poor in this area

## Ethics

---

How satisfied are you with your team's understanding of business ethics?



- 20% reported a skills gap
- 4% said their teams were poor in this area

Given the furore over bankers' conduct since the beginning of the financial crisis, ethics are a sensitive area. Nonetheless, we had a good response rate – admittedly on a confidential basis.

Although the level of satisfaction expressed in answer to this question was higher than for most other questions in this survey, the number of respondents who identified a skills gap remains significant – one in five.

With both questions, the main dissenters were in the capital markets and learning & development areas.

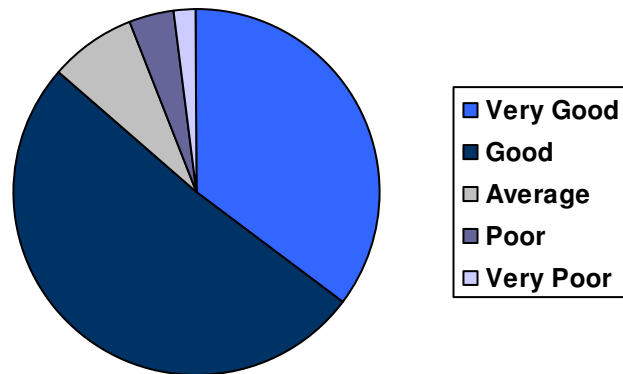
One explanation for this level of satisfaction (as suggested in our in-depth interviews with learning managers) is that financial institutions do not yet fully appreciate the need for higher ethical standards, despite the criticism over the last few years.

Another view expressed is that managers are more worried about encroaching regulation (which they know is going to impact on their jobs) than about ethical and reputation issues, where the impact is less clear.

*A Learning & Development manager said: "Maybe I am being cynical but most staff are concerned about making money. You are not rewarded for behaving well and the only reason why employees change their behaviour is because they are told to."*

*Another said: "Overall I think we're fine on this [ethics] but it's not a very big priority."*

**How satisfied are you with your team's understanding of your company's code of conduct?**



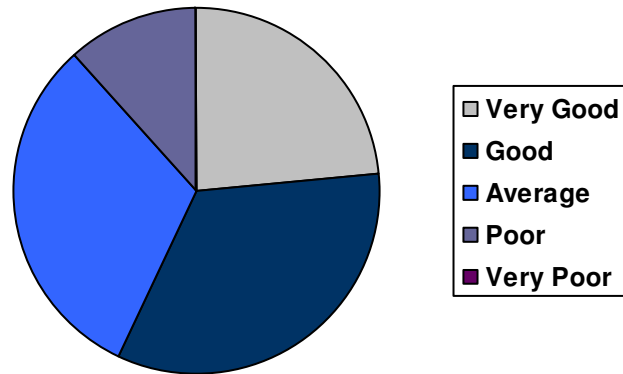
- 14% reported a skills gap
- 6% said their teams were poor in this area

Most financial institutions have a code of conduct although it's sometimes known by a different name. Morgan Stanley, for example, call it a "code of ethics" and all Morgan Stanley employees have to sign up. It generally covers areas such as conflicts of interest, disclosure, compliance with the law, confidentiality and fair dealing with other companies and with employees.

Team leaders overwhelmingly answered this question positively. This question received the highest mean score showing a very high degree of satisfaction.

## Communication & Management Skills

How satisfied are you with your team's communication & interpersonal skills?



- 43% reported a skills gap
- 12% reported their teams were poor in this area

Researchers asked the survey group to assess their team's communication skills and the responses showed a high degree of dissatisfaction. Some of those polled said that communication issues had been at the root of problems in their departments. Other departmental heads expressed less concern because they didn't expect their staff to be great communicators.

*"We're talking about quant analysts here, what do you expect?"*

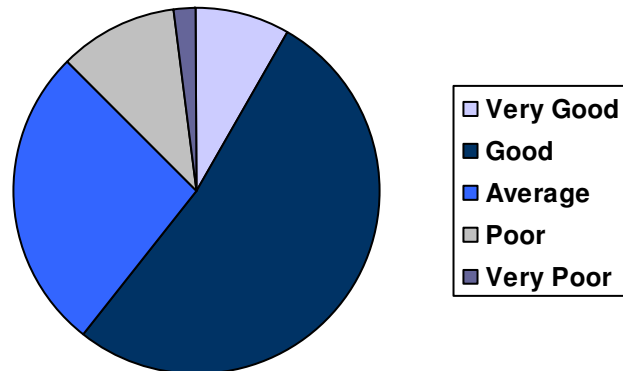
*"We have taken in a lot of money over the last few months and the reason is that we regard interpersonal skills as important. An example is that we think it's important that all our staff answer the phone."*

*A Learning Manager said: "Yes communications is 100% a problem. People who manage risk aren't great at communicating. They are often analytical geeks and a lot of their work is number crunching."*

*"There is a real diversity issue in our area. We need to start recruiting different types of people so that some have different behaviours and can communicate better."*

*"We have assertiveness training and training for new leaders or people managing a bigger team. We have initiated this over the last year and we don't yet know whether it's going to make an improvement."*

## How satisfied are you with your team's management skills?



- 40% reported a skills gap
- 10% reported their teams were poor in this area

This question refers to team leaders' ability to manage the performance of the individuals working around them. This involves feedback, training, managing expectations and recruiting the right people in the first place. Some learning managers reported that it was difficult getting new team leaders onto management skills courses. This is because many line managers did not believe it directly impacted on their department's performance metrics. Others said that individuals were promoted to management positions because of their technical or analytical skills rather than their ability to manage teams of people.

*A Learning Manager said: "Line managers don't think management skills are important and sometimes they don't take on management responsibilities well. They are promoted on their technical skills and not on their ability to manage people."*

*"The role that people management plays is a lot more important in keeping people motivated in these turbulent times. We have had success [in training courses] but less people on the revenue-earning side do them because it's a harder sell," said another learning manager.*

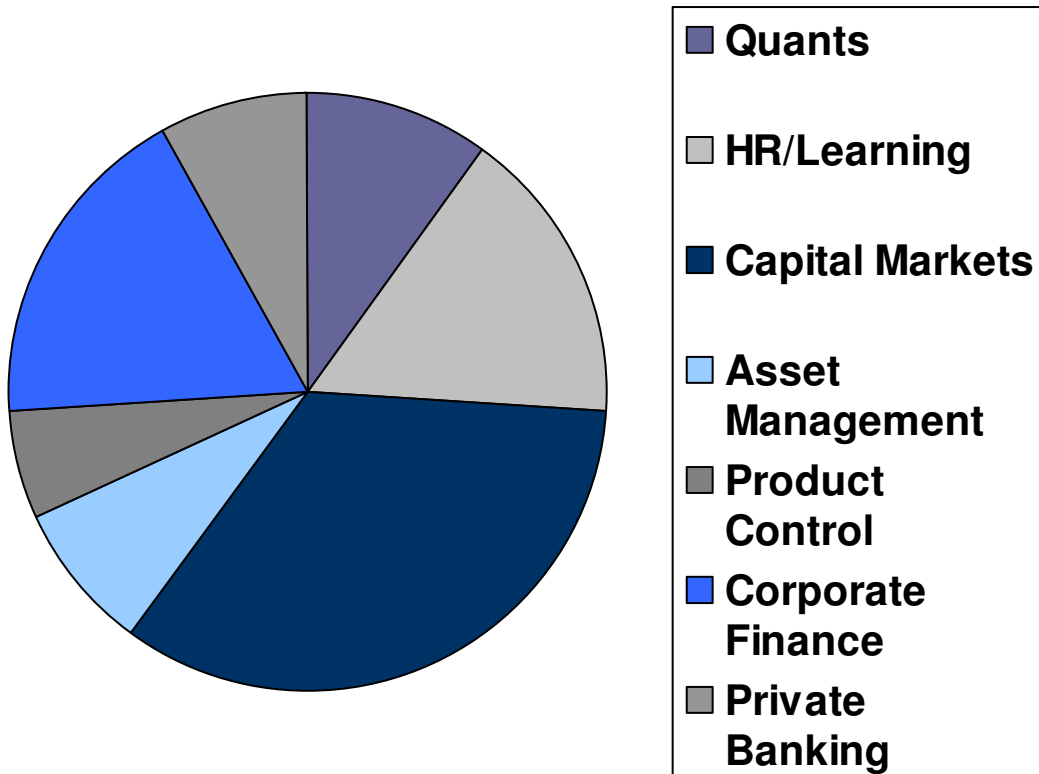
*"Because management & communication skills are more ethereal they are that bit more difficult to justify. I think management need to trust in the technical training before they can justify the soft skills training."*

*"There is a bit of a gap in management skills and so we do some training but it's going to take a bit of time to decide whether it's going to be a quick fix."*



## Appendix 1 – Respondents

There were 51 respondents broken down into the following categories.



## Appendix 2 – Questionnaire

### FINANCIAL MARKETS:

- (1) your team's knowledge of financial market products (eg. Swaps, options & derivatives and variations of..)?
- (2) How satisfied are you with your team's knowledge of financial market skills (eg. modelling, market analysis, financial mathematics)?

### NEW BUSINESS:

- (3) How satisfied are you with your team's understanding of client / client industry needs? (This can mean internal & external clients)
- (4) How satisfied are you with your team's ability to offer solutions that meet the clients need? (This can mean internal & external clients)

### RISK MANAGEMENT

- (5) How satisfied are you with your team's understanding of risk assessment?
- (6) How satisfied are you with your team's understanding of risk management?

### COMPLIANCE

- (7) How satisfied are you with your team's knowledge of international regulatory standards (eg. Basel II)?
- (8) How satisfied are you with your team's knowledge of market abuse rules?

### VALUATION

- (9) How satisfied are you with your team's understanding of valuation techniques (eg. corporate valuation, exotic options pricing)?
- (10) How satisfied are you with your team's understanding of funding techniques (project finance, structured asset financing, mezzanine funding)

### ETHICS

- (11) How satisfied are you with your team's understanding of business ethics?

- (12) How satisfied are you with your team's understanding of your company's code of conduct?

#### SOFT SKILLS

- (13) How satisfied are you with your team's communication & interpersonal skills?
- (14) How satisfied are you with your team's management skills?

#### DUE DILIGENCE

- (15) How satisfied are you with due diligence research skills?
- (16) How satisfied are you with importance given to due diligence by staff?