Brexit for banking

Keeping the door open for banking talent

March 2018
As UK and European companies across the banking sector look to adapt their operating model to mitigate the potential effects of Brexit, ensuring that they have the right talent in the right locations will be crucial.
Important

Brexit for banking: keeping the door open for banking talent

Brexit is acting as a significant driver of change in the European banking industry, with institutions looking at a range of possible scenarios to understand the impacts on their businesses.

With only a year to go until the UK formally leaves the European Union, the Prudential Regulation Authority, European Central Bank and national competent authorities across the EU are monitoring firm’s plans closely.

While any transition deal and future partnership will be important considerations, for the moment, firms are having to take action to ensure they are prepared for the UK becoming a third country in March 2019.

This will include establishing new branches and subsidiaries in both the EU and UK. Ensuring these entities have the right talent at the right time will be vital in ensuring continuing successful operations.

New pastures

To counteract the loss of passporting rights, many businesses are considering new subsidiaries in EU countries, the main focus for banking has been Ireland, Germany and France with many other locations being considered. But what will this entail? Firms will need to develop plans so that when they approach the regulators, they can demonstrate that they have considered the appropriate level of resource, and must be able to name those who will occupy regulated roles.

For both EU and UK businesses setting up new subsidiary entities, regulators on both sides will require substance (i.e., governance structure, board, capital, policies and procedures). The view on substance in terms of size of the subsidiary operation will be defined by the regulator, but considerations are likely to include effective governance, oversight and control exercised by credible senior individuals. They will be present in, and be approved by, the relevant regime. These will include the CEO, CFO, CRO and other senior roles, plus legal and compliance, together with appropriate support staff.

Skills availability will need to be considered as part of location analysis in the context of the proposed operating model. Key considerations in finding the optimal balance between cost and skill supply include availability of requisite skills and experience for these roles locally; potential need to move individuals from the existing EU network, including the UK; and viability of the chosen location as an expatriate destination.

Location viability often comes down to factors, including language, access to social networks, and varied cultural and social amenities. In addition, many people will consider the opportunity to develop new experiences and profiles that will benefit their career, as well as other personal factors in the decision to move.
Important

Brexit for banking: keeping the door open for banking talent

The expected establishment of many new banking subsidiaries in the EU means that demand for core banking skills, such as front office, risk, regulatory and trading will be significant and there is potential for distortion of local talent markets.

In locations where the population is smaller, the potential for distortion is greater and the picture for banks is less clear. It will depend upon the maturity of the banking market and the wider financial services market. For example, whilst the workforce is highly educated and competitive, certain skills are more scarce. Therefore, the search for talent may need to encompass the wider global financial services market or cross-border moves.

For this reason, making an early decision on location, organisational design and the workforce plan was critical to sourcing the best local talent at the right cost.

Similar considerations will apply to other specialist roles, particularly in niche risk classes or where specific language skills are needed. For example, whilst the workforce is highly educated and competitive, certain skills are more scarce. Therefore, the search for talent may need to encompass the wider global financial services market or cross-border moves.

For this reason, making an early decision on location, organisational design and the workforce plan was critical to sourcing the best local talent at the right cost.

Going local

The expected establishment of many new banking subsidiaries in the EU means that demand for core banking skills, such as front office, risk, regulatory and trading will be significant and there is potential for distortion of local talent markets.

In locations where the population is smaller, the potential for distortion is greater and the picture for banks is less clear. It will depend upon the maturity of the banking market and the wider financial services market. For example, whilst the workforce is highly educated and competitive, certain skills are more scarce. Therefore, the search for talent may need to encompass the wider global financial services market or cross-border moves.

For this reason, making an early decision on location, organisational design and the workforce plan was critical to sourcing the best local talent at the right cost.

Similar considerations will apply to other specialist roles, particularly in niche risk classes or where specific language skills are needed. For example, whilst the workforce is highly educated and competitive, certain skills are more scarce. Therefore, the search for talent may need to encompass the wider global financial services market or cross-border moves.

In Paris, one of the challenges in the previous years was the difficulty in conducting business in English for international staff. While this has improved significantly, some of the administrative processes are still in French only. In a location such as Frankfurt, English should suffice; however, government forms and information are hardly bilingual, which also may be an issue.

Another challenge presented in Frankfurt is the fact that labour laws are seen to be more onerous and ‘relatively inflexible’ compared with the UK. The switch from UK employment law to French, German or other national law should be a consideration. In addition, unemployment rates in Germany are at an all-time low, which can affect the availability of talent. France is synonymous with high taxes and tough employment laws which make it difficult to manage staff quickly and effectively. Compensation levels and benefits can also vary.

However, EU locations are taking steps to make the transition for inbound expatriate workers more attractive. Since Brexit has been announced, the French Government has decided to extend the expatriate tax regime from five to eight years and made modifications to income tax on inbound expatriate compensation. In Ireland, there is special tax relief for individuals being transferred into Ireland by their employer. School fees and certain travel expenses may also be paid tax-free, subject to certain conditions.

This means that the cost of moving talent is evolving at a fast past in an increasingly competitive environment.

Those relocating to Dublin, Frankfurt and Paris may need to source critical talent from the wider global banking pool.
Looking within

For EU businesses that decide on a territory for their subsidiaries with a smaller talent pool, taking talent from other countries will be a necessity. While some will choose EU citizens in the age of inexpensive trans-European travel, commuting from the UK to another country is also a realistic option, where the regulator permits. Currently the landscape is unclear on the future treatment of flexible working options such as contract working, secondments or ‘dual hatting’ for key roles across locations.

Notwithstanding the implications for immigration, tax, social security and business travel, frequent business travellers pose a number of compliance risks. These include dual residency and dual taxation issues, withholding, payroll, corporation tax, regulatory, wage tax, pensions and immigration.

For roles where commuting is not possible, the alternative may be expatriation. Variables that may attract top senior talent could include cultural proximity, cost of living, quality of life and services, quality of education and personal security.

Working to reassure

Whatever businesses decide to do in terms of staff location, reassuring their existing workforce will be a priority. Banks will be looking to generate minimum disruption to their operating model, and many banks and trade bodies will be concerned about the potential implications of loss of freedom of movement.

In many cases, the new EU operating model will include retaining significant operations in the UK, whilst offering EU service through the new EU subsidiaries carrier. The UK has now reached an agreement in principle with EU negotiators concerning the continuing rights of EU citizens legally resident in the UK, and British citizens legally resident in an EU state. However, uncertainty surrounding the loss of freedom of movement is already seeing some EU staff trying to get ahead by proactively repatriating to a new employer outside the UK, often with competitors. With the agreement including the caveat that ‘nothing is agreed until everything is agreed’ and the outcomes of the Brexit negotiations still unknown, there are steps employers should take now. To prepare for and mitigate against the impact that loss of freedom of movement will have, employers should immediately quantify the impacted population in terms of EU nationals working in the UK and UK nationals working in the EU. Then, they should begin preparing communications and targeted interventions to support these individuals and their families, and explore options for moving employees between the UK and the proposed jurisdiction. They should also start to plan for future workforce needs and attraction strategies, with domestic immigration rules governing movement of nationals between the UK and EU. In some cases, consultation may be required with employment law experts to evaluate employment contracts and employees’ ‘right to refuse’ to move location.

An expatriate remuneration package often amounts to significantly more than the package for an equivalent local hire, and, as such, careful consideration should be given to the business case for cross-border working. Consideration should also be given to the local talent pool where distorted demand is likely to prompt costs to rise.

UK banks may face difficulty filling niche roles. This impacts their ability to import and retain the best talent, and define a longer-term workforce planning strategy.

More broadly, banks might seek to use Brexit as an opportunity to re-evaluate their workforce and consider options, such as integrating automation and artificial intelligence, as well as making greater use of contingent workers. However, the current Brexit timeline is tight and to futureproof the planned operating model, banks need to be assessing their current EU workforce and onboarding processes already.
Nine practical workforce considerations when mobilising talent

- Impact of unions and workers councils, collective bargaining, and participation; rules on discrimination, termination, worker status and quotas; contractual documentation and continuation of employee rights
- Country immigration legislation and processes for non-EU nationals; time taken to obtain a visa, and clarity and complexity of the processes; impact of quotas, and special industry and skills arrangements
- Availability of suitable accommodation, school places, health facilities, transportation links and connectivity
- Attractiveness of the location as a likely destination to which employees will be assigned, including factors, such as quality of life, cost of living, safety, language, culture and social amenities
- Impact of domestic tax and social security legislation on net pay and overall wage costs, availability of favourable tax regimes for expatriates and latent bilateral social security treaties with the UK and EU
- Maturity of the banking sector workforce supply and demand, and reliance on cross-border and expatriate staff; ability to build or buy skills locally vs. expatriation or cross-border working
- Quality of education system in terms of ability to produce workforce pipeline and proportion of population with degree-level education
- General competencies, and regulatory and formal skills needed to work in the sector, including qualifications, certification, language skills and requirement to train staff
- Typical compensation packages, including base and variable pay, and adoption of regulatory guidelines; extent to which workforce supply will drive wage inflation; ability to attract talent
- Impact of domestic tax and social security legislation on net pay and overall wage costs, availability of favourable tax regimes for expatriates and latent bilateral social security treaties with the UK and EU
- Maturity of the banking sector workforce supply and demand, and reliance on cross-border and expatriate staff; ability to build or buy skills locally vs. expatriation or cross-border working
- Quality of education system in terms of ability to produce workforce pipeline and proportion of population with degree-level education
- General competencies, and regulatory and formal skills needed to work in the sector, including qualifications, certification, language skills and requirement to train staff
- Typical compensation packages, including base and variable pay, and adoption of regulatory guidelines; extent to which workforce supply will drive wage inflation; ability to attract talent
Key steps to take

As with many other transformation initiatives, talent and workforce planning implications should be at the heart of the Brexit decision-making process.

Gaining authorisation for a new EU subsidiary presence with a credible regulator is likely to require banking organisations to establish a workforce in that market. Furthermore, several countries in the EU require stronger workforce representation, including the C-suite to demonstrate senior governance, oversight and control.

HR teams will need to start developing both a workforce for immediate needs and a post-Brexit operating model. To address the key drivers and take the appropriate steps, they need to have:

1. Knowledge of the EU market for banking talent
2. An understanding of the impact that Brexit is causing to the workforce
3. Access to in-demand skills
4. The ability to relocate talent internally
5. A view on the future workforce

Unless they prioritise these factors, banking organisations run the risk of jeopardising their future success. If you would like to discuss the workforce implications of Brexit, please contact a member of the team.

Contacts

Klaus Woeste
People Advisory Services Partner
EY UK LLP
+ 44 20 7951 0061
kwoeste@uk.ey.com

James Chouffot
People Advisory Services Associate Partner
EY UK LLP
+ 44 20 7951 2424
jchouffot@uk.ey.com

Sue Grimes
People Advisory Services Director
EY UK LLP
+ 44 20 7951 4736
sgrimes@uk.ey.com

Liam McLaughlin
UK Brexit Leader
EY UK LLP
+ 44 20 7951 3796
lmclaughlin@uk.ey.com

Dan Cooper
UK BCM Brexit Leader
EY UK LLP
+ 44 20 7951 5381
dcooper@uk.ey.com

Vera Kukic
UK FSO Brexit Market Lead Director
EY UK LLP
+ 44 20 7197 7946
vkukic1@uk.ey.com

Brexit for banking: keeping the door open for banking talent
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

EY is a leader in shaping the financial services industry
Over 30,000 of our people are dedicated to financial services, serving the banking and capital markets, insurance, and wealth and asset management sectors. At EY Financial Services, we share a single focus - to build a better financial services industry, not just for now, but for the future.

Ernst & Young LLP
The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.
© 2018 Ernst & Young LLP. Published in the UK.
All Rights Reserved.
EYG no. 01530-1840bl

ED None

In line with EY's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young LLP accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

ey.com/fsbrexit