Financial Services Practice

STATE OF THE MARKET IN 2019

In preparing this State of the Market for 2019, I revisited my 2017 and 2018 editions. I found that in each I used the word "optimism" in my first sentence to describe our sentiments towards the market. Our optimism remains, but admittedly, it's tempered. Things are good and the metrics tell the positive story. According to Deloitte's 2019 Banking Outlook, "[t]otal assets in the United States reached a peak of $17.5 trillion. Capital levels are up, with average tier 1 capital ratio standing at 13.14 percent. Return on equity for the industry is at a post crisis high of 11.83 percent." While the metrics are pointing in the right direction, we're coming up on the ten year anniversary of the Great Recession which officially lasted from December 2007 to June 2009 and this anniversary stirs up that lingering consternation. Ultimately, however, I believe we have a choice about how we view the world. And I choose optimism (at least for 2019 I do).

"Now there are concerns about another recession approaching either this year, in 2020 or 2021," says Aaron James Deer, managing director of equity research at Sandler O'Neill & Partners in San Francisco. "Despite this, we remain positive about the credit outlook and economic outlook for bank performance." The beginning of 2018 began with euphoria about tax reform and deregulation but ended with rising interest rates and a flat yield curve. The financial performance of banks fared as expected in 2018. However, their stock performance was less than stellar with a sharp sell-off in bank stocks during the last few months of the year.

Deer predicts 2019 will prove to be a competitive environment for deposits and loans. "Key factors driving performance expectations include moderating loan growth, flattish net interest margins and normalizing credit costs," he says. The challenges facing banks and credit unions will be the Fed and rate hikes. As competition for deposits grows more intense, this could spur further M&A activity. Since bank valuations are down, some executive teams may decide to sell a bank rather than try to muddle through another recession.

The macrotrends facing our clients this year will be higher interest risks that could translate into slower mortgage volume, flat purchasing volume and less re-financing deals in the real estate sector. Throughout 2019, our bank and credit union clients are likely to remain mindful of their costs by reducing their real estate assets and leveraging technology to drive efficiencies.

MARKET TRENDS IN EXECUTIVE HIRING

TIGHTENING LABOR MARKET – Executive hiring is experiencing a high demand for talent contrasted with a low supply of suitable candidates. This issue impacts nearly all industries, but none more so than community-centric banking. This trend is not specific to any one functional vertical but impacts the entire spectrum of executive leadership. Given the well documented mass exodus of Baby Boomers from the workforce, and the lack of talent development within the big banks, up and coming talent with the willingness to commit at least five years to their next role are fewer and farther between. As the talent pool shrinks, our clients are having to conduct nationwide searches for candidates that used to be abundant in their own backyard. Taking on the intricacies of a national search and a relocation have become commonplace for us and our clients, with nearly half of our searches requiring a relocation.

RISING COMPENSATION REQUIREMENTS – Unemployment is at an all-time low and a by-product of this tightening talent market is an increase in compensation. We've seen base salaries increase by nearly 20%. This trend is also being driven by consolidation between financial services firms. With a greater number of financial institutions exceeding thresholds of $1B, $3B, $5B and $10B in assets, compensation expectations have risen. Often, we need to find talent from larger institutions since these candidates possess the requisite experience to address issues that come along with this new scale.

DEMAND FOR DIVERSITY AND INCLUSION – Inclusion means having a collaborative culture where people from diverse backgrounds are encouraged to, and do, participate. A trend for more diversity and inclusion – also known as D&I – has been building for a while now and is not just limited to financial services. The new members of Congress were among the most diverse this country has ever seen. Congress now has 102 women, including the youngest ever, the first Muslim American and the first refugee. There's no doubt a new dawn of diversity has arrived.

Encouraging greater diversity and inclusion is a critical part of meeting new talent demands. The financial industry is recognizing the need to hire and invest in a more diverse workforce. This begins at the board level with a conversation about hiring members who are representative of the communities they serve. It may also trickle down into governance too. According to PriceWaterhouseCoopers, nearly three-quarters of financial services CEOs have a strategy to promote diversity and inclusiveness or they plan to adopt one. CTI Research shows that, in the United States, African-Americans make up 14% of the population, yet hold less than 3% of the senior positions in financial services firms. Representation of people with disabilities within the financial services workforce also lags behind other industries too.

What we're seeing, more than ever, is that candidates are demanding to work for a company that not only speaks of its commitment to diversity and inclusion but demonstrates it in their hiring. Put another way, candidates are looking for institutions that have a diverse employee population and are progressive about bringing diversity of thought into the boardroom. I will touch more on this topic of D&I in my next white paper in Q2.

MARKETING ROLES ON THE RISE – In 2018, we serviced 28 distinct financial institutions. Our search engagements were balanced, with no single functional vertical representing more than 13% of all engagements. However, we did notice an uptick in clients looking to fill marketing and strategy roles. In addition, roles with a digital focus which include digital banking, digital marketing and general IT, continued to be critical needs for our clients. However, last year the searches we completed for these digital roles did not dwarf other functional verticals as they had during the previous two years.

The marketing role has evolved over the past few years and what surprised us was the increase in marketing searches. Banks and credit unions are leaning on these marketing leaders to devise a strategy that they can then put into tangible form. Many institutions are seeing marketing as the hub, with sales as the spoke. We've had clients look for marketers (deeply steeped in banking) to help the executive team understand what customers really want. These marketers are overhauling not just the brand, but in many cases, product and service offerings too. They're being given the freedom to redefine many business models by focusing on the customer experience. No longer are marketers relegated to building collateral material and planning events. Instead of sales telling marketing what they need, marketing provides a cohesive campaign through all channels – sales, branch and digital. The right marketing leader can drive this omni-channel approach with a classic understanding of how the right targeted message can drive a customer's behavior.

SEEKING STRATEGISTS – We experienced a demand for strategy executives last year, similar to the trend we saw in marketing. Many of our clients sought to find a leader who could determine a comprehensive strategy for the institution. The main difference between the two roles is the profile of the candidate. We typically filled strategy roles with former consultants who had transitioned into operating roles due to their tremendous project management experience. Like marketing, the strategy role ensures the entire institution has bought into, and is moving forward with, the same strategy. The marketing leader devises messages for the customer base while the strategy leader builds project teams and oversees the execution of various strategic initiatives. Regardless of how our clients approach it, the goal remains the same: to build a strategy that is consistent and executable.

About the Firm and the Author

McDermott + Bull is a full-service retained executive search firm with a dedicated Financial Institutions practice. The firm's Financial Institutions Practice Group partners with boards and senior leadership teams to align talent strategies with business strategies for banks, credit unions, investment banks, asset managers, fintech firms, and investment advisory firms. Clientele include the likes of Columbia Bank, Houlihan Lokey, Golden 1 Credit Union, First Republic Bank, Silicon Valley Bank, ivyKoin, SAFE Credit Union, First American Trust Company, Bank of Marin, Technology Credit Union, Wescom Credit Union, Western Federal Credit Union, Luther Burbank Savings, East West Bank, Washington Trust Bank, Exchange Bank, Opus Bank, Banc of California and United Capital.

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