

Barclay Simpson

Executive Search Inc.



Corporate Governance
Recruitment
U.S. Market Report 2016
Risk Management



Welcome to Barclay Simpson Executive Search Inc's 2016 Risk Market Report

Barclay Simpson has been producing corporate governance market reports since 1990. However this is our first report specifically dedicated to the North America Risk Management Market and follows on from the recent publication of our 2016 US Internal Audit Market Report. This report, summarizing and analyzing recruitment trends in the risk management market, includes an employer Survey.

We place great value on the professional reaction to our reports and would appreciate your comments and any further questions for clarification or information. For further detail please call Daniel Close on 212 786 7490.

- 01/ EXECUTIVE SUMMARY /2**
- 02/ KEY CONCLUSIONS /4**
- 03/ EMPLOYER SURVEY RESULTS /5**
- 04/ SALARY GUIDE /9**
- 05/ ABOUT BARCLAY SIMPSON /10**

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01

EXECUTIVE SUMMARY FOR THE U.S.



We are taking the first rise in interest rates in the United States for nine years as a vote of confidence by the Federal Reserve in the economy. There is much to be positive about. The US economy has created 8 million jobs in the last 36 months, the fastest pace of growth since 2000, and the jobless rate is now below 5%. There are early signs that as the labour market tightens, real earnings and salary increases are accelerating.

Despite job losses amongst the investment banks as they cut their costs in response to lower trading volumes in such areas as fixed income, currency and commodities, the banking sector remains the largest employer of risk management professionals, for which it continues to recruit. However, hiring in this area is not restricted only to the banks – for the wider financial services industry, including the asset management and insurance industries as well as a whole raft of innovative financial services groups, regulatory risk currently looms large and is driving demand.

Losses within the financial services industry are currently less likely to be credit related, and more likely to be the result of rogue trading or cyber risks such as online fraud or criminals exploiting systemic weaknesses.

These losses have been compounded by huge fines and penalties relating to conduct in such areas as rate fixing, money laundering and mis-selling. As a consequence the industry is prioritising regulatory risk and its approach to conduct and financial crime and investment in these areas is increasing. In the banks, for example, this is at least partially being done at the expense of their investment in credit risk management.

Business Risk / Operational Risk Recruitment Market

The business and operational risk recruitment market evolved in 2015.

Whilst operational risk skill sets remain in demand, a slice of this demand has been displaced from traditional operational risk departments found in large financial services groups, into small / mid-sized banks, insurance companies and asset managers, 1st line of defence roles and compliance teams. In the US, as well we as the UK and Europe, demand from the major banks subsided in the second half of 2015. Many banks put recruitment on hold as they looked to redeploy staff internally. This has affected operational risk management recruitment with the notable exception of 1st line of defence functions, which have continued to recruit.

Investment in financial crime and fraud will lead to opportunities for operational risk managers with an understanding of the inherent risks of people, processes and systems. Furthermore, there are opportunities for operational risk managers to move into 1st line of defence functions, upskilling departments and educating the business about risk management and responding to regulatory enquires.

For those banks who do not have the internal resources to build 1st line of defence departments then demand should occur especially for technically strong risk managers with expert regulatory knowledge who can engage with business stakeholders and articulate the need for effective risk management.

Those with strong quantitative skills and knowledge of both securities and derivatives remain in short supply.

A positive development for those working in risk management and other areas of corporate governance (such as compliance, audit and legal), is the way in which practitioners are increasingly moving between disciplines. The 3 lines of defence model is changing the background and experience of the type of candidates that companies are prepared to consider. Whilst up until recently the movement of people between the various disciplines that make up corporate governance was limited, it is now steadily accelerating. Although product and technical knowledge must remain a key part of corporate governance recruitment, innate and therefore transferable abilities are becoming a greater part of the bargain. **Judgement, communication skills and business savvy are not necessarily acquirable skills and are all the more valuable because of it.** Risk managers are appearing in internal audit, compliance and 1st line roles that include operations and technology.



Regulation drives demand

The need to comply with frameworks such as Comprehensive Capital Analysis and Review (CCAR) & Business as Usual has led to a surge in risk recruitment.

Whilst in Europe, Fundamental Review of the Trading Book (FRTB) and IFRS 9 is resulting in demand for risk managers, in the Americas it is CCAR / DFAST and Intermediate Holding Company (IHC) regulations that are ultimately driving demand. Over the past year we have seen constant and heightened demand for Regulatory Risk / quantitative analytics / model validation and model Governance specialists and we do not see the need decreasing anytime soon.

CCAR is an intensive assessment of the capital adequacy practices that complex banks with consolidated assets over \$50 billion need to adhere to. It is a regulatory requirement by the Federal Reserve - banks either pass the stress test or fail. DFAST works along similar principles for those banks with \$10 billion assets and above. While large banks must also conduct the DFAST annually, they have several additional regulatory requirements that the mid-sized banks do not. In short, CCAR and DFAST are different tests and the more complex a bank is the more aggressively it is subjected to a range of scenario analysis around risks associated with capital.

In 2015, whilst the majority of large US banks passed CCAR, uncertainty from emerging economies has led to deeper and more intense scrutiny of the banks' capital plans. **Plunging energy prices have caused widespread concern with regulators and investors alike, nervous**

of those Banks exposed to the energy sector and their loans to oil and gas companies. As energy prices slump, the collateral backing loans to the industry have fallen sharply and as a result, losses loom. This has led to demand for, and shortages of, credit risk managers with specific industry experience.

The framework for regulation has been toughened up by the Federal Reserve and now includes hypothetical scenarios incorporating macro issues from Europe and emerging economies, and negative short-term rates. For those Banks that just scrape through CCAR/DFAST, further scrutiny will certainly follow - for those that fail major risk mitigation will be required in their Capital Adequacy frameworks. For all Banks, pass or fail, quantitative and model risk professionals will remain in demand.

The implementation of IHC regulations have also seen an increased demand in the Americas for Project Managers, Compliance, CCAR and Regulatory Risk Specialists. This has been driven by the Federal Reserve seeking to strengthen oversight of the U.S. operations of foreign banks and the fact that foreign banks are being required to maintain strong capital and liquidity positions in the United States, as well as implementing IHCs that support this. IHCs of foreign banking organizations would be subject to the same risk-based and leverage capital standards applicable to U.S. bank holding companies and those with \$50 billion or more in consolidated assets also would be subject to the Federal Reserve's capital plan rule. Moving forward we see IHC risk recruitment becoming a significant issue into 2016 and beyond.

“ Productivity and business investment are finally increasing, as the scarcity of workers focuses companies on how to use their employees more effectively. Given the risk recruitment market does not operate in a vacuum, there is much to be positive about. ”

02

KEY CONCLUSIONS



In spite of a slowdown, the majority of risk management departments report they are under-resourced. A clear majority of companies also anticipate they will recruit at sometime in 2016. Given such demand, competition for staff is intense and companies report broadly based difficulties in attracting and recruiting risk managers of the required calibre.

Recruitment remains a significant challenge

Risk departments often under-resourced

- ◆ **55%** of managers believe their risk department is “insufficiently resourced for the demands made on it” (up from **53%**)

Recruitment activity down

- ◆ **62%** of risk management departments recruited or attempted to recruit in the last 6 months of 2015 (down from **69%**)

Recruitment budgets flat

- ◆ Despite **21%** of managers reporting an increase in their recruitment budget, **23%** report a decrease

Increasing demand for higher levels of experience

- ◆ **22%** of departments are likely to look to recruit risk managers with over 7 years’ experience (up from **17%**)
- ◆ Whilst only **5%** are likely to look for risk managers with less than 2 years’ experience (down from **7%**)

Departments still finding it difficult to recruit

- ◆ **50%** of departments report that risk managers are difficult to find (down from **56%**)
- ◆ **69%** of managers say that they are finding it difficult to recruit (down from **77%**)

Technical skills hardest to find

- ◆ **65%** of departments report that finding risk managers with the required technical skills is the greatest challenge, with just **35%** reporting interpersonal skills

External resources more likely to be used

- ◆ **52%** of departments using external resources for specialis skills (up from **43%**)
- ◆ Risk management departments report they are likely to become more reliant on external resources

Salary expectations generally affordable

- ◆ **17%** of departments report salary expectations excessive and beyond their budget (down from **22%**), while **83%** consider them generally affordable

Demand set to continue in 2016

- ◆ Only **17%** of departments report they are unlikely to recruit in 2016 (down from **5%**)

03

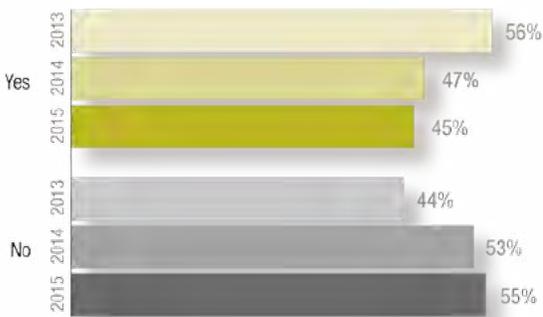
EMPLOYER SURVEY RESULTS



Demand

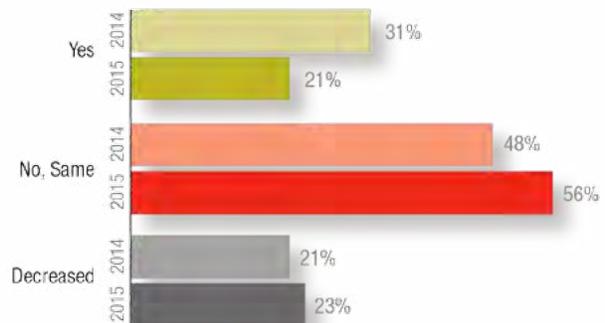
Risk departments often under resourced

Q - Do you feel your department is sufficiently resourced for the demands that are made on it?



Recruitment budgets flat

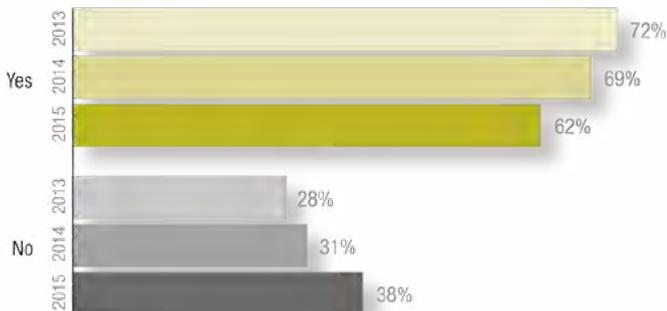
Q - Has your recruitment budget increased in the last year?



(Question not asked in 2013)

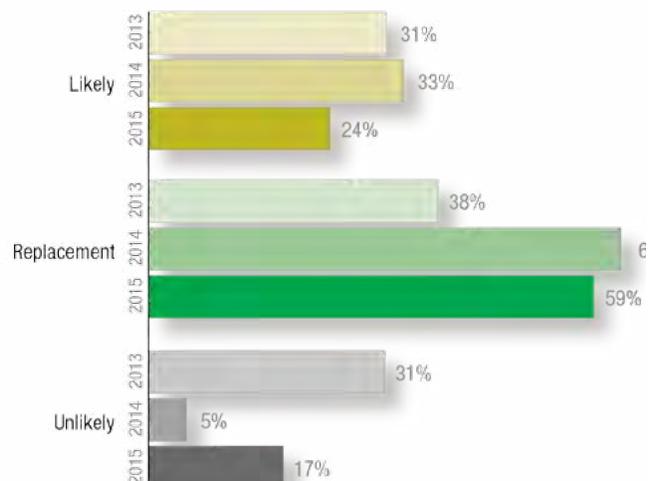
Level of recruitment activity down

Q - Have you recruited, or attempted to recruit, externally in the last 6 months?



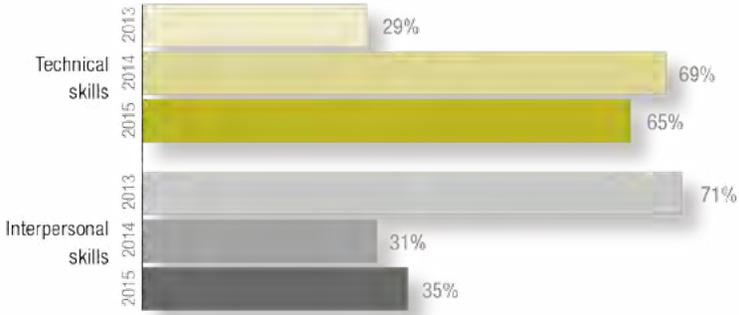
Still only 17% unlikely to recruit in 2016

Q - What are your recruitment plans for 2016?



Technical skills hardest to find

Q - What has been the greatest challenge?



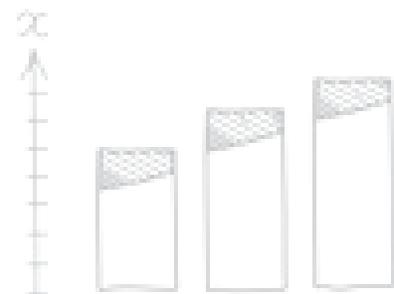
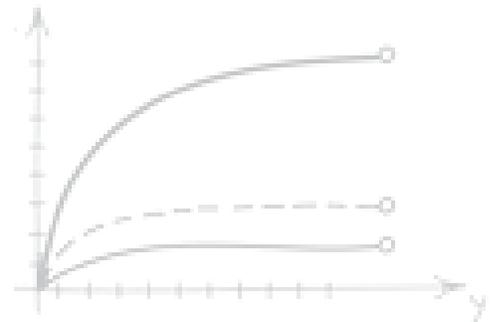
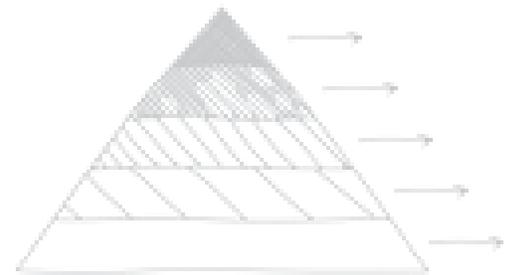
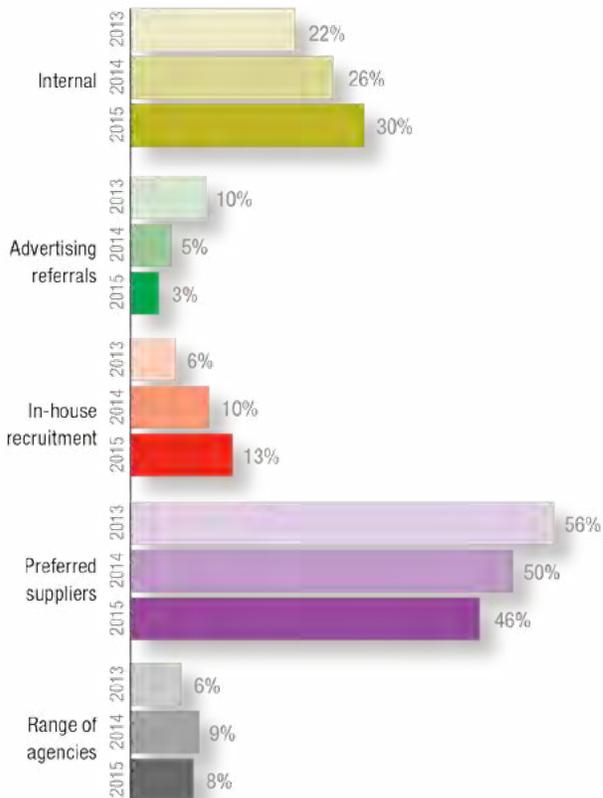
Q - In order of significance, what are the key considerations when deciding to progress a candidate to offer stage?

Consideration	Weighted average 2013	Weighted average 2014	Weighted average 2015
Technical suitability	5.0	5.2	4.6
Interpersonal skills	5.0	4.6	4.4
Cultural fit	4.2	3.5	4.0
Perceived desire to work for the Company / Department	3.0	3.5	3.3
Professional & educational qualifications	2.3	2.8	3.0
Input from HR	1.6	1.1	1.6

Recruitment resources

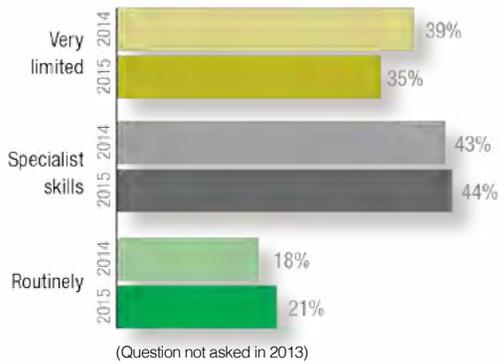
Risk departments more likely to recruit internally

Q - What is your principal source of candidates?

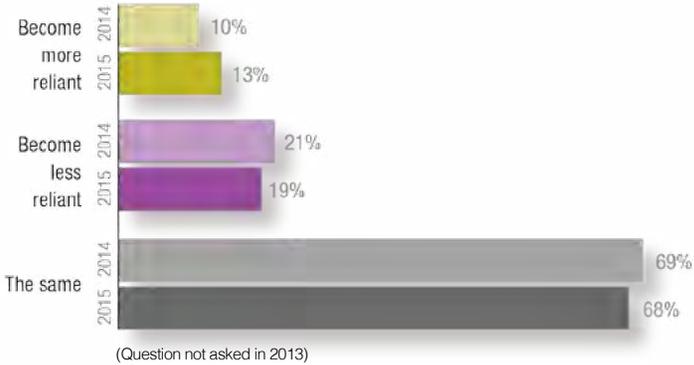


External resources increasingly important

Q - To what extent do you rely on external resources to achieve your departmental objectives?

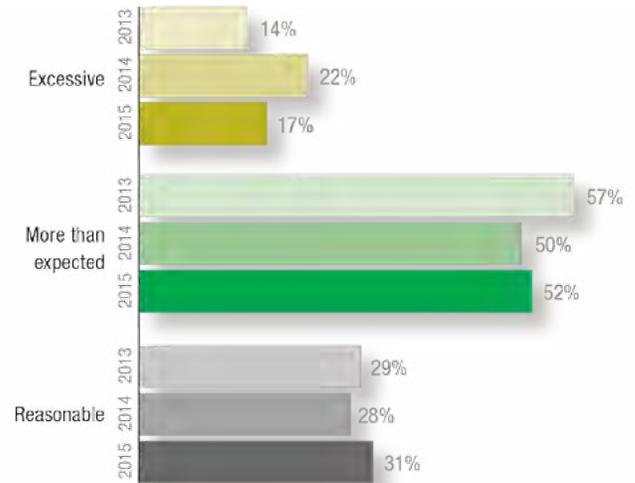


Q - Do you anticipate your reliance on external resources changing?



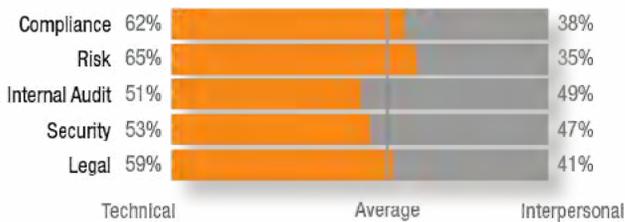
Salary expectations generally affordable

Q - What has been your perception of candidate salary expectations?



Technical skills still most important

Q - What has been the greatest challenge?



- As was the case last year, technical skills are the greatest challenge in recruitment across all disciplines
- Interpersonal skills remain important, particularly in Internal Audit and Security

Recruitment consultancies still main source of candidates

Q - What is your principal source of candidates?

Area	Internal recruits	Direct advertising / referrals	Internal team / direct sourcing	PSL of RECs	Range of consultancies
Compliance	13%	3%	9%	53%	22%
Risk	30%	3%	13%	46%	8%
Internal Audit	10%	8%	13%	51%	18%
Security	23%	4%	24%	42%	7%
Legal	6%	7%	19%	53%	15%

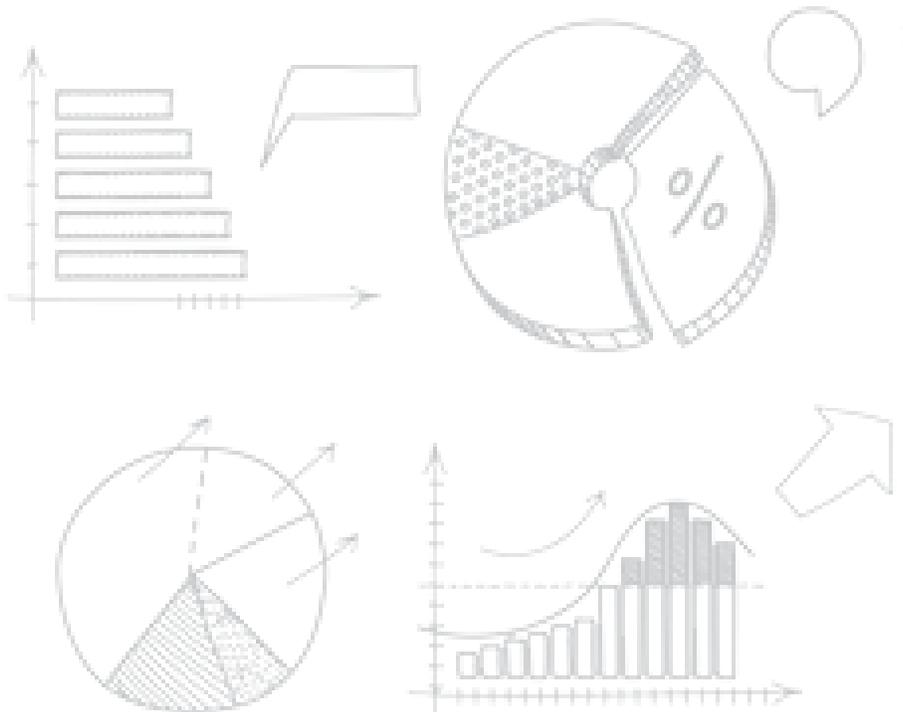
- With the exception of Security, recruitment consultancies are the main source of candidates
- The use of recruitment consultancies is highest in Compliance, possibly a reflection of the recruitment pressures departments are facing

Experience remains major factor in recruitment

Q - When recruiting, what level of experience are you most likely to request?

Area	< 2 years	3-5 years	5-7 years	7-10 years	> 10 years
Compliance	11%	44%	26%	10%	9%
Risk	5%	32%	41%	18%	4%
Internal Audit	6%	62%	19%	11%	2%
Security	5%	32%	31%	26%	6%
Legal	7%	59%	17%	15%	2%

- 3 or more years' experience is key in all disciplines



04

SALARY GUIDE



SALARY GUIDANCE

We reported in our U.S. Internal Audit Salary Guide and Compensation Survey in January that salary was the primary motivator for individuals seeking to enter the job market (up from 15% in 2014 to 43% in 2015). In our 2015 UK Risk Management Survey individuals who stayed with their employer achieved a 7% increase in salary whilst those who moved employers achieved an average 19% increase.

Overall, the results of our latest employer survey suggest that companies are finding that the salary expectations of candidates have moderated. Only 17% reported their perception of candidate salary expectations to be excessive, against 22% last year. More generally, a major factor driving salary increases is that companies often look to upskill when they replace leavers. This can have the effect of making it appear that salaries are rising faster than they are. Companies are paying more because they are recruiting candidates with better skill-sets. Many companies are prepared to accept that recruiting high quality risk managers will be expensive. However, they still expect value for money. In our experience, if companies are prepared to compromise on the suite of experience and abilities sought, they are unlikely to pay for the privilege. The risk manager concerned may simply be pleased to receive an offer.



05

ABOUT BARCLAY SIMPSON



Barclay Simpson Executive Search Inc is a corporate governance recruitment consultancy specialising in internal & IT audit, compliance, risk and information security appointments. Barclay Simpson works with clients across the banking and financial services sector and is part of

the Barclay Simpson Group which has offices in major financial centres across the world. We add value by using our unique focus on corporate governance and our highly experienced specialist consultants have access to both US and international pools of corporate governance talent.

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