Barclay Simpson

corporate governance recruitment

2010

Market Report

RISK MANAGEMENT

Barclay Simpson Market Report 2010

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01. EXECUTIVE SUMMARY

Welcome to Barclay Simpson's 2010 Risk Management Market Report. This is the 20th year we have produced a market report summarising and analysing recruitment trends in corporate governance and the sixth year we have produced a specialist report on risk management. We place great value on professional reaction to the Report and would appreciate your comments.

An overview of the corporate governance recruitment market and an in-depth analysis of the economic and business trends that are likely to shape the overall recruitment market can be found in our Corporate Governance Market Report.

It can be accessed http://www.barclaysimpson.com/corporate-governance-2010-market-report/

TOP LINE CONCLUSION

A year ago, many people had a sense of foreboding. We reported that the consensus economic forecast was for a further 1.5% contraction in the economy and a budget deficit of £78 billion. We noted at the time that there was the potential for a much worse outcome. Given the 4% actual economic decline for 2009 and £175 billion projected deficit, our pessimism was not misplaced.

We have believed and have reported for some years that the UK economy was badly imbalanced. Whilst we have been bearish on the economy, we have been bullish on the prospects for corporate governance. However, we should admit that given the unprecedented decline in the UK and wider world economy during 2009, we are genuinely surprised how sustainable employment in corporate governance has proven to be.

There is no doubt that the banking industry essentially hijacked the UK economy and the debate about the future of corporate governance has, not unreasonably, become focused on it.

A banking system whose social utility was at least partly to manage, distribute and control risk has become a source of risk and instability and has forced the government to distort its economic priorities.

Given that the executive management of many banks drove their businesses off a cliff, it does pose the question, what were their risk management departments doing? It is clear that the banks' risk models failed to recognise the level of risk that complex financial instruments carry in an interconnected world. Fortunately, in spite of the apparent failure of risk management and corporate governance in the banking sector, risk management has emerged as an essential part of the solution.

Whilst a slimmer financial services industry is in the process of emerging, it will be an industry that will be more closely managed, controlled and regulated. For risk managers and other areas of corporate governance, that is something for which we should all be grateful.

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02. MARKET ANALYSIS

Risk Management	Dec 2007	Jun 2008	Dec 2008	Jun 2009	Dec 2009
New vacancies	127	77	53	56	102
Closing vacancies	77	72	37	39	56
Candidates registering	249	241	257	320	331
Defensive registrations	8%	17%	25%	37%	19%
Overall salary increase	21%	16%	15%	7%	9%

The source of statistics for the market analysis can be found in the Appendix in section 05.

Risk management is a discipline that is substantially concentrated in the financial services industry and within that industry, the majority of its practitioners work in banking. Whilst banking went wrong pretty much everywhere, it did so most spectacularly in the City, which had come to be seen as a permanent source of high value jobs and tax revenue. When the crash came, the UK was always going to be badly affected and given the unprecedented contraction in the economy during the first six months of 2009, this turned out to be the case. The raw statistics from our market analysis confirm that it was during this period that the employment market was worst hit. Vacancy generation collapsed and defensive registrations increased, as both actual redundancies and the perceived threat of redundancies rose to unprecedented levels. However, in common with other areas of corporate governance, the recruitment market started to gain traction again during the third quarter of 2009. The banks were no longer going to imminently collapse and many, having undergone reorganisations and mergers, had skill gaps that needed to be addressed. By the end of a highly unusual year, some semblance of normality had returned to the recruitment market.

VACANCIES

The number of new vacancies doubled from 56 in the first six months of 2009 up to a more healthy 102 in the second. Whilst the closing number of vacancies was only 56 we are able to take a positive view on this. The majority of vacancies in risk management are now being filled rather than just nominally existing. Interviews and selection processes are resulting in offers of employment. The increase in vacancies was at least partially the result of a build up in demand caused by an extended period when many banks instituted blanket recruitment freezes. The natural wastage of staff that occurs in all departments with or without a recession resulted in a sudden uptick in vacancies once external recruitment was sanctioned. Demand was fragmented and has been noticeably stronger in areas such as insurance and broker dealers. Whilst some banks, especially those that have received governmental support, appear to have now ramped up their recruitment others remain absent from the recruitment market. We anticipate their return to the recruitment market during the course of 2010.

CANDIDATE REGISTRATIONS

Candidate registrations reached a record high during 2009, as did defensive registrations during the first half of the year. Defensive registrations are now falling. Many risk managers are entering the recruitment market for the more prosaic reason of career development. However, the flow of candidates into the recruitment market usually falls in the final quarter, as bank workers do not wish to miss bonus payments. In the final quarter of 2009 candidates continued to move into the recruitment market unfettered by the prospect of missing a bonus.

SALARIES

In the second half of the year average salary increases achieved by moving job marginally rose. There is obvious resistance to offering high salaries. 9% is is an average which hides examples where risk managers with otherwise scarce skills achieved salary increases that were substantially higher. There are also still a number of redundant risk managers who will accept a lower salary. The percentage is indicative of an environment where risk managers are more focused on job security.

“The increase in vacancies was at least partially the result of a build up in demand caused by an extended period when many banks instituted blanket recruitment freezes.

03. MARKET COMMENTARY

The financial services industry casts a long shadow not only over the UK economy, but over corporate governance and risk management. Disciplines such as risk management are substantially and compliance exclusively the preserve of the financial services industry.

The debate over the future of corporate governance has been focused on the banking system where risk management in particular and corporate governance more generally failed. It is perhaps worth reflecting that at its peak, RBS had a balance sheet of £2.2 trillion, equivalent to one and a half times the entire UK GDP. Whilst such institutions were notionally profitable, the tax revenues they generated provided a misplaced belief that they provided a long term source of wealth creation. Unfortunately, the IMF estimates that the write downs on UK bank assets could total $604 billion, proportionately far bigger than the $1025 billion for the US and $814 billion for the Euro zone economies. Without doubt further losses potentially remain in the banking system and should the banks be forced to recognise them, it would again bring into question their solvency. In fact, the over arching policy of government, financial authorities and regulators is to ensure that this does not happen. There is obviously a conflict of interest. There is a political imperative to be seen to ensure that the banks will no longer be able to take unacceptable risks, whilst at the same time ensuring their ability to be profitable and ultimately build up capital is not undermined.

Before the crisis, the proportion of corporate profits made by the banks had been rising steadily, which should perhaps have been of concern. **Lord Turner, the Chairman of the FSA, has perhaps rightly pointed out that much of finance has been practised without social utility. An even more stinging rebuke has been made by Paul Volker, the former Chairman of the Federal Reserve, who has mused that the only useful thing to come out of the finance industry in the last 25 years was the ATM.** Whilst in a free economy social utility is perhaps a rather abstract concept, it is clear that during an extended period of deregulation and cheap money, bank lending was moving directly away from the real economy and towards lending unprecedented amounts against increases in asset prices which were then traded in complex and often opaque ways. Asset trading may have been profitable for the banks, however, for the economy as a whole, it is at best a zero sum game. It is clear that whilst increases in asset prices are currently being welcomed, the long term objective should be to have a slimmer and more functional financial sector that supports the real economy. **As the Governor of the Bank of England has stated, banks that are too big to fail are simply too big; they can hardly be expected to manage risk wisely.** It is clear that a fully coordinated consensus on how best to regulate the banks is yet to emerge. However, a number of reports will help shape the future.

The Financial Reporting Council (FRC), having brought forward its regular view of the Combined Code on Corporate Governance, has recently reported its latest proposals. It found no evidence of failings outside of the banking sector which certainly confirms our view that the standards of corporate governance in the UK are high. Whatever the shortcomings of governance in the banking sector - which is in the process of being addressed by the Walker Review, the FSA and the pan-national Financial Stability Board - these are specific to banking, rather than being replicated across other sectors.

> **Asset trading may have been profitable for the banks, however, for the economy as a whole, it is at best a zero sum game.**

Sir Christopher Hogg, on behalf of the FRC, has said that boards of directors must think deeply about their responsibilities. They must seriously and self critically assess their performance and openly explain themselves to shareholders. The new corporate governance code once finalised, together with a new stewardship code outlining shareholders responsibilities will affect all listed companies, including banks, from June 2010.

The Walker Review does not dwell on the day to day operation of risk management systems which are being redesigned to measure and minimise the risks they failed to recognise. The Walker Review's main recommendations concern four main points. Non-executive directors having a better understanding and therefore being more able to challenge executive management; shareholders acting more like owners; the disclosure of salary information and about the necessity of having risk functions that executive management actually listen to.

In October the FSA published its analysis of the feedback on the Turner Report which laid out a number of recommendations required to "create a stable and effective banking system". The majority of the feedback supported the main recommendations for banks to be better capitalised and more closely supervised. Amongst others the need for an international approach was an issue. **Following the feedback the FSA asserted that solutions introduced to tackle the crisis would need to be "radical and internationally agreed in order to be effective"**

At an international level, regulatory reforms are being discussed by the Financial Stability Board (FSB), which was re-established in April 2009 as the successor to the Financial Stability Forum (FSF). It brings together national authorities responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors and committees of central bank experts. It promotes international financial stability through enhanced information exchange and cooperation in financial supervision and surveillance. The FSB recently published four reports that were submitted to the G20 Finance Ministers and Central Bank Governors. Although it remains uncertain how much of this advice will ultimately become enforceable, it indicates a collective response to bank regulation and sends a clear message to the industry that regulatory reform is high on the agenda.

Of the four recently published reports, the fourth is the most directly relevant to the risk management profession, it is entitled:

THE FINANCIAL CRISIS AND INFORMATION GAPS

This report by the staff of the IMF and the secretariat of the FSB identifies information gaps and sets forth proposals for strengthening data collection to better capture the build-up of risk in the financial sector, improve data on international financial network connections, monitor the vulnerability of domestic economies to shocks and improve the communication of official statistics.

This report can be found here:
https://www.financialstabilityboard.org/publications/r_091107e.pdf

In addition to the international efforts being made, the FSA recently published Policy Statement (PS) 09/16 regarding Liquidity Adequacy Standards and this has had and will continue to have, a huge impact on risk management. Banks that are affected by the new regulatory regime are building appropriate risk management teams.

PS09/16 can be found here:
http://www.fsa.gov.uk/pubs/policy/ps09_16.pdf

The domestic and collective international response clearly indicates that there will be structural changes to how the banking industry is regulated. If the guidance of the FSB is observed, then risk management and more particularly liquidity management, data capture and reporting will have a major role in the future regulation of the financial services industry. The employment prospects for those risk managers with the relevant skills should be very positive.

"The domestic and collective international response clearly indicates that there will be structural changes to how the banking industry is regulated.

To believe that governments, financial authorities and regulators know the answers is perhaps naive. Whilst public anger demands action, in reality if the banks did not know the risks they were taking, regulators are hardly likely to know either. Moving forward, as is seemingly happening, there will be stronger insolvency regimes, capital adequacy and leverage controls. Excessive risk taking will be curbed. Banks will not be allowed to become too big to fail and may be broken up. Tighter controls on funding, capital and liquidity, as well as changes to the Basel framework that are currently being formulated will inevitably make certain high risk activities less commercially viable. In response, risk management is currently going through a period of reinvention. Liquidity, funding and capital management are now high on the agenda. The future of risk management will not be to simply identify and calibrate risk, it will be to actively reduce it.

Whilst the banks are redesigning their risk management policies and devising new models to replace the discredited ones, there is no reason to believe that the regulators will be any more likely to understand them. If they are sufficiently aware of their own limitations then broadly based, blunter regulation will come to pass. However, international co-ordination is required for regulation to be truly effective, which is notoriously difficult to achieve. For better or worse the financial services industry does represent a larger proportion of the UK economy than in any other country and whatever its recent failings, employs more people in risk management and corporate governance. What may make sense in other countries, would not necessarily be right for the UK.

Not surprisingly 2009 was a challenging year for the risk management recruitment market. The seasonal surge in recruitment that takes place at the start of each year was replaced in 2009 by recruitment freezes and redundancies. The redundancies continued into the summer, as the number of new vacancies failed to keep pace with the growing number of forced entrants into the market. In the third quarter the rate of redundancies noticeably slowed and there was a significant pick up in vacancies. This allowed those risk managers with more marketable skills to find jobs. However, at the start of 2010 there are still many risk managers looking for a route back into employment.

Recruitment patterns varied between business sectors during 2009. Within **investment banking** there were substantial redundancies. Fixed Income, Structured Finance, Leveraged Finance and M&A were particularly hard hit. Some of these areas have not recovered and many risk managers with previously sought after skills are now no longer in demand. The investment banks that did well were those who seized the opportunity to move into new areas or purchased business units at distressed prices from those banks that had collapsed. Unfortunately up to Q3, there were still investment banks reporting losses and with a few exceptions, the recruitment of risk managers throughout the sector was muted throughout 2009.

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Liquidity, funding and capital management are now high on the agenda.

The **corporate and commercial banking** sectors have also had winners and losers. Several large international banks in London recruited during the second half of 2009, as they expanded into new markets. The major UK banks all grew their recoveries teams, although this was predominately through the redeployment of existing staff. Banks that received government support and, having undergone reorganisation and redundancies, actively recruited in the second half of the year. They were no doubt under political pressure to improve their risk management and corporate governance frameworks.

The large **global wealth managers and private banks** had a mixed 2009. Private banks offering traditional asset finance to the high net worth sector struggled, as demand for their services fell. Lombard lending posed its own problems with falling underlying asset values. However, the large diverse institutions offering a broad range of services performed well and generally actively recruited.

Recruitment in the **retail banking** sector improved during 2009. Considering their deteriorating credit portfolios, tighter controls and a move towards process improvement and risk mitigation, it is perhaps inevitable that there was consistent demand for staff. Risk managers with experience of managing portfolios of impaired assets were and are, in high demand. There is also an on going requirement for risk managers with analytics experience and those with knowledge of Basel II from a policy and risk appetite management perspective. As with corporate banking, those retail institutions that have received state assistance have been active in growing their retail risk management teams.

The **broker dealer sector** was active during 2009 with demand across all risk disciplines with a particular focus on operational risk and credit risk monitoring.

Solvency II continued to lead recruitment throughout 2009 in the **insurance** sector, at levels similar to 2008. The large general and life companies, along with Lloyds Syndicates, sought to recruit risk managers to focus on the Solvency II directive.

Amongst the **consultancies** the Big 4 were active, with demand for technical risk analysts with quantitative or analytics skills. Some of the smaller, niche management consulting firms sought highly qualified risk managers with strong risk strategy experience.

A major barrier to external recruitment during 2009 was the internal redeployment of staff. Not unreasonably, vacancies were filled internally wherever possible. Clearly making redundancies whilst at the same time recruiting externally would not be sending the right message.

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ANALYSIS BY MARKET SECTOR

Here are some observations by market sector:

CREDIT RISK

Demand for credit risk professionals improved in the latter half of 2009, as recruitment freezes were lifted and departments were once again able to recruit. **Although the banks have now been stabilised, lending remains subdued. For most banks the focus is still on recovery and shrinking their balance sheets. Within this context, we are able to make the following observations:**

Where a mandate to recruit exists, there have been vacancies from risk reporting departments for experienced risk analysts with strong Excel/VBA skills. Senior management, the regulator and the central bank continue to require accurate and immediate status reports. Also, where banks have wished to tighten their lending controls and procedures, credit policy and systems managers have been sought.

The investment banking sector sporadically recruited in credit risk. Counterparty risk remains a concern and there has been demand for FI/NBFI and Hedge Fund analysts, particularly those with emerging markets experience. This is the result of increased uncertainty and the credit risk involved in trading with these counterparties.

Increased volatility in the markets has led to the broker dealers remaining active, with requirements for both monitoring and counterparty credit analysis skills. However the general size of these teams mean that the actual number of vacancies has been quite low.

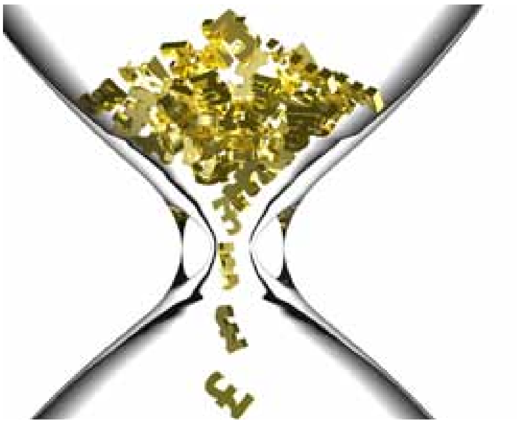
Modellers and those with strong quantitative skills, particularly those with Basel II experience, remained relatively unaffected with requirements coming through from the retail, wholesale and investment banking sectors.

There has been continued demand from the regulator for experienced credit risk managers with both qualitative and quantitative skills to conduct reviews of regulated institutions. The Treasury, having effectively transformed itself into a High Yield portfolio manager, has also been active in sourcing candidates from a credit risk background. Of particular interest have been individuals with an understanding of structured products to work on the Asset Protection Scheme.

Workout and recoveries teams have continued to grow and we expect this activity to continue well into 2010. Vacancies in these areas are still being recruited through internal redeployment, but as this supply of candidates reduces we expect to see more roles coming onto the external market.

It is difficult to predict future requirements. It is likely that demand for credit risk professionals will increase steadily in line with general economic growth and recovery. Taking international developments into account, data capture and risk reporting is likely to remain an area of high demand. Furthermore, we expect to see more roles at group level for candidates with process and control experience as well as an understanding of the regulatory environment. After so many redundancies, many banks and financial institutions are operating with reduced head-counts which will need to be increased as the market continues to recover.

“ **Of particular interest have been individuals with an understanding of structured products to work on the Asset Protection Scheme.**



MARKET RISK

Along with the rest of the industry, market risk recruitment began the year slowly. **There were arguably fewer redundancies in market risk due to the volatility of the markets and the large exposures on banks trading books.**

Within investment banking, the recruitment market improved towards the end of the year. Some market risk management functions selected traders with specialist product knowledge and familiarity with in-house trading strategies over established risk managers. More recently, we have seen positions coming through for candidates with broad product knowledge and market risk control experience.

Reduced revenues within investment management resulted in widespread cost containment. Any plans to recruit market risk functions were put on hold.

The insurance sector was more buoyant with demand from the sector especially for market risk managers with actuarial experience. This remained the case throughout the year, however, as the team sizes are significantly smaller than those in banks, the total number of vacancies registered was low.

Demand from the consultancies underwent a mini surge at the start of 2009, particularly for senior level technical market risk and quant specialists. Some had announced plans to double their risk advisory functions within two years. Not surprisingly this was met by huge interest but not always a great deal of actual external recruitment.

Some of the issues that are in the process of affecting market risk include the Basel II measure of trading losses. This change will be implemented in 2010. In response, market risk managers will need to become more multidisciplinary with experience not only of credit risk, but also operational and liquidity risk. These rule changes will demand an even deeper understanding of the issues involved in market and credit risk as well as "stressed" market risk.

There is increasing regulatory pressure to set tighter market and liquidity reporting standards. Despite budgetary constraints, this will require more control staff to be recruited - accountants and product controllers, as well as risk analysts.

A problem for some banks has been an overreliance on VaR as the single measure of risk. However, there is increased focus on stress testing to supplement VaR. This has been highlighted by regulators in the US. With a bigger focus on VaR, stress testing, updating risk frameworks and economic capital, market risk managers will have to become more specialised and thorough in their approach.

Whilst risk models are being scrutinised and quantitative analysts have had to go "back to basics", their roles, along with model validators, have not been made redundant. There is, however, a push for more "human interaction" between functions and for information and data to be communicated in a "non-quant" manner. This requires stronger communication skills. During 2009 there was some demand for quantitative and model focused recruits, including market risk model developers to support new products and work with changes enforced by the FSA.

We are optimistic that the demand for market risk managers will grow as 2010 develops.

> **"We are optimistic that the demand for market risk managers will grow as 2010 develops.**

LIQUIDITY RISK

Although regulators have historically monitored the management of liquidity risk, they rarely raised serious challenges. As a result, within banking, liquidity risk was not an essential focus. However, Northern Rock's failure to deal with its liquidity risk led to its downfall. It was not alone in its failure and liquidity risk is now generally perceived to be one of the key risks that any bank is required to manage. Liquidity risk is entering a new and much more demanding era.

In 2009, reports by the Basel Committee on Banking Supervision, the Committee of European Banking Supervisors and the International Institute of Finance have set high hurdles in terms of principles and recommendations for liquidity risk. The FSA has led the way with its own set of rules regarding Liquidity Adequacy Standards in the form of Policy Statement 09/16. Against this backdrop, the majority of UK banks and UK subsidiaries of foreign banking groups that are affected by the new regime, have been building their capabilities in liquidity risk throughout 2009, at both group and operating company level.

Most banks have initially sought to recruit experienced managers to establish a framework for funding and liquidity risk management. This involves developing liquidity stress testing models and scenarios, as well as the implementation of a credible liquidity contingency funding plan. Reporting the results of the stress tests to the FSA is also a key aspect to these roles.

Finding suitable candidates has not been an easy task with some positions taking several months to fill. Risk managers with a proven track record in liquidity risk are in short supply, leaving hiring managers with a choice between recruiting managers from a market risk background, or waiting until the first quarter of 2010 to see if the number of potential candidates with practical experience increases. Banks have been able to use internal resources to fill the more junior stress testing and reporting roles that have also proven difficult to fill.

The demand for liquidity risk experience will no doubt continue throughout next year. The supply of candidates with actual experience should also increase as the year progresses - as the liquidity risk market develops and matures.

OPERATIONAL RISK

2009 was a disappointing year for operational risk recruitment. **During the first half of 2009 redundancies were higher in banking than in other sectors and vacancies lower. In tandem with other areas of risk management some areas of operational risk improved, particularly from the third quarter of 2009.**

In the first half of 2009, the major retail and corporate banks undertook virtually no external recruitment in operational risk. The same pattern could also be applied to the investment banks who were perhaps somewhat chastened after their key role in the banking crisis. On the rare occasions where a vacancy emerged, competition was fierce as a result of the high numbers of redundant operational risk managers.

Other sectors were more encouraging. **Vacancies emerged on a consistent basis from a number of broker-dealers, particularly from the third quarter onwards. The roles predominantly had a fraud related focus.** The leading companies in the sector continue to be highly profitable and have come through the recession better than other financial services companies.

The gathering pace of Solvency II implementation within the insurance industry (General and Lloyd's) resulted in a welcome rise in demand for established risk professionals during the latter half of 2009; and we forecast that this should increase throughout 2010. The pool of specialist risk managers within the insurance market is limited, especially within the Lloyd's market. For this reason insurance companies have been willing to consider risk professionals from the banking sector with a working knowledge of Basel II as alternatives. The similarity in structure of the two sets of legislation (3 pillar model) makes this a logical recruitment strategy.

In the final quarter of 2009 there was a more generalised increase in the number of vacancies across all sectors and we are currently optimistic this will extend into 2010.

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Most banks have initially sought to recruit experienced managers to establish a framework for funding and liquidity risk management.

CONTRACT MARKET

We reported in our 2009 Interim Market Report that whilst demand had been subdued in the first half of the year, we were optimistic about a recovery in the second half. Unfortunately demand did not materially increase throughout the remainder of 2009. There was, however, a shift in the type of interim work that became available, from covering absent members of existing staff to more consultative risk management positions.

Expertise in Internal Capital Adequacy Assessment Process (ICAAP) is currently in demand. We anticipate this will continue and contractors who are able to work to tight deadlines and manage projects effectively will see their ICAAP knowledge needed during 2010.

Currently the implementation of Solvency II within the insurance industry has the greatest potential to utilise contractors. However, many companies at the initial stage are claiming they will be utilising existing staff or have a preference to use a consultancy. We anticipate that a number of companies will change their approach as Solvency II enters the implementation phase. They will opt for contractors with strong risk project experience. Risk managers with appropriate experience should find they are highly marketable.

Outside of the insurance industry there is no particular pattern in the demand for contractors. It is patchy from all sectors, including non financial service companies who are looking to establish risk management frameworks.

Contract risk management candidates are widely available with only junior positions difficult to source candidates for. The exception is those companies looking for specialist skill sets where they appear to be making decisions quickly as they have a pressing requirement for their services.

Whilst it is a long way back to the contract rates that existed before the recession, the prospect of increased demand during 2010 is starting to impact rates. In order to secure specialist contractors for the full length of tenure, at the outset, more competitive rates are being offered.

After the uncertainty that existed during the early months of 2009 the contract market should return to more established patterns of demand. Unfortunately many companies still view contractors as a luxury rather than a necessity and budgets remain restricted. However, there is substantial work to be completed in many risk management departments as a result of various market initiatives and the increase in regulation. In-house resources frequently remain limited and the gap between this and recruiting a permanent member of staff is often the one filled by a contractor. We are optimistic that demand for contract staff should improve during 2010.

SUMMARY/OUTLOOK

The financial services industry will emerge from the recession slimmer and more widely regulated. Risk management is set to become a more vital part of a company's corporate governance infrastructure. There will be regulatory initiatives that will promote the employment of risk managers. These will include further tightening of the rules around capital management, regulatory reporting and risk management. The first sign of this is in liquidity risk, where recent FSA guidelines have led to an increase in demand for risk managers. We expect this to be a growth area and there is already a shortage of experienced risk managers with appropriate experience. We are also cautiously optimistic about the demand for staff, particularly operational risk and Solvency II in the insurance sector, risk reporting, exposure monitoring, risk control, modelling and recoveries. **However, any recovery will need to be seen in the context of an environment where unemployment will most likely continue to rise for some months yet.** Beyond that, there are fiscal deficits that will need to be addressed, together with what is going to be the painful restructuring of the UK economy.

“ There will be regulatory initiatives that will promote the employment of risk managers.

04. CURRENT SALARIES

OVERVIEW

The average salary increase achieved by risk managers moving jobs increased from 7% in the first half of 2009 to 9% in the second. Whilst this should be seen in the more usual context of the 20% increases that have historically been achieved, there are conflicting pressures on salaries, particularly in banking. There is a pool of redundant risk managers who are prepared to accept lower salaries than they were previously earning and more generally there is a focus on qualitative rather than simply quantitative factors, such as salary and remuneration. These factors are mitigating against higher salary increases. However, banking candidates who are already gainfully employed are demanding significant increases to not only compensate them for the risk of moving employer, but also in anticipation of smaller bonuses. Those moving are often asking for a 20-30% uplift, whereas banks are more prepared to offer 10%.

Unfortunately bankers' remuneration is currently in the political spotlight. The message from Westminster has been contradictory with government wanting to keep the City competitive whilst at the same time curbing excessive pay. Unless there is a unified global response towards capping remuneration, any unilateral measure is likely to be counterproductive. This largely applies to front office employees; however, remuneration for risk managers has also come under scrutiny. Going forward, hidden in the FSA's remuneration document, among statements about deferrals and stopping multi-year guarantees, is the suggestion that bonuses within risk and compliance functions should not be linked to the performance of the business. This could lead to higher base salaries or bonuses being linked to risk managers being able to clearly demonstrate mitigation of large risk events. Either way, it is still unclear at this stage as to how risk manager's compensation in banks will be structured in future.

OUTLOOK

The future of bank bonuses will obviously be a complicating factor. However, aside from this, the risk management market will no doubt be more generally subject to the laws of supply and demand. The partial recovery of salaries that occurred in the second half of 2009 should continue. This will be consistent with an improved economic climate, an anticipated increase in demand and a modest easing of competition for less specialised roles. **However, the environment for risk management salaries will need to be seen in the context of continuing sub trend economic growth and a general rise in unemployment for some months yet.** Pressure on the profits of the financial services industry is likely to continue. We estimate that any significant rises in risk management salaries will not come before late 2010 at the earliest.

SALARY SURVEY

Barclay Simpson analyses the salary data that accumulates from the placements we make in the UK. This provides a useful guide to salaries and salary trends for risk management professionals.

To give as accurate a picture as possible, we have taken a range of different risk management profiles and provided an approximate salary range that they could realistically earn. The profiles are for good rather than exceptional individuals and take no account of other benefits in addition to the salary that usually accrues to risk professionals, such as bonuses, profit sharing arrangements or pension benefits. The ranges indicate London salaries, which are generally 10-15% higher than provincial salaries.

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Those moving are often asking for a 20-30% uplift, whereas banks are more prepared to offer 10%.

1-5 YEAR'S EXPERIENCE

Credit risk	Salary
Credit Risk Reporting, Corporate / Investment / Retail Banking Responsibility for compiling MI and reports for use by board, regulators, rating agencies, sales / trading and credit department.	£35,000 - £45,000
Credit Analyst, Corporate Banking Graduate with banking experience. Middle office role on Corporate or FI portfolio.	£35,000 - £60,000
Credit Analyst, Project / Leveraged Finance Graduate with specific banking experience in an area of specialised lending. Middle / front office.	£40,000 - £70,000

Market risk	Salary
Market Risk Analyst Graduate in Mathematics or related discipline (ideally with MSc). Experience in Market Risk including VaR and stress testing. Excel & VBA skills.	£35,000 - £55,000
Risk Analyst – Model Validation MSc in Mathematics or related discipline. Risk Management background with experience in risk quantification techniques and managing the validation process for new valuation models. Strong technical skills (Excel, VBA).	£40,000 - £60,000
Quantitative Analytics / Analyst PhD in Maths, Physics or Engineering. Excellent technical and mathematical skills. Experience in creating and building quantitative models according to front office trading requirements.	£55,000 - £80,000

Operational risk	Salary
Risk Analyst, Investment Management Graduate within operational risk in investment management.	£35,000 - £45,000
Operational Risk Analyst, Insurance Numerate school leaver with a general awareness of risk and control methodologies in the insurance or life sector.	£30,000 - £40,000
Group Operational Risk Analyst, Retail Banking Graduate with practical experience of Group operational risk management policies and procedures within a retail bank.	£35,000 - £45,000

5-10 YEAR'S EXPERIENCE

Credit risk	Salary
Credit Manager Graduate with credit counterparty analysis experience from the banking sector, with sanctioning authority or line management.	£60,000 - £80,000
Counterparty Credit Risk Manager, Investment Bank Graduate with credit risk experience from the banking sector.	£50,000 - £60,000
AD Credit Officer – Private Banking / Wealth Management Good wealth product knowledge, degree educated and with some level of lending discretion.	£55,000 - £60,000
Credit Sanctioner - Investment Banking Graduate with strong focus on credit, often sector or product specific and with significant level of lending discretion.	£70,000 - £90,000

Market risk	Salary
Market & Liquidity Risk Manager, Banking Value at Risk PhD working on the capital allocation programme within the insurance sector.	£65,000 - £85,000
Portfolio Risk Manager, Fund Management Graduate with risk management experience with the Big 4 and the fund management industry.	£65,000 - £75,000
Market Risk Manager Graduate in Maths or related discipline. Ideally MSc. Experience in providing risk analysis and commentary for senior management, investigating risk profiles, improving risk capture. Strong Access, Matlab, Excel & VBA skills.	£65,000 - £90,000

Operational risk	Salary
Operational Risk Manager, Investment Banking Graduate accountant with experience in audit and risk control in investment banking.	£65,000 - £75,000
Senior Risk Manager, Retail Banking Graduate accountant with banking audit and operational risk management experience.	£60,000 - £80,000
Group Operational Risk Manager, International Banking & Financial Services Graduate with banking and risk management experience responsible for developing the operational risk profile of the overseas business units.	£55,000 - £65,000

10+ YEAR'S EXPERIENCE

Credit risk	Salary
Credit Director – Corporate Bank Degree or ACIB qualified, clearer trained and holding a significant level of individual lending discretion and credit committee member.	£80,000 - £90,000
Head of Credit Risk - Retail Bank MSc qualified as a minimum, highly technical and often from a statistical background. No longer hands on, but likely to be from a scorecard development background.	£80,000 - £110,000
Head of Portfolio Analytics PhD in a quantitative subject. Significant experience in the area, including scorecard development. Comfortable managing a large team.	£80,000 - £140,000

Market risk	Salary
Head of Market Risk Control Graduate with experience in market risk control in investment banking, including VaR analysis, stress testing, scenario analysis, market risk reporting and project work.	£75,000 - £110,000
Head of Market Risk Management MSc graduate in Maths or related discipline. Accomplished in all aspects of market risk and management including initiating and leading market risk projects. Ability to develop strong relationships with front office and relevant business heads. Investment banking background.	£80,000 - £140,000
Head of Model Validation and Quantitative Analytics PhD graduate in Maths or related discipline. Investment banking background with experience in both quantitative analytics and model validation.	£85,000 - £160,000

Operational risk	Salary
Head of Operational Risk Framework – Private Bank Graduate with strong operational risk MI and reporting experience from the financial services sector. Previous management experience.	£70,000 - £90,000
Global Head of Operational Risk – Investment Bank Graduate and qualified CA with investment banking experience in operational risk and group internal audit.	c. £125,000
Chief Risk Officer - Retail Banking Economics graduate with central bank, merchant bank and retail banking experience in all disciplines of risk.	c. £150,000

Interim	Salary
Interim Risk Framework Analyst	£200 - £350 per day
Interim Risk Manager	£450 - £550 per day
Interim Head of Risk	£500+ per day
Risk Consultant (whereby the contractor is brought in for a specific specialism and the role may not fit neatly into the hierarchical structure of the team.)	£400+ per day

05. APPENDIX

As recruitment consultants, we spend much of our time talking to and dealing with risk managers and human resources departments. We speak directly with a number of heads of department to discuss their current and future recruitment requirements as well as the broader picture to gain a qualitative perspective, which is invaluable for our market review. We also attempt to portray the market in terms of quantitative data based on a sample of 30 risk management departments.

The core statistics provide the following key information for:

VACANCIES

- Number of vacancies at the start of the period
- Number of vacancies generated during the period

This, over time, provides guidance on the rate at which vacancies are being generated and an indication of the ease with which companies are filling these vacancies.

REGISTRATIONS

- Number of candidates registering in each market segment

This monitors the flow of candidates into the recruitment market and, combined with the number of vacancies generated, gives an insight into the balance of supply and demand.

DEFENSIVE REGISTRATIONS

- The proportion of candidates registering for defensive reasons

The percentage of candidates registering with Barclay Simpson because they have been made redundant or perceive the threat of redundancy (i.e. who register for defensive reasons), can provide a useful insight into the behaviour of the recruitment market.

SALARIES

- Salary survey
- Salary increases

Salary increases are recorded as the increase in base salary achieved by risk managers moving from one employer to another. It does not include the value of other benefits but does provide a raw guide to the average salary increases that are being achieved in the recruitment market at any given time.