The people agenda
What is keeping asset managers awake at night?

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As we step out of the shadows of the economic downturn and into an environment where firms are focused on growth, people strategy challenges and solutions can be found near the top of most corporate agendas. For asset managers, where people form a significant portion of their overall cost base, this rings especially true.

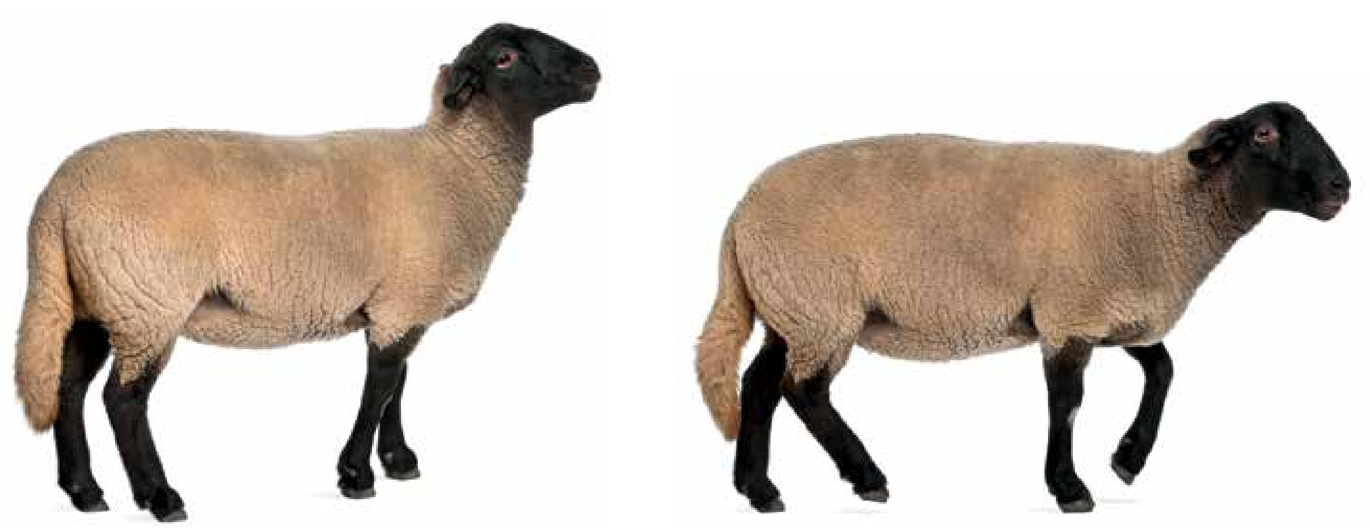
What a successful people strategy looks like will vary from firm to firm; however, demographic shifts, technological advancements and regulatory pressures are creating some very clear challenges for all asset managers. Against this backdrop, Amy Titus, a director in Deloitte LLP's U.S. Organisation, Talent and Transformation Practice, and Helen Beck, a partner in Deloitte LLP's UK Financial Services Reward team, outline the biggest issues on the people strategy agenda for asset managers in the U.S. and Europe and suggest how asset managers can respond.

Key people strategy challenges

Regulatory pressures on reward

The global asset management sector has seen an increasing number of regulatory demands focused on firms' approaches to reward. These demands have not always been consistent from country to country, which has created further complications for those asset managers operating globally.

In Europe, asset managers need to comply with reward rules stipulated in the CRD[1] III and IV, as well as the AIFMD[2] and UCTIS[3] V, while in the U.S. firms are guided by FATCA[4] and the Dodd-Frank reforms, including the Volker Rule. It should be noted that in the U.S. there is a movement towards a uniform fiduciary standard for broker-dealers as well as investment advisers; today they operate under different regulatory regimes and standards—for broker-dealers it is the less stringent 'suitability standard' whereas investment advisers are held to 'fiduciary standards'. This has significant implications for business models for broker-dealers and investment advisers.



The good news is that these regulatory requirements are largely based on the same principles, however, the introduction and application of these principles has varied. Specifically, European regulations are structured to apply to all asset management firms, whereas the U.S. rules affect only firms with 'consolidated assets' exceeding US$ 1 billion. Also, while the U.S. and European regulations address three areas that are broadly similar – transparency, engagement and accountability—in application the European regulator has been more prescriptive with regard to deferral levels and compensation structures, as applied in AIFMD and UCITS.

The challenge facing asset managers in both the U.S. and Europe is how to maintain their chosen reward strategy within a prescriptive regulatory framework. Firms across the board are responding by restructuring compensation plans to align reward with long-term performance and adjusting for risk (e.g. by deferring bonuses over longer periods of time, tying bonuses directly to objective measures of risk or balancing the reward structure with corporate shares and fund units).

To ensure compliance with these U.S. and European regulatory requirements and to mitigate risk effectively, asset managers should conduct broad assessments of their governance and risk management programmes and put mechanisms in place to periodically evaluate these programmes (including governance committee structures, roles, decision rights and processes) to drive effective decision-making, risk management and transparency. Global organisations can also look to centralise governance of total reward programmes, a measure that enhances cost management, compliance and overall effectiveness.

Attracting and retaining millennials

Asset managers are facing fierce competition to attract and retain quality talent, both from within and outside the financial services sector. Some have found themselves outdone by their banking, insurance and technology counterparts on college campuses and in social media—platforms critical to ensuring engagement with the youngest group of individuals joining the workforce.

In order to reduce this gap and effectively attract and retain millennials, firms must look at their talent programmes all in all—this means from talent acquisition through to managing the post-employment relationship, and every step in between. Many firms are increasing their investment in community projects and social platforms (online and in person) to bring millennials together to experience their brand. Once employed, organisations are increasingly promoting continual opportunities for learning and development, embedding extended leave programmes, career breaks and flexible working arrangements into people programmes to satisfy millennials' needs and expectations.

Building the right technological capabilities is also now a prerequisite for firms to effectively attract and retain new employees with cutting-edge skills, and also to more effectively deliver essential tools, information and development opportunities to existing employees in order to stay competitive. For example, sales and field representatives are demanding mobile solutions to quickly access information and learning when, where and how they need it. Employees, particularly millennials, are requesting rapid ways to connect using social media. They want compelling and user-friendly internal collaboration tools for their own productivity and development and recognise the need to deliver an equally positive experience to their clients through such platforms.

Need for new organisational capabilities and employee skills

In order to succeed in an increasingly global and competitive world, organisations are centralising operations and emphasising collaboration – essentially 'busting down the silos'. This means that challenges facing asset management firms must now be addressed by an integrated cross-section of expertise.

1 *Capital Requirements Directive*

2 *Alternative Investment Fund Managers Directive*

3 *Undertakings For The Collective Investment Of Transferable Securities*

4 *Foreign Account Tax Compliance Act*

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These changes have required organisations to develop new skills and capabilities across lines of business and functions. Adding to this is the increasingly informed customer base and ever advancing technology, which is also changing the demands placed on different functions. Within HR, one of the most important and salient examples of this involves the need for managing data and providing HR analytics to enhance decision making, which has become a top priority for many European asset managers and is slowly emerging in the U.S. as well. In this new world, HR functions need to become strategic and proactive business partners, tightly aligned to business priorities. In order to do this, they need to strengthen their advisory and analytical skills, business partnership capabilities, business and product acumen, and functional and regulatory insights.

Further to this, as both the European and U.S. markets start to seriously focus on growth, many firms are looking for new recruits who will challenge the status quo and encourage leaner and proficient business models. To accomplish this at a senior level and effectively align the sourcing and recruiting of new talent with strategic priorities, firms must ensure the recruitment process both clearly communicates the firm's strategy and has input from all areas of the business, including marketing, sales, technology, operations, risk and trading.

Succession planning

The imminent retirement of many existing leaders, a lack of a broad diverse leadership pool, the impatience of the few future leaders in waiting, and finally Boards demanding accelerated growth after years of stagnation, have combined to make succession planning the single biggest concern for some asset management boards.

This is not, however, a stand-alone issue for asset managers: in Deloitte's 'Global Human Capital Trends 2014', over half (51%) of the executives surveyed across industries have little confidence in their ability to maintain clear, consistent succession programmes. Particularly challenging for asset managers are new regulations which impact the extent and methods by which top-performing leaders can be remunerated. These increased restrictions, particularly in Europe where regulators are more prescriptive, through AIFMD and UCITS, make it more likely that the most effective leaders will move firms to seek better reward packages.

In order to tackle this growing leadership gap and other succession planning challenges, firms first need to either proactively develop their own 'home grown' talent or develop an organisational culture which ensures that senior external hires will bring positive change. For 'home grown' talent, some firms are building their own leadership programmes to develop leadership capabilities, generally designed and developed in partnership with outside organisations that specialise in leadership development.

To support experienced leaders hired from other firms, organisations must first develop a comprehensive leader integration programme that goes beyond typical onboarding. For example, external hires could join an advisory council of other leaders and colleagues within the organisation and receive regular one-on-one coaching and mentorship from a senior leader to help them navigate and accelerate within their new environment.

Conclusion

Successfully addressing these challenges, and ensuring a good night's sleep, will likely require asset managers to commit to a clear talent agenda grounded in their organisations' business strategy. In order to adapt to dynamic customer needs, employee expectations and global regulatory changes, asset management firms need to attract, retain and develop high-performing talent, and to reinforce the organisational values and capabilities necessary to ensure both premier performance and appropriate conduct. The particular importance of culture and values as enablers of regulatory compliance is now at the centre of a number of asset management boardroom discussions, and talent strategies need to reinforce this shift. Done well, this can also foster a strong sense of internal cohesion.

The talent agenda is now broader and more essential to success than ever before, since reward is no longer the silver bullet. In order to succeed, firms need to consider the whole employee proposition.

To the **point**:

- The talent agenda is now broader and more essential to success than ever before, since reward is no longer the silver bullet
- Regulatory demands are placing pressure on firms and these demands are not always consistent country to country, which creates added complications for those firms which operate on a global basis
- Compliance with regulation can, however, be used as an opportunity; global organisations can look to centralise governance of total reward programmes, a measure that enhances cost management, compliance and overall effectiveness
- Building the right technological capabilities is now a prerequisite for firms to effectively attract and retain new employees with cutting-edge skills and to remain competitive in the eyes of existing employees
- To tackle the growing succession planning gap, firms need to either proactively develop their own 'home grown' talent or develop an organisational culture which ensures that senior external hires will bring positive change
- In order to implement a successful people strategy, firms need to consider the whole employee proposition and one that is grounded in their organisations' business strategy