Risk Management Market Report 2019: Hiring Improves Amid Complex Risk Landscape

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FOREWORD

Barclay Simpson has been producing corporate governance market reports since 1990, but this is the first year we have combined our candidate and client reports. Over 1,600 corporate governance professionals responded to our global surveys and we are delighted to share the key risk trends with you.

The clear theme of this year's report is that we are in a time of transition. Pressure to reduce costs, regulatory changes and an uncertain political climate ensured a busier 2018 than the previous year for recruiters in this space, with no sign that demand will drop anytime soon. The risk team worked on approximately 40% more roles last year than in 2017 and our consultants saw a steady increase over the course of the year.

While larger financial organisations continue to not hire in the volumes we saw before the crisis, there has been an increase in their recruitment activity over the last 12 months. The buy side has been particularly buoyant, with regulation and M&A activity driving hiring across all risk disciplines.

Recruiting for candidates who have the requisite technical skills and specific relevant experience have been the greatest hiring challenges for our clients. Finding candidates within budget also proved one of the most difficult hurdles to overcome for employers last year.

We hope this report provides useful insight into the market, credit and operational risk markets. Given the strong ties between all areas of governance, we also encourage you to read our other governance reports, which can be **downloaded on our website**:
https://www.barclaysimpson.com/market-report-2019

Josh Lawson
UK Head of Risk
at Barclay Simpson

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At a Glance

Half

of organisations
feel inadequately resourced to tackle risk issues

Sourcing technical skills

posed the biggest recruitment challenge

for **42%** of employers

91% **of interim risk staff secured a new contract within 3 months**

75%
of risk departments
hired or attempted to hire
in 2018

67%
of risk hiring managers
expect to recruit
in 2019

30%
of professionals
moved jobs last year, up from 26% in 2017

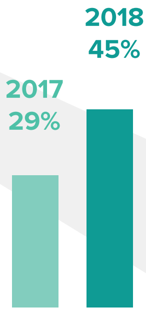
26% of those who switched roles cited job security as the main motivator...

... But career development remained the most popular reason

for **38%** of candidates

Brexit

is causing
'moderate' or 'significant' workload changes for more professionals



95%
of businesses believe
data science, AI and the cloud improve efficiency

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Executive Summary

Recruitment active despite economic uncertainty

Three-quarters of risk departments recruited or attempted to recruit in 2018, while 30% of professionals confirmed they switched jobs. Demand remained robust, with our consultants working on approximately 40% more roles last year than in 2017. Furthermore, 67% of employers expect to hire this year.

Operational risk is the fastest-growing discipline

Employers are keen to expand operational risk headcounts in 2019, with 43% hoping to recruit people with skills in this area. This is notably higher than the proportion of organisations searching primarily for credit and market risk professionals (23% and 9%, respectively).

Brexit's impact on workloads increasing

Nearly 3 in 10 (29%) professionals said their workloads were 'moderately' or 'significantly' affected by Brexit in 2017. However, this figure rose to 45% last year. The road ahead for the UK's separation from the EU remained unclear at the time of writing (January 2019), but risk departments are performing more preparatory work as the deadline looms.

Risk professionals seek job security

Of the professionals who switched roles in 2018, 26% cited job security as their main motivator. This figure was the highest of all the corporate governance functions we surveyed and even surpassed salary in importance. Overall, career development remained the most popular reason for moving jobs (38%).

Switching jobs continues to reap compensation benefits

The average pay rise for people who moved companies in 2018 was 14%, while those who stayed with their current employer saw their salaries edge forward just 5%. We also saw an increased willingness among organisations to buy out candidates' bonuses last year.

Technical and interpersonal skills still hard to find

Finding people with the right technical skills was the greatest recruitment challenge for 42% of hiring managers in 2018, which was a slight rise from the 35% who said the same the previous year. Soft skills were the most difficult to source capabilities for 28% of businesses.

Tight budgets bring added hiring pressures

Less than half (46%) of risk professionals feel adequately compensated for the work they do, and 56% of employers claimed candidates' salary expectations made recruitment more difficult in 2018. This trend was borne out in our surveys, with 23% of hiring managers saying their biggest recruitment hurdle was attracting professionals within their budget range.

Technology creates opportunities and challenges

Risk functions showed significant support for the introduction of innovative technologies, with 95% of employers and 69% of candidates believing data science, artificial intelligence (AI) and the cloud can improve departmental efficiency. However, technology also poses operational risks in the form of cyber-attacks, disruptive fintechs and legacy IT shortcomings.

Gender diversity remains a challenge

Risk management is a male-dominated industry, according to our surveys. Less than a fifth (19%) of respondents identified as female, although this had risen from 15% in 2017. Diversity and inclusion are nonetheless important for many clients. We are seeing HR departments place a growing emphasis on these areas when hiring.

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Risk management market trends

Various economic, political and regulatory head-winds continue to affect the risk management market. Here, we examine the factors that had the biggest impact on hiring last year, as well as pre-dict key trends for 2019.

Economic and regulatory drivers

Signs of recovery for UK economy?

Uncertainty was perhaps the main theme running through **our last market reports**. In 2017 and 2018, businesses faced massive upheavals as they prepared for GDPR, MiFID II, Payment Service Directive II (PSDII) and other key regulatory changes.

The economy grew at its weakest rate in five years during the first six months of 2017. By the end of that year, the country's long-running streak of falling unemployment had faltered, real wage growth had stagnated and lingering doubts remained over Brexit.

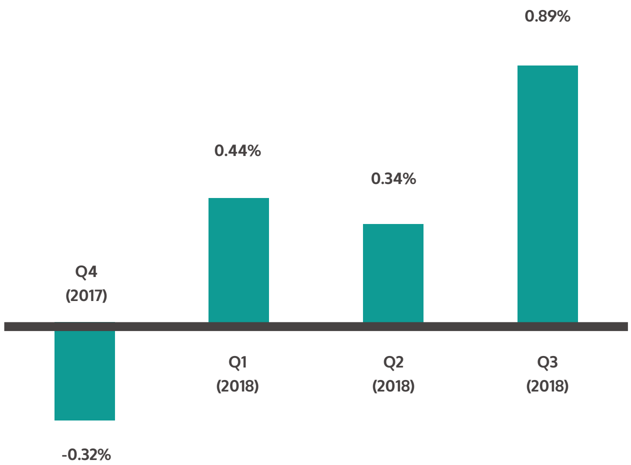
Uncertainty is still a problem over one year on, particularly regarding Brexit, but there are signs 2018 was a stabilising period and organisations can expect the next 12 months to provide answers to some elusive regulatory questions.

Pay growth revival

Unemployment stood at just 4% in November 2018, which was the lowest rate in 40 years.[1] The high proportion of people in work has helped pay growth hit 3.4% at the time of writing.[2] This is the biggest increase since the country plunged into recession in 2008.[3]

Real wage growth, which accounts for inflation, is also steadily increasing. Between April and June 2018, regular pay edged forward just 0.34% in real terms. However, this had climbed to 1.1% across the three months leading to November[4], as the 12-month inflation rate stabilised at 2% in December.[5] Sluggish productivity remains a problem for businesses, but salary growth nevertheless showed a stable upward trajectory throughout 2018.

Quarterly UK pay growth (real)



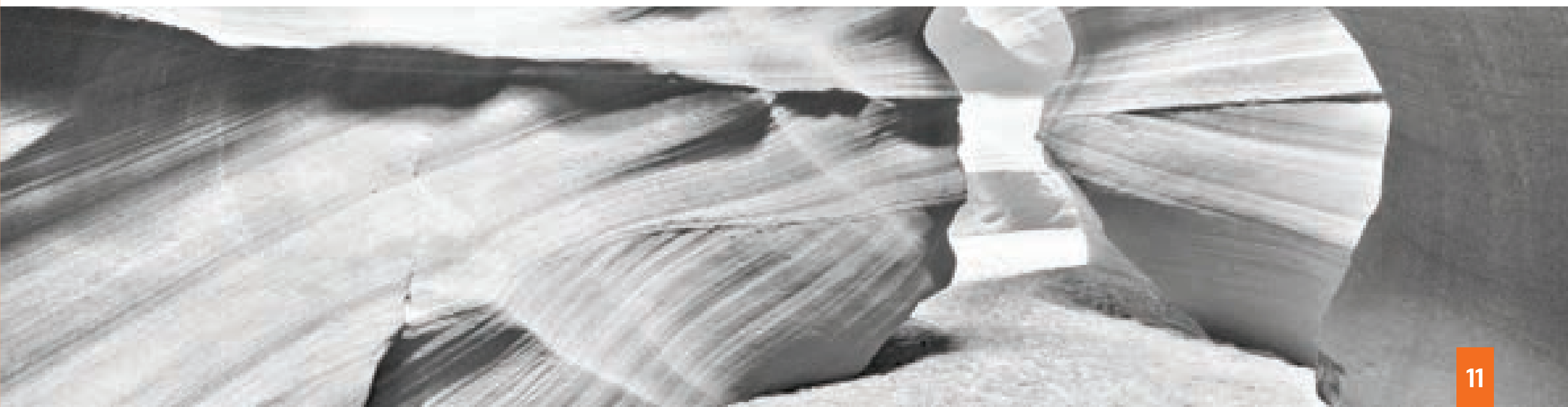
Source: ONS

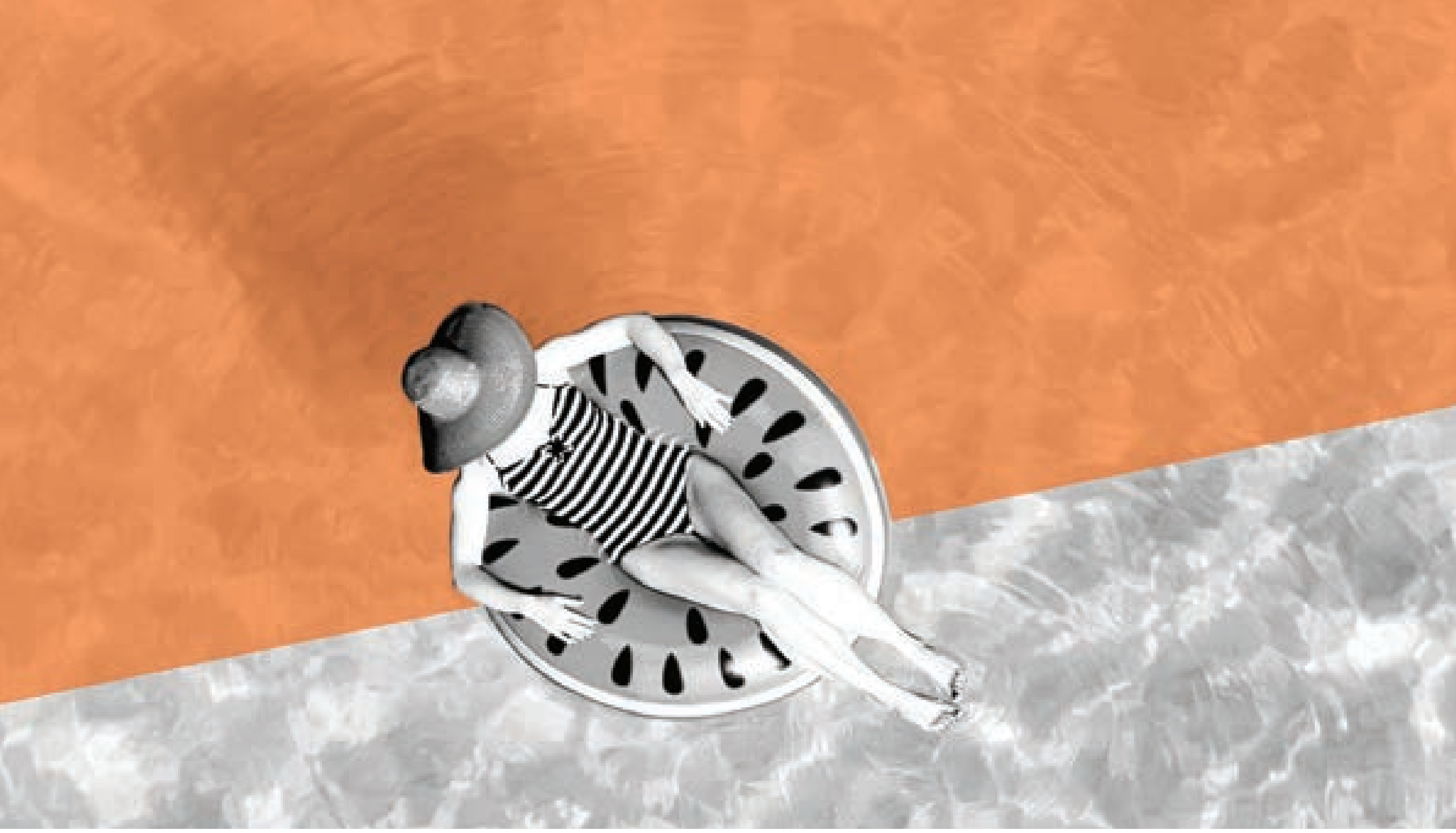
GDPR and MiFID II

Significant resources went into preparing for these two comprehensive pieces of legislation in 2017 and 2018. GDPR and MiFID II were by no means the only regulatory changes introduced last year, yet the sizeable fines attached to non-compliance guaranteed they were the primary focus for many governance teams.

Risk departments may have breathed a sigh of relief when the implementation deadlines passed early in 2018, but the job is far from over. A TrustArc survey showed 26% of organisations didn't expect to be compliant with GDPR by the end of 2018, while 7% won't even be ready when this year comes to a close.[6]

Media reports also suggest the FCA is becoming impatient with companies that remain non-compliant with MiFID II.[7] Risk managers now have the task of ensuring businesses remain adequately prepared to identify any regulatory risk and compliance problems that GDPR and MiFID II pose in the future.





Brexit uncertainty leads to inaction

Predicting the future is always difficult, but even the best analysts have found it impossible to forecast what will happen next with Brexit negotiations. Given the constantly evolving Brexit situation, we won't delve too deeply into the current status of events.

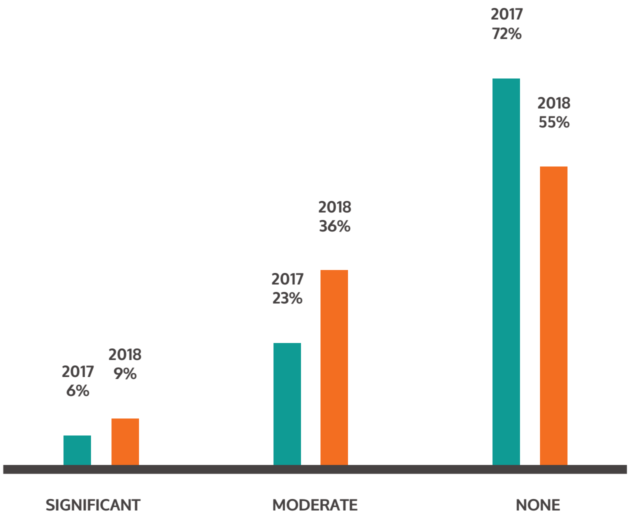
However, business investment in the UK slumped 1.2% between the second and third quarters of 2018, which was the third consecutive quarterly decline.[8] The impact of Brexit on business investment and consumer confidence was by far the most prominent commercial challenge raised by services firms in January 2019, according to IHS and CIPS data.[9] Small businesses are also placing key investment decisions on hold until a clearer picture emerges regarding Brexit.[10]

Brexit workloads on the rise

A British Chambers of Commerce survey from August 2018 found 62% of organisations still hadn't performed a Brexit risk assessment.[11] Our survey results, compiled in September, revealed 55% of risk managers have seen no changes to their workloads as the UK prepares to leave the EU.

This figure may seem high, but Brexit's impact is clearly growing; the proportion of professionals whose workloads were unaffected in 2017 stood at 72%. Furthermore, 45% of candidates said Brexit had caused 'moderate' or 'significant' changes to the work they did last year, rising from 28% in 2017.

What impact has Brexit had on workloads?



There has been a lot of preparatory work and research for Brexit, but fewer businesses executed their plans in 2018 due to ongoing uncertainty. While these preparations created some work for risk teams, it was not as much as there will likely be when Britain leaves the EU.

We have seen some firms create roles such as Head of Brexit to support the preparation, planning and changes that are necessary, although these positions are relatively small in volume at the moment.

Christopher Chilcott
RESEARCHER – RISK

Employers weigh up Brexit options

Both before and after the EU Referendum, there was much talk of major organisations, particularly financial services firms, relocating large parts of their workforce to mainland Europe.[12, 13] These concerns may have been overstated, as our surveys showed just 7% of risk professionals reported their role had moved or would be moved due to Brexit.

Nevertheless, this figure was higher than other corporate governance departments that we surveyed and 42% of hiring managers revealed their business had plans to open - or had already opened - offices in other EU countries. Benelux, Germany and Ireland were the most popular choice of location cited by 40%, 33% and 20% of organisations, respectively.

A significant majority (82%) of companies said Brexit had no impact on their ability to recruit, yet 20% confirmed the UK separating from the EU was their risk department's biggest worry. Brexit was tied with FCA regulations as the top concern.

Risk professionals divided on relocation

More than half (56%) of candidates said they would consider relocating to mainland Europe if Brexit had a negative impact on their career. Amsterdam was the preferred location for 68% of candidates who were willing to leave the UK, making the Dutch capital the most popular location, followed by Zurich (66%) and Paris (63%).

Our surveys suggest some non-British candidates have already relocated back to mainland Europe. Last year, 30% of professionals in risk departments were EU nationals, which had dropped from 46% in 2017. While our consultants have not witnessed a mass exodus of talent, candidates have been more open to moving overseas if the opportunity arises.

Disruptive technology: challenges and opportunities

Technology is often a double-edged sword for businesses, presenting unparalleled opportunities to optimise service delivery but also posing significant threats to operational capacity.

Risk departments are often on the front line of analysing these competing elements in a constantly evolving landscape where both companies and cyber criminals are using technology in increasingly innovative ways.

Risk departments aware of tech dangers

Risk.net ranked IT disruption and data compromise as the number one and two operational risks to businesses in 2018.[14] A recent Protiviti survey revealed the biggest concern for organisations this year is that their existing operations and legacy IT infrastructure will not meet performance expectations, especially against 'born digital' competitors.[15] Cyber threats are the fourth-biggest threat and the rapid speed of disruptive innovations came sixth in a notably tech-heavy risk landscape for 2019.

Two-thirds of respondents to a 2018 H2 Bank of England systemic risk survey cited cyber-attacks among their top five risks that would have the biggest impact on the UK financial system if they were to materialise.[16] Only UK political risk, which was predominantly due to Brexit, was higher on the list.

Technology is clearly a prominent issue for risk teams. This is perhaps partly the reason why 27% of risk hiring managers whom we surveyed believed fintechs are a threat to their business, which was significantly higher than the 8% of compliance hiring managers who said the same. One-third of risk departments also selected IT or cyber risk skillsets as the greatest area of demand for their operational risk departments in 2018.

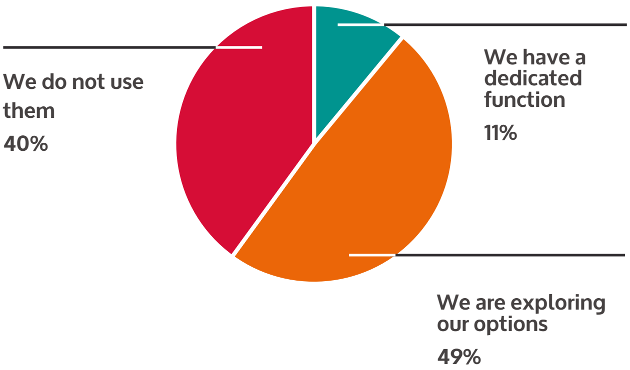
Using technology to optimise risk calculations

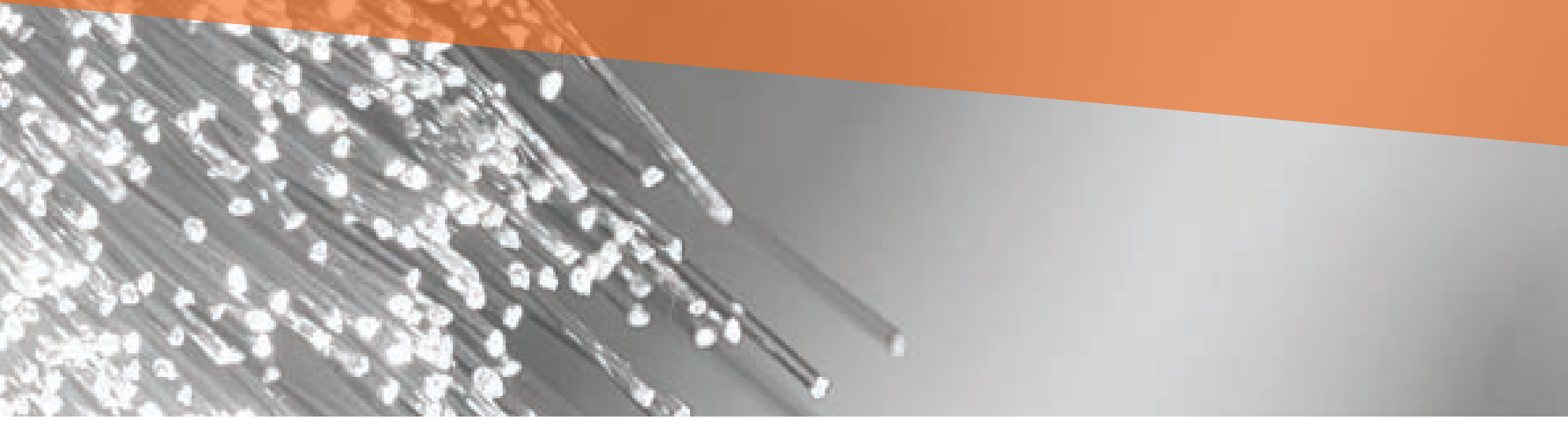
Despite the challenges that technology poses to organisations, our surveys indicate there is an overall air of optimism among risk professionals regarding innovation.

An overwhelming 95% of clients believe data science, AI and the cloud improve the efficiency of risk departments, with nearly 7 in 10 candidates agreeing. However, just 11% of clients have a dedicated data science, AI or cloud computing function, with a further 49% currently exploring these possibilities.

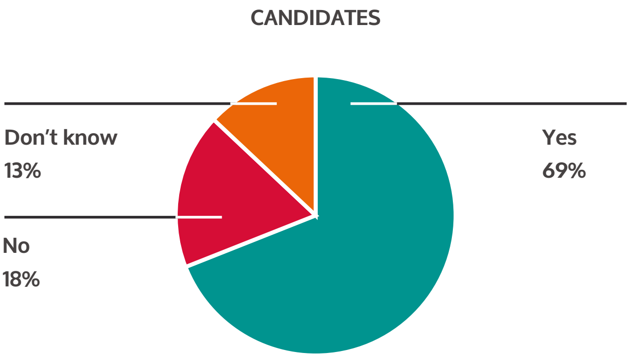
Many financial institutions are keen to explore automation as a way of making risk activities faster, more cost-effective and increasingly accurate. Robotic process automation and straight through processing (STP) are helping minimise manual tasks and free up professionals for more strategy-focused work.

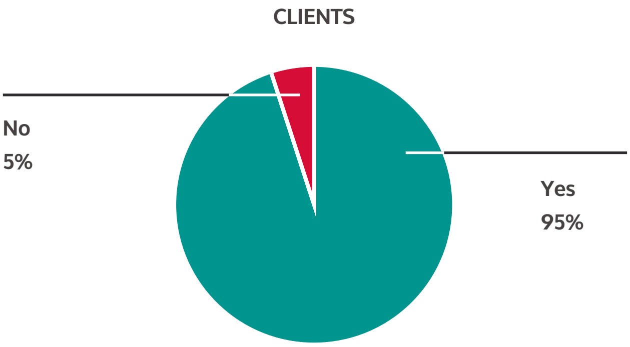
Does your department use data science, AI or the cloud?





Will disruptive technology improve risk efficiency?





Job security is an issue for some of our candidates, with 21% believing their employment will be at risk when disruptive technologies are implemented. Conversely, nearly one-third (31%) believe their job security will increase, which is supported by the fact 30% of employers are confident that extra headcounts are essential to successfully adapting to technology changes.

Technology revolutionising the credit risk space

Machine learning continues to be a disruptive force within credit risk. Firms seek to bring greater accuracy to their calculations, as well as overcome data shortages and offer a more dynamic platform for analysis. As credit risk modelling gathers momentum, a growing number of banks are implementing or trialling these techniques.

Credit decisioning and impairment monitoring are also seeing significant success using machine learning. Companies can now leverage larger data sets and more accurately analyse risks, meaning they can lend to borrowers with limited credit history or predict how a customer's behaviours may change the portfolio's impairments.

Fintechs have propelled this wave of innovation across the consumer credit space. They have pioneered advanced techniques that revolutionised the measurement of credit risk, heralding in a new era of customer-centric products and services.

This has meant an increase in jobs within the space and a war on talent for existing credit risk analysts. We have also seen a further increase in headcounts of decision science teams that work alongside risk management, with section heads becoming more technically adept by developing skillsets outside of traditional credit underwriting.

Kieran Lockyer
CREDIT RISK CONSULTANT

Diversity and inclusion

Diversity is a hot topic across organisations worldwide, and rightly so, with businesses keen to be more inclusive during their recruitment processes. Numerous studies have emphasised the benefits of diverse workforces, which include:

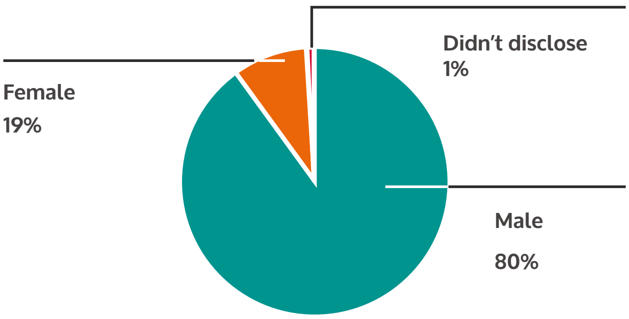
- Enhanced profitability;[17]
- Better decision-making;[18]
- More innovation[19]; and
- Improved customer experiences.[20]

Gender equality has been the primary focus in recent years, but our surveys show risk management remains a male-dominated discipline. Just 19% of risk professionals who completed our survey were female, although this had risen from 15% in 2017.

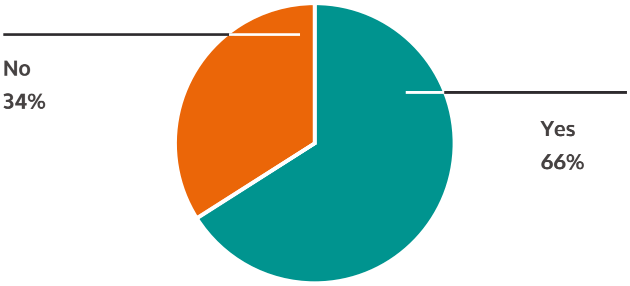
Financial services firms are trying to address gender gaps through initiatives such as the Women in Finance Charter, which recently hit 300 signatories.[21] American Express, Societe Generale and BDO were among the big names that signed the charter in November 2018, joining existing members such as Deutsche Bank, Credit Suisse, PwC, Mizuho International and many others.

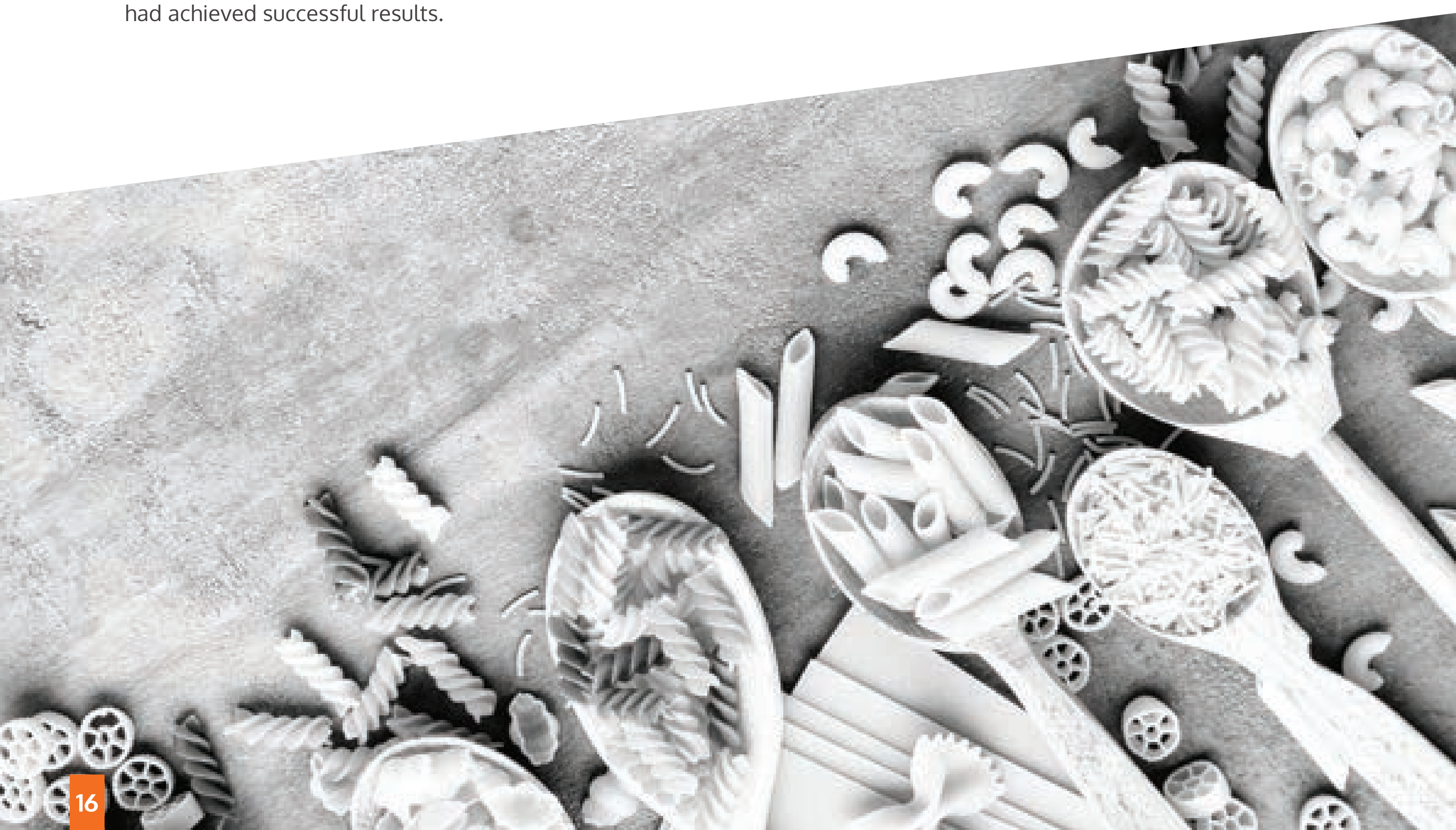
Of the hiring managers we surveyed, 28% said diversity and inclusion issues affected their recruitment decisions in 2018. Two-thirds also confirmed diversity-led hiring had achieved successful results.

Gender balance in risk departments



Has diversity-led recruitment been a success?





Nevertheless, the average difference between salaries for men and women is 22% across financial services, increasing to 46% for bonuses.[22] The gender wage gap in the UK overall is much lower at 8.6% for full-time salaries.[23]

A lack of women in leadership roles is a key factor behind salary differences; 85% of senior executives at financial services firms are male.[24] Within risk management, our data indicates a similar pattern, with women holding just 21% of Head of Operational Risk positions. This figure falls to only 8% for Heads of Investment Risk.

Diversity and inclusion are important for the majority of our clients. HR departments have been increasingly vocal in their requirements and many expect their recruitment partners to at least acknowledge gender diversity on shortlists even if a specific target isn't set.

Barclay Simpson captures data on gender diversity and is therefore well placed to advise clients on the typical spread of diversity for each of the corporate levels within a given field. In market risk roles, for example, we found just 27% of candidates at the Analyst level are female, which creates significant challenges if employers want a 50:50 gender split on shortlists. These discrepancies become even larger at senior levels, with women comprising only 6% of market risk Managing Directors.

Antony Berou

HEAD OF CREDIT RISK

04

Recruitment, salary and compensation trends

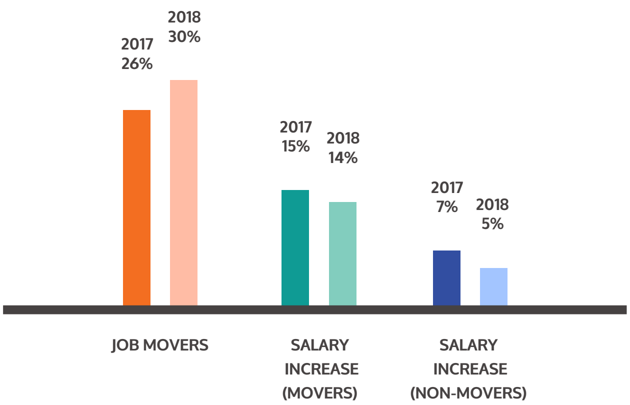
We have discussed the major factors influencing the market, but what impact are they having? This section examines key client and candidate insights from our global surveys.

How active is the risk recruitment market?

A greater proportion of risk managers moved jobs last year than in 2017, with 30% of professionals confirming they had accepted an offer at a new company. Buy-side recruitment was particularly buoyant year on year, as M&A and restructuring helped stimulate hiring.

Substantial interest in alternative investments was also a key feature of 2018. This could be due to lower margins on many financial products, but we nonetheless witnessed increased hiring across pension funds, asset managers and hedge funds within this space.

A snapshot of risk recruitment in 2018 vs 2017



Small and mid-sized banks began separating their 1st and 2nd lines of defence (LOD), emulating risk management structures that top-tier investment banks have held for some time. Regulatory pressures have also led to smaller firms splitting their ORM and compliance teams if they were previously combined.

ICAAP and risk and control self-assessment skillsets have become especially sought-after among buy-side employers. Firms are also more receptive to hiring candidates without asset management experience. We are still waiting to see widespread operational risk hiring within hedge funds.

As a result of activity in the banking sector, consultancies are now seeking to strengthen their ORM capacity. The Big 4 have set up new operational resilience functions and continue to expand their existing third-party risk and enterprise risk management (ERM) teams.

Indeed, ERM hiring has increased across the board, with clients in multiple sectors seeking experience across risk disciplines rather than depth in any one function.

Risk disciplines

Operational Risk

PAUL HUNDLEY

Senior Consultant, Operational Risk

Operational risk management (ORM) recruitment remained active in 2018. We saw a marked increase in the number of senior roles advertised, particularly across the buy side.

The Bank of England and the FCA published operational resilience papers last summer, which had the knock-on effect of creating more roles in this space among banks. Investment banking clients showed the most interest in building teams, while retail banking recruitment was slower.

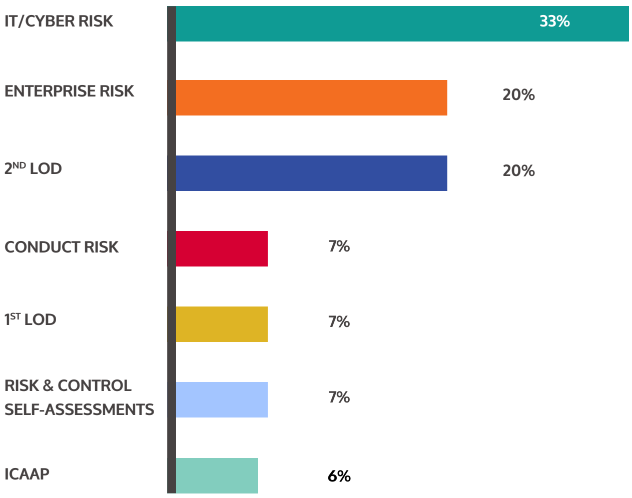
A key theme within operational risk recruitment has been the large number of senior individuals making the jump from market risk to operational risk over the last two years. Identifying a specific reason for this trend is difficult. However, operational risk professionals have traditionally come from audit, operations or compliance backgrounds, which are less numerical and quantitative roles than market risk experts have typically held.

Employers therefore understand the potential value of hiring market risk professionals as operational risk calculations increase in complexity. It is also possible market risk managers are more open to operational risk roles, which have become increasingly sophisticated.

Nicole Madriz

PRINCIPAL CONSULTANT, OPERATIONAL RISK

Which operational risk skillsets will be most in demand in 2019?



Market risk

JOSH LAWSON

Head of Risk - UK

Recruitment across market risk teams in investment banks was slow last year, with departments shrinking as the organisations they assess become smaller. This has been further compounded by ongoing efforts to automate processes where possible and operate within an STP environment.

A consolidation of asset classes in many organisations has continued to occur over the last few years. The majority of Rates and FX desks have merged to become Macro desks, while many Commodities businesses have often been sold off due to costs and lower margins. Some organisations have merged all exotic products together into a single function rather than employ individuals who have knowledge of each product on every trading desk.

This year has also seen more firms create 1st LOD teams in both buy-side and sell-side organisations. The changes have caused some friction and concern over duplication of responsibilities and value add. There has been no universal approach, which is crucial from a recruitment perspective because it means sourcing candidates from one 1st LOD to another doesn't necessarily translate to the same role and skillset.

Algo and High Frequency Trading (HFT) have become more sophisticated, which has led to an increase in risk professionals in this space.

Credit risk

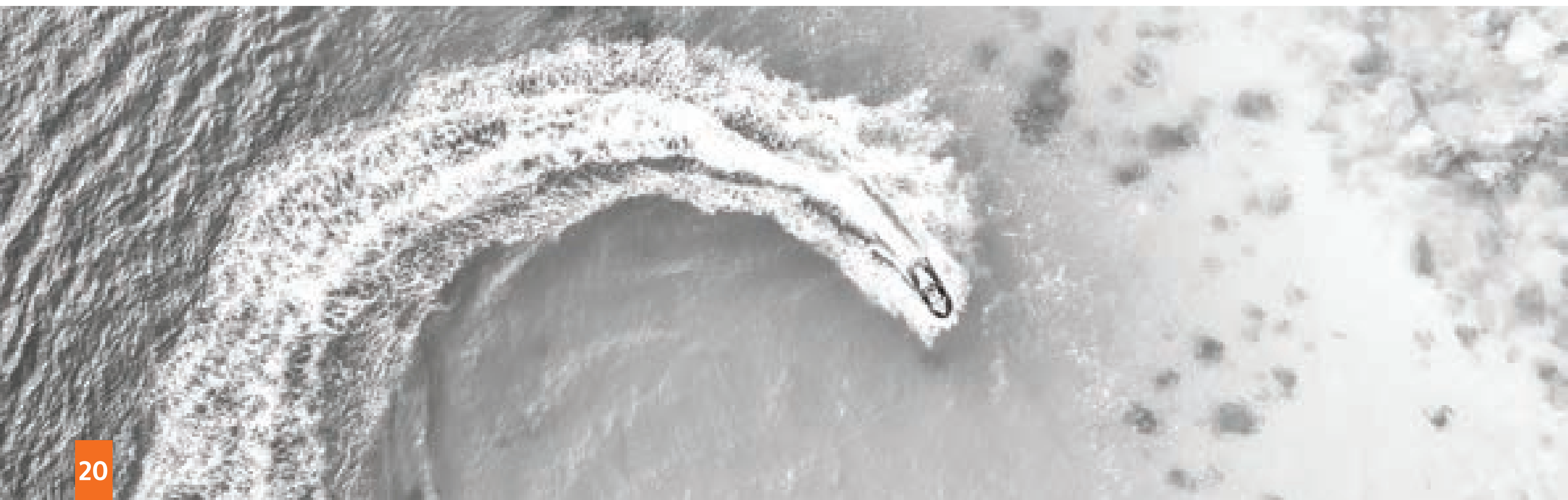
ANTONY BEROU

Head of Credit Risk recruitment

Hiring remained busy for retail and consumer banking credit risk roles in 2018. The majority of the activity was due to the recent development of challenger banks and the broader growth of the fintech sector.[25]

The UK has a thriving fintech industry. Inward investment to the sector totalled $16 billion (£12.4 billion) during the first half of 2018, which was more than a quarter of the $57.9 billion total spent worldwide.[26] As a growing number of consumers begin using challenger banks, these organisations have ramped up recruitment to ensure their credit risk decisions prioritise the speed, convenience and security their tech-savvy customers expect.

Elsewhere, corporate and investment banking hires have been sporadic and largely focused at the junior end of the spectrum. Recruitment was also noticeably less active across the larger, more traditional retail banks.



What drivers are affecting candidate choices?

Risk professionals moved jobs for a variety of reasons in 2018. Here, we examine the key trends that affected their decision-making.

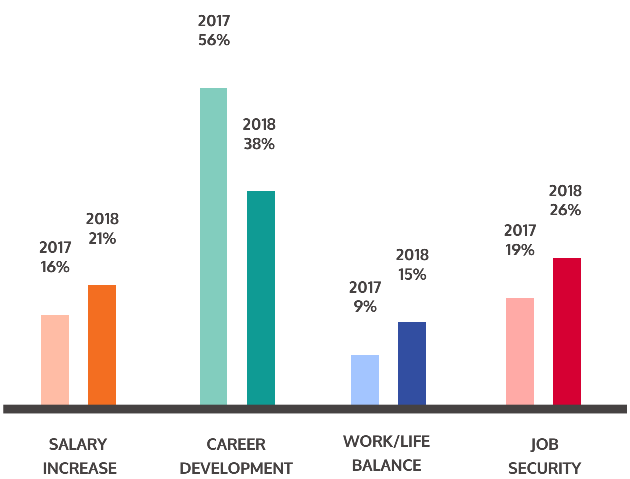
Career development and salary still crucial

Two primary motivators behind job moves in our past surveys have always been career development and salary, with 2018 being no exception. That said, the proportion of candidates who mentioned career development as their main reason for switching roles dropped from 56% to 38% between 2017 and 2018. This drop was not enough to dislodge promotion ambitions from the top spot, but candidates appear to be taking a more cautious approach to career development as concerns increase over the economy and market volatility.

Meanwhile, 21% of risk managers moved to receive better pay last year, with an average salary increase of 14%, which was one percentage point lower than professionals received for switching roles in 2017. Bonuses were paid by 93% of employers, which was up from 90% the previous year, with businesses showing an increased appetite for buying out candidates' bonuses when hiring.

Overall, less than half (46%) of candidates felt adequately compensated for their work in 2018. This was almost identical to the proportion who said the same the previous year (45%). We have found salary demands are generally reasonable, with expectations broadly in line with what a candidate's experience would command in the wider market.

Why did you move jobs?

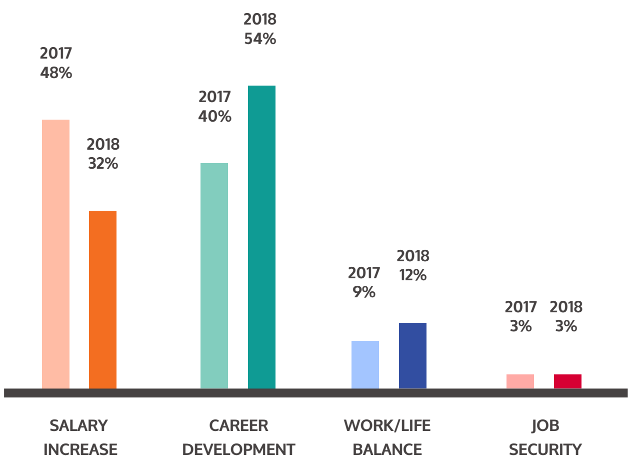


Risk managers yearn for job security

It is perhaps unsurprising that job security is a prime motivator among professionals whose occupations centre around calculating risk. Our survey revealed 26% of candidates who switched companies last year did so to feel more secure in their job, rising from 19% in 2017 and just 6% in 2016. This figure was far higher than any other corporate governance function, highlighting the cautious approach that risk managers are taking in a potentially turbulent market and uncertain political landscape.

Interestingly, the percentage of non-movers who cited job security was far lower. Just 3% of those who stayed with their current employer in 2018 said this would be the main factor that would encourage them to look for another role or consider going to an interview. More than two-thirds (68%) of professionals are confident their role won't be relocated due to Brexit; however, they may have alternative causes for job security concern.

What would prompt you to look for a new job?



Flexible working on the rise

The opportunity to work flexibly is now becoming the norm rather than the exception in many organisations. This trend was reflected in our surveys, which showed 70% of professionals had access to flexible working last year, rising from 65% in 2017. Despite this increase, more than two-thirds (68%) of respondents would like even more opportunities to work flexibly.

The importance of a healthy work-life balance among risk professionals was emphasised by the fact 15% moved jobs primarily to gain better flexible working benefits in 2018, a notable uptick from the 9% who said the same in 2017. This matches a broader pattern in the UK, with a Timewise study indicating 87% of British employees either already work flexibly or say they want to.[27]

Employers appear to be taking note, with banks increasingly offering family-friendly perks that allow staff to work from home, start late or leave early to perform school runs. Impressive cloud platforms and remote working systems are also creating seamless working environments for today's increasingly mobile workforce.

What recruitment challenges did employers face?

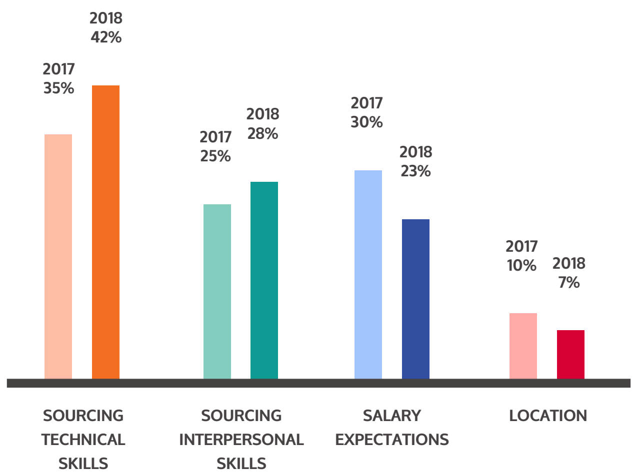
Three-quarters of departments recruited or attempted to recruit risk professionals in 2018, compared with 81% the previous year. Here are three key hiring challenges that employers encountered:

1. The search for technical and interpersonal skills

Risk professionals perform incredibly complex roles that require a sophisticated set of technical skills. It is therefore no surprise that 42% of employers said finding candidates with the right technical capabilities was their most difficult recruitment challenge of 2018. While technical skills vary from one risk function to another, it follows that the more complex the skills, and the smaller their market, the harder it has been to recruit. For example, sourcing candidates for risk reporting roles has been far simpler than finding suitable pricing model development applicants for specific asset classes.

Interpersonal skills are essential for risk management roles, and 28% of employers said sourcing people with the right soft skills was their biggest difficulty when hiring last year. Professionals must be able to translate highly technical concepts in a manner that is easily understood and actionable to senior executives and boards, while also being a good cultural fit for the organisation.

What is your greatest recruitment challenge?



2. Salary expectations causing headaches

While remuneration was less important to professionals who switched roles last year than in 2017, 56% of employers still said candidates' salary expectations made recruitment more difficult.

Nearly a quarter (23%) claimed identifying the right people within budget was their main recruitment problem over the 12-month period. However, this figure had dropped from 30% in 2017, indicating both candidates and hiring managers are having more reasonable conversations surrounding salaries, while other factors such as job security and flexible working gain extra prominence.

Compensation rises across banking have been less prevalent in recent years. As the sector continues to shrink following the global financial crisis (GFC), salary expectations remain limited by uncertain markets and poor bonuses.

3. Experienced candidates in short supply

Professionals who have between 3 and 10 years of experience and are not already senior within their field were especially sought-after in 2018. Great candidates are rarely on the market for long, meaning businesses with lumbering recruitment processes are putting themselves at a disadvantage, particularly as fast-paced fintechs gain momentum.

Banks face difficulties when hiring because they are more rigid in their compensation brackets and require multiple layers of approvals. As the scrutiny on recruitment increases in all cost-conscious financial services firms, acting fast and decisively in hiring processes becomes increasingly prudent.

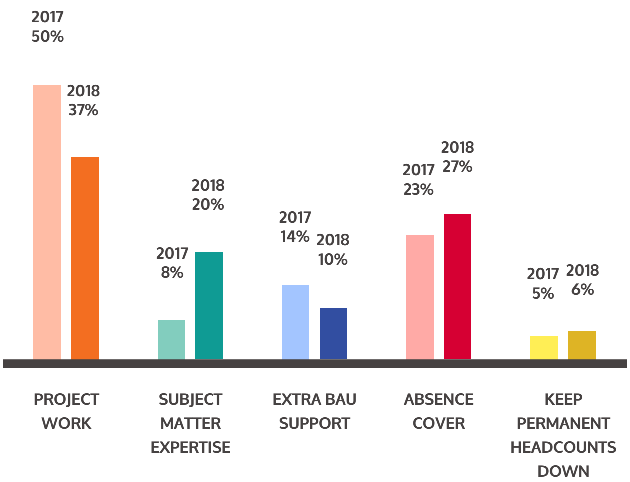
Operational risk is the fastest-growing discipline, but the candidate pool is struggling to keep up with the pace of demand. Our consultants are always interested in hearing from new operational risk candidates.

Project work keeps contractors active

Risk management contractors enjoyed a busy year in 2018. Many organisations have turned to interim consultants to help staff risk functions due to M&A activity, MiFID II, GDPR and Brexit planning, as well as a general desire to increase overall risk capabilities.

Nearly half (48%) of businesses used contractors last year, with project work cited as a key reason for 37% of those that did so. Other common requirements included absence cover (27%), subject matter expertise (20%), extra BAU support for increased workloads (10%) and keeping permanent headcounts down (6%).

What is your main reason for utilising contractors?



Despite a healthy level of activity overall, the proportion of contractors who were in work at the time of our survey stood at 69%, which was down from 74% the previous year. A climate of cost reduction is likely the cause, with larger banks potentially under pressure to keep contractor expenses down.

Nevertheless, risk management remains an in-demand discipline across financial services and other industries. Firms recognise that a comprehensive risk management infrastructure contributes to a corporate strategy that improves the bottom line, and contractors offer an agile resource that can help fill the demand for growth and enhancement within risk teams. This is particularly important in an environment where technical skill shortages are evident and businesses are under increasing regulatory scrutiny.

Interim resources can prove extremely valuable given the current market uncertainty. They can offer expert knowledge or cover important BAU work while businesses decide what they want their permanent hire to look like, as this could change over time or as a result of political, economic or structural changes. Contractors can also help plug gaps when a firm is under pressure to deliver work or projects by a certain timeframe, or they may cover senior positions while a business waits for their permanent hire to start.

Furthermore, senior risk contractors often prove very useful in the embryonic stages of a business's growth, which has been particularly evident in the fintech space. Interim staff provide expert knowledge, gained from previous experience at other institutions. This can help start-ups with the building and constructing of their risk teams and frameworks, as well as support challenger banks through the banking licence application process.

Chloe Bailey

HEAD OF UK CONTRACT RISK

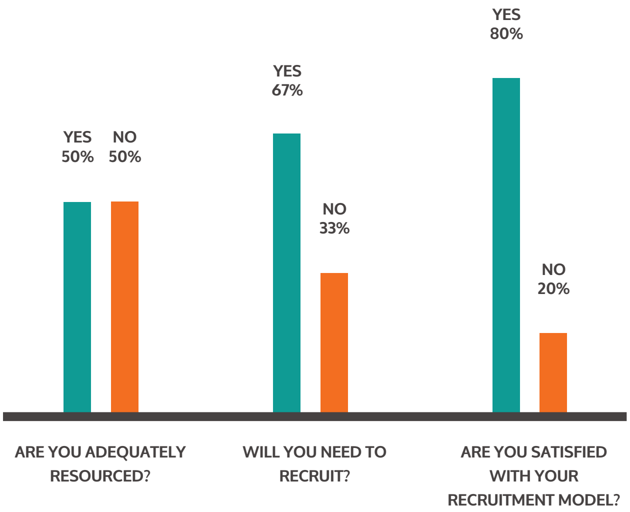
The future does look bright for contractors; 59% say they are more in demand at the moment and 77% confirm their skills are considered more valuable to employers. Interim staff also shouldn't expect to stay out of work long, as 91% secure a new contract within three months. Nearly 4 in 10 (38%) professionals saw their rates increase last year, although this was slightly lower than the 43.5% who said the same in 2017.

Organisations may wish to streamline their recruitment processes if they are struggling to secure their preferred contractors in a competitive market. Many firms use a two-stage interview process, which can mean they miss out on their preferred contractors. Interim staff prefer to keep continuity in their work and will often take roles based on whomever offers them first, provided the terms of the contract are relatively similar. Having a slick hiring process will put organisations ahead of their competition when they go out to market to hire a contractor.

Looking ahead to 2019

Our surveys revealed only half of risk management departments currently feel adequately resourced to tackle the challenges they face. So, what does this mean for 2019?

A snapshot of risk recruitment for 2019

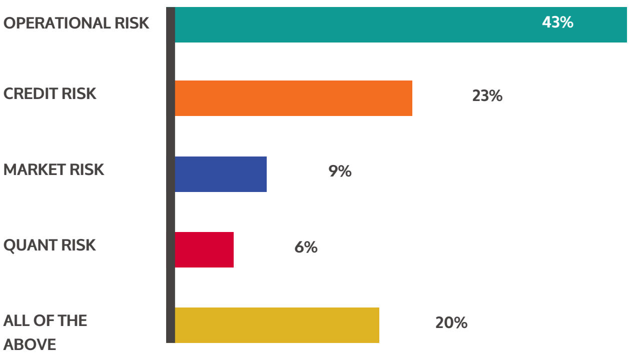


Hiring intentions remain healthy

Two-thirds of employers expect to hire in 2019, and we feel confident the next 12 months will be busy. The market continues to see considerable movement through both growth and replacement hires, with 57% of businesses focusing on the former and 43% on the latter.

Departments are confident in their risk management functions and 51% believe they have a strong culture surrounding risk. That said, 45% believe there is room for improvement and 4% went as far as to say their risk management environment was weak. Operational risk and credit risk are the most in-demand disciplines for 43% and 23% of organisations, respectively. Within operational risk, employers are predominantly looking for candidates with skills across cyber and IT environments (33%), the 2nd LOD (20%) and enterprise risk (20%).

What skills will you need to hire in 2019?



All quiet on the regulatory front?

This year may be slightly more subdued from a regulatory implementation standpoint, but important changes are still on the horizon, including the Senior Managers and Certification regime (SMCR). The regime dramatically increases accountability for senior employees within financial services, and firms must have systems in place by December 2019. Risk management professionals with prior SMCR experience and skillsets will be highly sought-after over the coming months.

Ongoing supervision and remediation of existing regulations will also be a key theme. After an informal grace period last year, regulators will begin to more closely monitor the implementations of MiFID II, PSD II and GDPR. MiFID II is likely to be at the forefront of the collective risk management conscience, as scrutiny intensifies over transaction reporting and payments for research and inducements.[28]

Securing talented candidates still a challenge

Our survey showed 30% of employers found recruitment more difficult than they expected in 2018, while 20% claimed they are dissatisfied with their current recruitment model.

Clients have better access to potential candidates than ever before via both onsite and agency recruiters, but this doesn't necessarily translate into identifying the right person. The search for high-calibre skills will always remain competitive, and 2019 is shaping up to be a particularly demanding year for employers. Protiviti ranked succession challenges and the ability to attract and retain top talent as the second greatest risk for businesses this year, jumping from sixth place in the company's previous poll.[15]

Organisations must adapt quickly to market changes in 2019, as candidates' motivations for switching jobs continue to evolve due to economic, political and industry disruption.

05

Q&A with Paul Berry
Chief Risk Officer, Mizuho International

We regularly sit down with significant figures from the risk management industry to get their perspective on key trends within the market. This year, we spoke to Paul Berry from Mizuho International (MHI). We would like to thank Paul for his contribution.

Tell us a bit about your background

I'm currently the Chief Risk Officer for MHI, a role I have held for over four years. MHI is the London-based investment banking subsidiary of the Mizuho Financial Group, one of the three Japanese megabanks.

I've been in the banking industry for more than 33 years, having joined straight from university. I've been a Risk Manager for most of my working life, specialising in credit risk management of trading floor products and counterparties since the mid-1990s. I also have front office experience; early on in my career, I was a corporate relationship banker for five years.

I've had the privilege of working for numerous banks headquartered in different countries and have therefore experienced many cultural perspectives. I'm also fortunate enough to have studied in the USA and worked in the Netherlands, all of which has helped me gain an international appreciation of what is, essentially, an international industry.

What will be the greatest challenges affecting risk management in 2019?

The simplest answer is that we're still dealing with the fallout from the GFC. I see this in at least three forms:

1. **State of the markets**: Quantitative easing brought in by the central banks in the aftermath of the GFC has now ended and quantitative tightening has begun. The impact of this inflection point will affect trader and investor appetite and behaviour and will probably lead to more uncertainty coupled with greater volatility, at least in the short term.

2. **Dealing with populism**: In its most obvious form, the UK and the EU have to get through Brexit. Depending on who you ask, Brexit could be great or it could be terrible, but we only have uncertainty in the meantime - an uncertainty that must be managed. But Brexit is not the only populist game in Eurotown, with Italy, Hungary and Poland also playing. Elsewhere in the world, the USA and Turkey are also raising the stakes. This all provides another layer of uncertainty.

3. **Culture and conduct**: I'm sure conduct will remain a big issue in 2019. Banks still need to prove, not least to the regulators, that they have changed for the better following the GFC. The effective management of reputational risk will increase in importance, including - but not limited to - operational resilience.

What more can risk departments do to encourage greater diversity and inclusion?

Generally speaking, this is all about recruitment and retention. On the recruitment side, risk functions should only use recruiters who have a demonstrable track record in diversity and insist upon receiving a diverse shortlist of candidates, whom they then take through the recruitment process. Risk departments should also use return-to-work programmes when seeking external staff.

For retention, as well as recruitment, it is important to encourage flexible working, measuring employee output not the time spent in the office. Employers should also have defined talent management and career progression programmes that include the planned intercompany import and export of diverse talent into and out of risk management.

How has Mizuho helped achieve better diversity and inclusion within its risk departments?

At Mizuho, we only use recruiters who have a proven track record in diversity, and we will stop using those who cannot consistently deliver in this area. We also believe we offer competitive packages. This relates not only to financial compensation but also the overall working environment, flexible working arrangements and career opportunities on offer.

> "For retention, as well as recruitment, it is important to encourage flexible working, measuring employee output not the time spent in the office."

Which disruptive technology is likely to have the biggest effect on risk management?

This is a difficult question, and I am not sure of the answer, other than to say it is undoubted they will all have an effect on risk management in one way or another. As a bare minimum, AI will relieve Risk Managers, as it will other workers, of the routine repetitive jobs that they currently undertake. I'm sure in the fullness of time AI will do more than this, but probably not in 2019.

What advice would you give to those considering a risk management career?

If you are going to make a career in risk management, make sure you get some commercial experience somewhere along the way in order to both empathise with and constructively challenge your front office colleagues. Also, spend some time in risk management if you plan to work in a frontline role. You'll need to understand risk in order to understand what constitutes appropriate reward.

Our biggest recruitment challenge is trying to convince people considering a move into banking, particularly women, that this is a worthwhile industry to work in since the GFC - both on a personal and societal level.

When reviewing CVs, what do you look for before deciding whether to invite a candidate to interview?

There is no one thing that I particularly look for. A large part of what I am looking for in a CV is determined by the job specification of the role in question. That said, one characteristic I tend to shy away from is anyone that appears to be a 'job hopper', unless I'm considering the person for a temporary role.

“Our biggest recruitment challenge is trying to convince people considering a move into banking, particularly women, that this is a worthwhile industry to work in since the GFC – both on a personal and societal level.”

What tips or advice would you give candidates to help them prepare for an interview?

Find out as much as you can about the role and company, particularly its culture and values, in advance of the meeting. Don't rely on a cursory glance of the internet; everyone else will have done at least that. You should come to the meeting with at least three or four relevant questions and make sure you use at least some of them, as appropriate, during the meeting. Be yourself in the interview; that is the person the interviewer has asked to meet.

06

Risk management recruitment: sector analysis

Every industry had unique challenges and opportunities for risk professionals in 2018. This analysis drills down into the data to draw out key insights for each sector.

Sell side

Banking

CHLOE BAILEY

Head of UK Contract Risk

The traded market risk space is quiet, with far fewer roles than ever before. This is a reflection of the shrinking investment banks in London along with offshoring (in part due to Brexit) and greater efficiency and automation.

The non-traded space (IRRBB) is more active, with spot hiring across the majority of organisations. However, these roles are generally replacement positions rather than growth hires.

Operational risk has seen spot recruitment, but not larger volumes in any one organisation. There has been more hiring across investment banks and private banking than in retail, which seems to be focusing on streamlining and restructuring instead. There has also been some hiring in the commerce space, with firms either setting up a new risk function or growing and expanding existing teams.

Credit risk has been a relatively busy market across traditional retail banking, challengers and fintechs. However, credit risk modelling has slowed down due to the implementation of IFRS 9 earlier this year. Corporate and investment banks have been active across credit risk, although this has largely been driven by junior hires at the AVP and VP level. There have been few roles at Director level and above.

Insurance

PAUL HUNDLEY

Senior Consultant, Operational Risk

We saw limited recruitment activity within the insurance market last year, but 2019 could see a surge in risk management requirements if recent research is to be believed.

Figures from Barnett Waddingham show 59% of life insurance companies expect to increase their spending on actuarial consultants this year.29 The firm's research revealed 51% of respondents intend to hire consultants to support risk management, which was higher than any other area.

Whether or not this trend will translate into permanent headcount increases across the wider insurance industry is yet to be seen, but 69% of insurers we surveyed are looking to recruit in 2019. This is only marginally higher than the 67% average across all employers, but 44% of roles are expected to be growth hires.

As with other sectors, operational and credit risk are the key focus areas this year. Some 44% and 33% of employers, respectively, cited these as the most in-demand skillsets.

Buy side

Asset management

NICOLE MADRIZ

Principal Consultant, Operational Risk

There has been a fair amount of recruitment at all levels within asset managers, including noticeable growth across alternative markets due, in part, to restructuring. The creation of the 1st LOD in many organisations has also led to hiring.

We have seen recruitment across both investment risk and operational risk. In 2017, Heads of Operational Risk vacancies notably increased, whereas there were more Deputy Head and mid-level management positions listed last year. Our surveys also suggest the hiring landscape will continue to improve. While 58% of asset managers recruited or attempted to recruit in 2018, 67% expect to need additional resource before the end of 2019.

Operational risk is a particularly in-demand area, with 67% of asset managers citing these skills as their primary focus for hiring new staff over the coming months. This was the highest figure among the sectors we examined, including retail and fintech (38%) and corporate and investment banking (22%).

The key risk issues for 2019 are likely to be FCA regulations and Brexit. These were cited as the biggest concerns for 38% and 32% of assets managers, respectively. However, just 13% of respondents believe fintech is a threat to their business, which is significantly lower than the 27% average across all industries.

Hedge funds

MOHAMMED KIDIA

Risk Researcher

Both asset managers and hedge funds are becoming increasingly sophisticated in the way they approach risk. This led to a busier recruitment market last year, and we expect this trend to continue into 2019.

Spot recruitment was evident at all levels in hedge funds, and these roles are generally seen as the most attractive in the market. Hedge funds do not yet have established operational risk functions, but they have the most flexible budgets to build their departments out in the future.

07

Conclusion

Risk recruitment remained buoyant in 2018, as economic, political and regulatory headwinds continued guide employers' decision-making. Financial organisations steadily begun to ramp up hiring, although we are yet to see recruitment levels hit pre-GFC peaks.

A clear momentum shift is occurring within risk, with operational risk emerging as the most in-demand discipline both in 2018 and for the year ahead. Credit risk has also received impetus from the growing popularity of challenger banks and fintechs in the UK.

However, finding people with the right combination of technical and interpersonal skills remains a significant challenge for many risk hiring managers. These difficulties are often exacerbated when businesses must account for Brexit, diversity and inclusion targets, and the shifting priorities of professionals.

The risk landscape is constantly evolving, which is why employers and candidates can benefit from working with a partner who understands the market and can navigate it effectively.

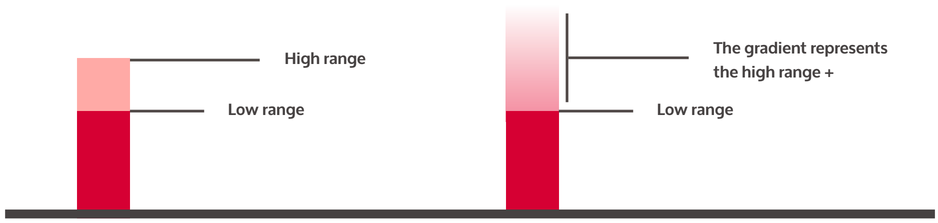
08 Salary guide

Barclay Simpson analyses the salary data that accumulates from our risk management placements. The salary ranges are industry averages and don't account for other benefits such as bonuses, profit-sharing arrangements and pension benefits.

For further information about salaries in the risk market contact Josh Lawson at **jl@barclaysimpson.com**

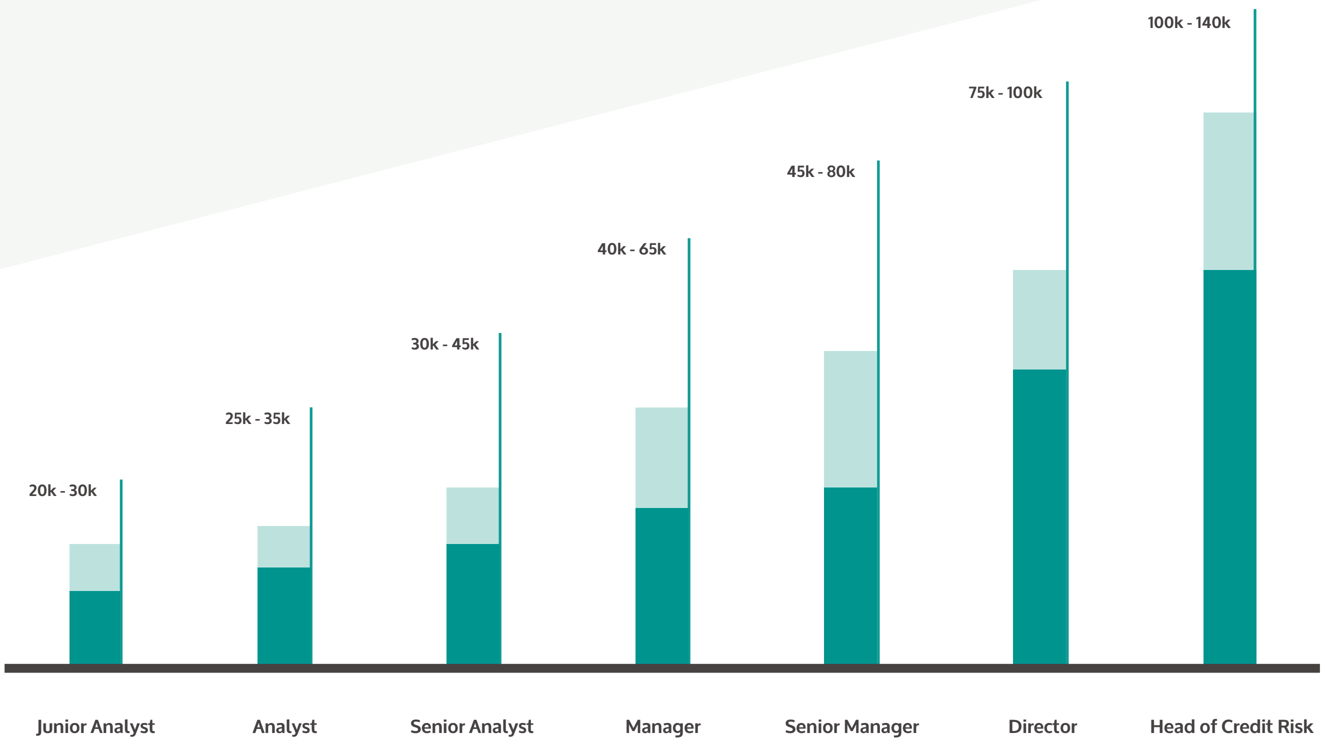
Key

Each bar shows the low and high salary range:



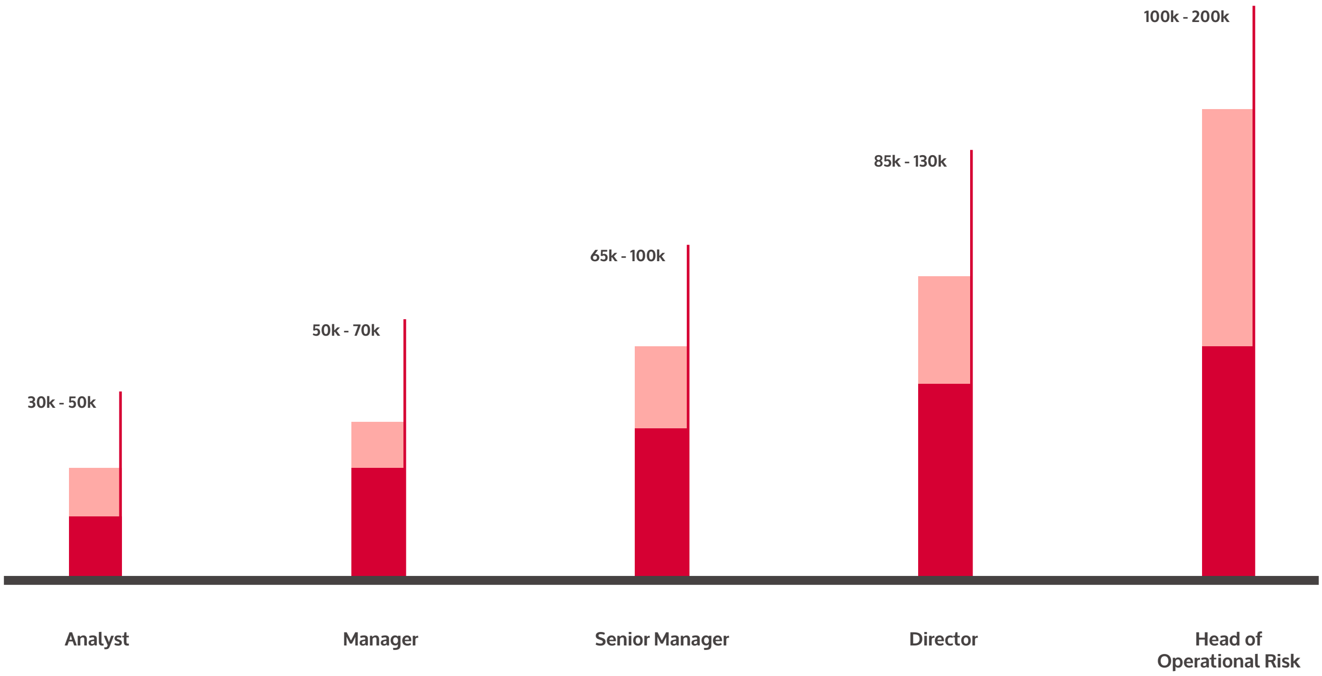
Retail Banking - Credit Risk

Gross annual salary in GBP



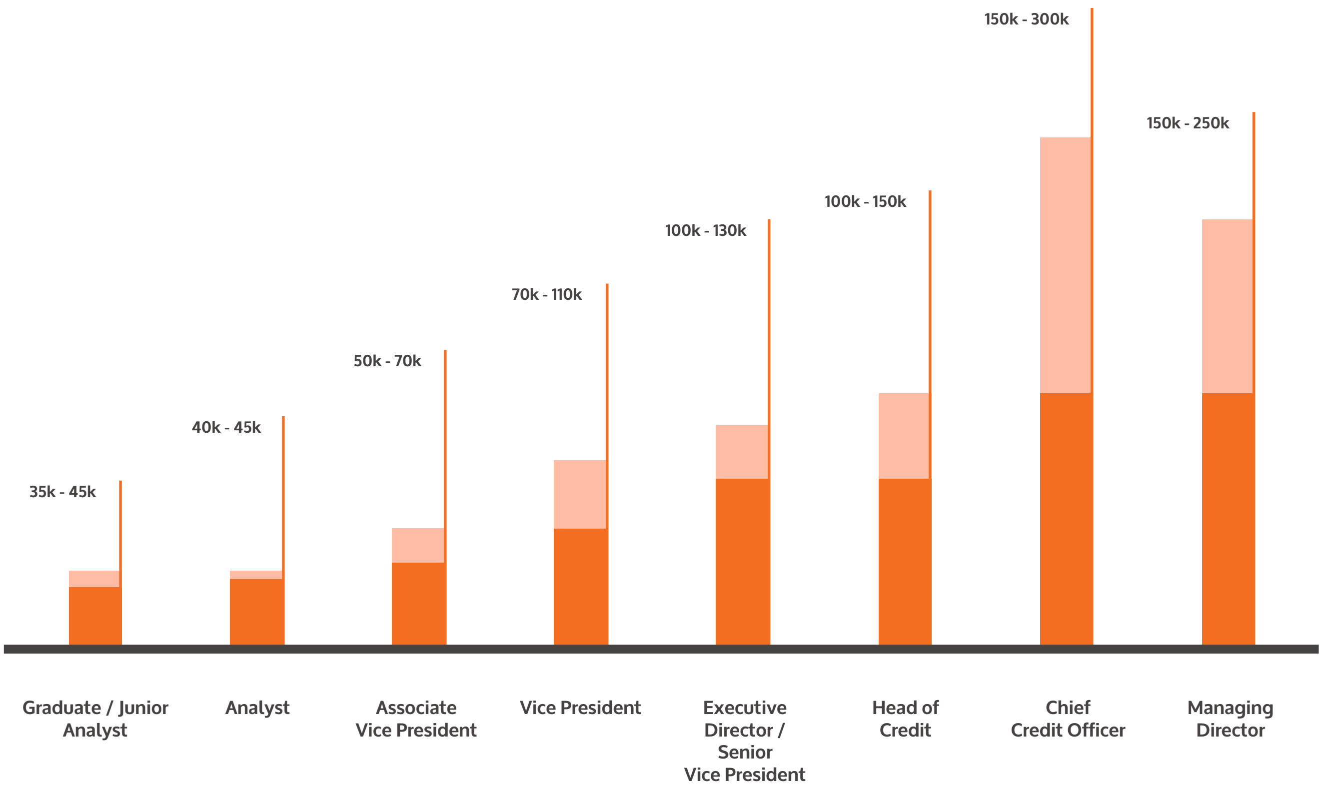
Retail Banking - Operational Risk

Gross annual salary in GBP



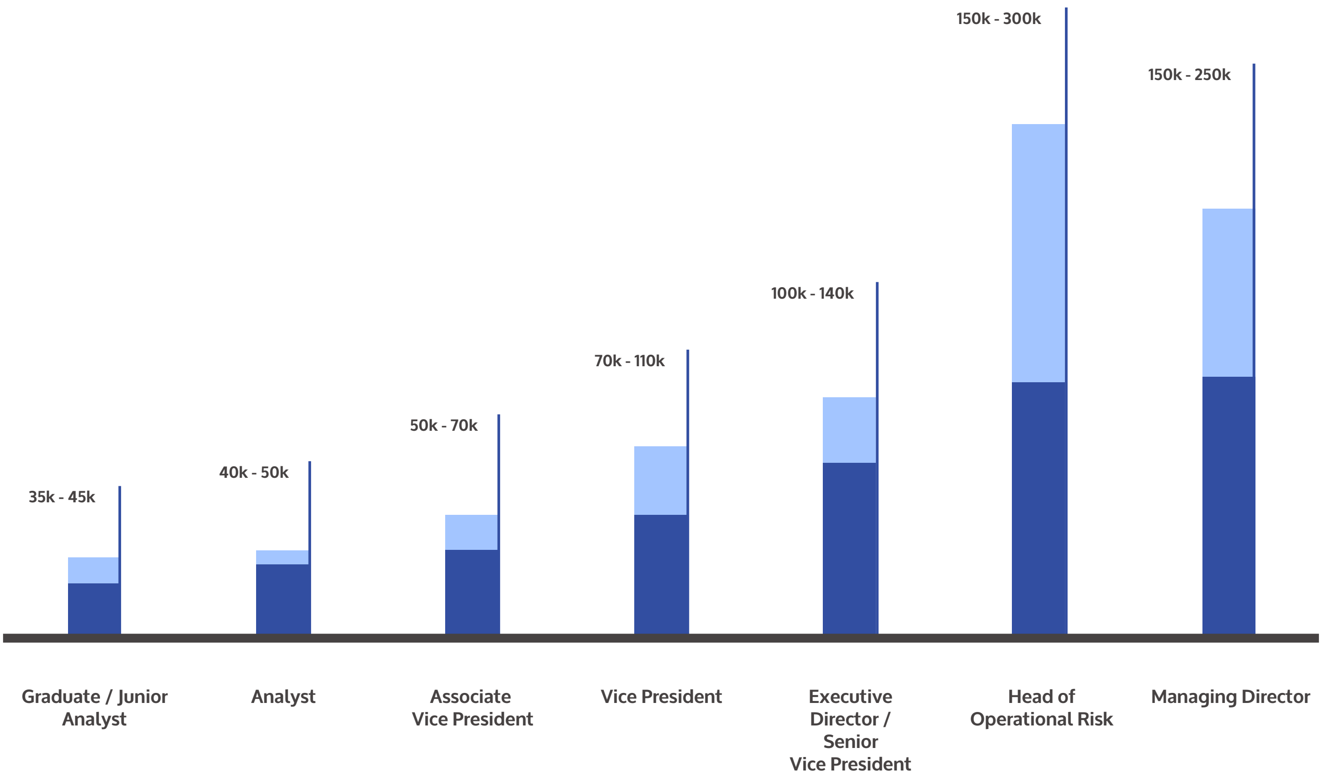
Corporate Investment Banking - Credit Risk

Gross annual salary in GBP



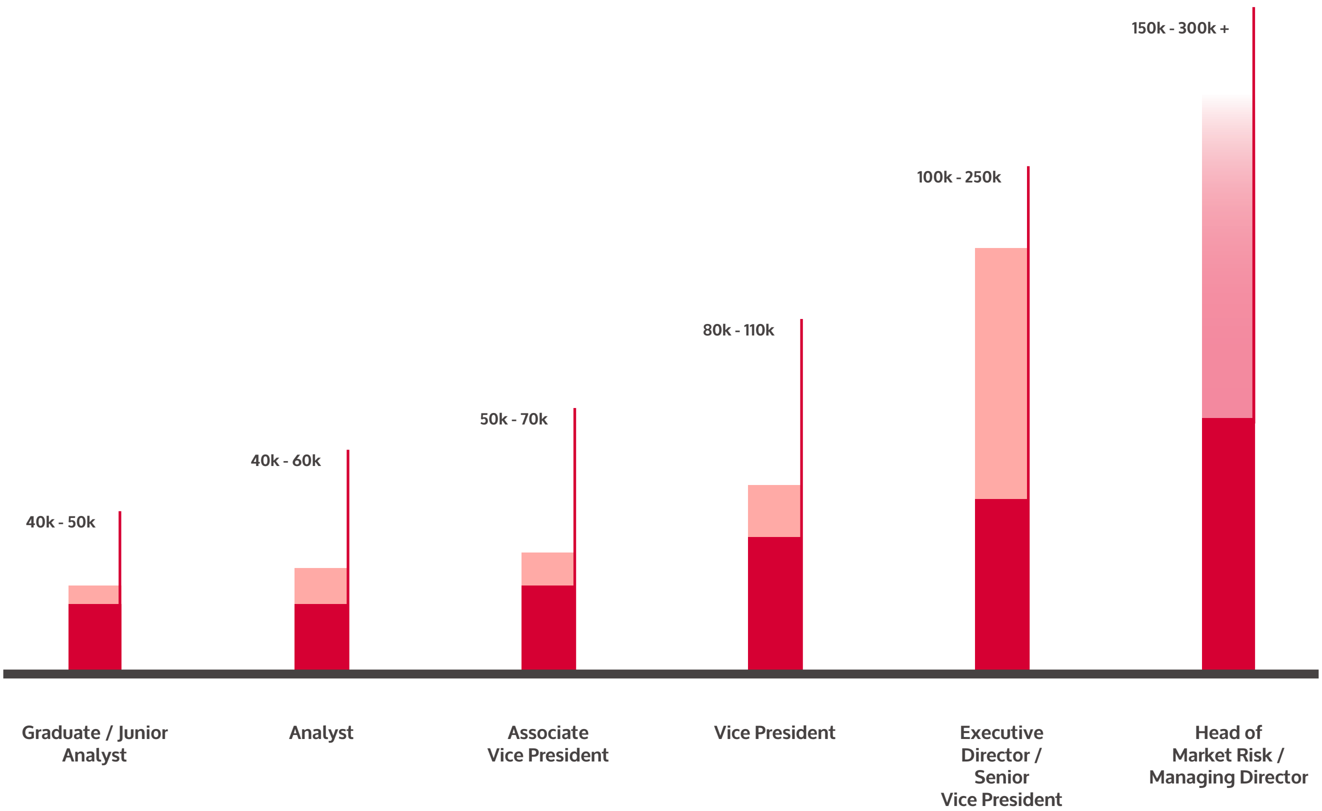
Corporate Investment Banking - Operational Risk

Gross annual salary in GBP



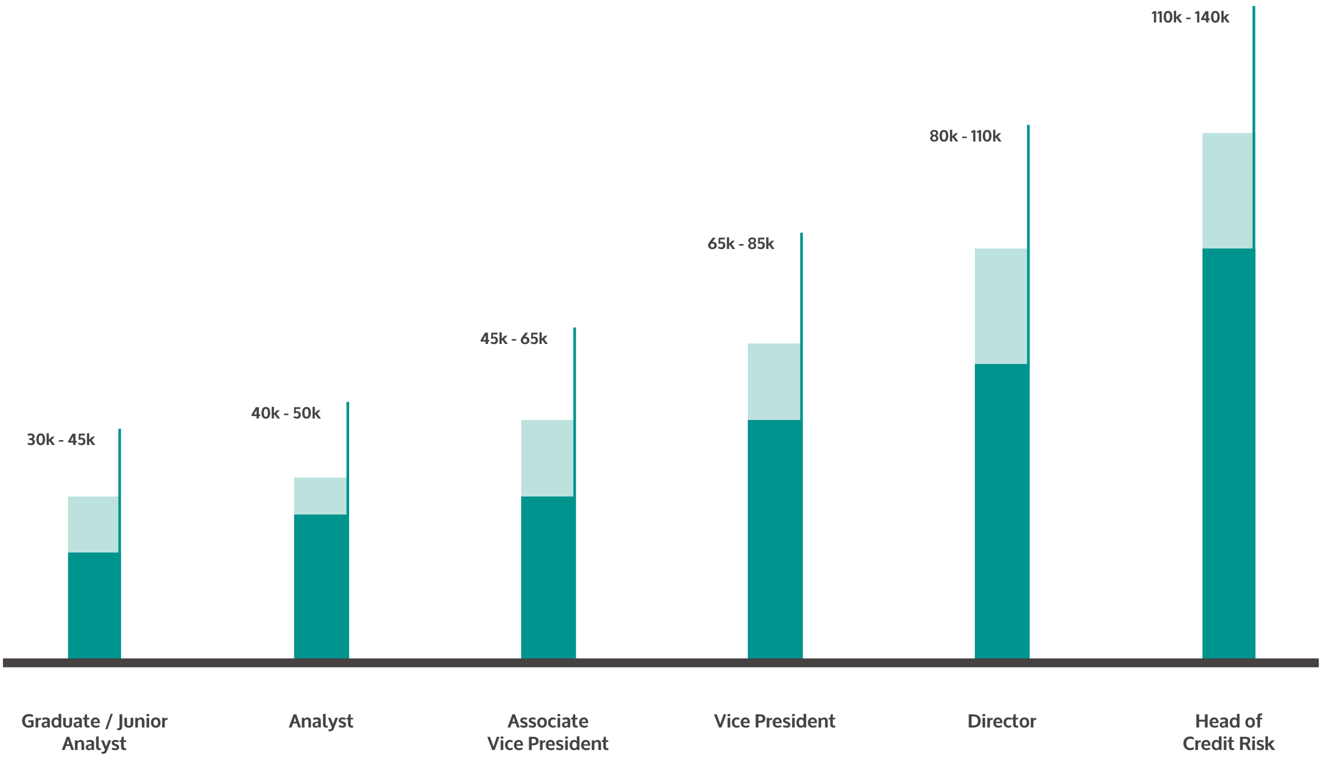
Corporate Investment Banking - Market Risk

Gross annual salary in GBP



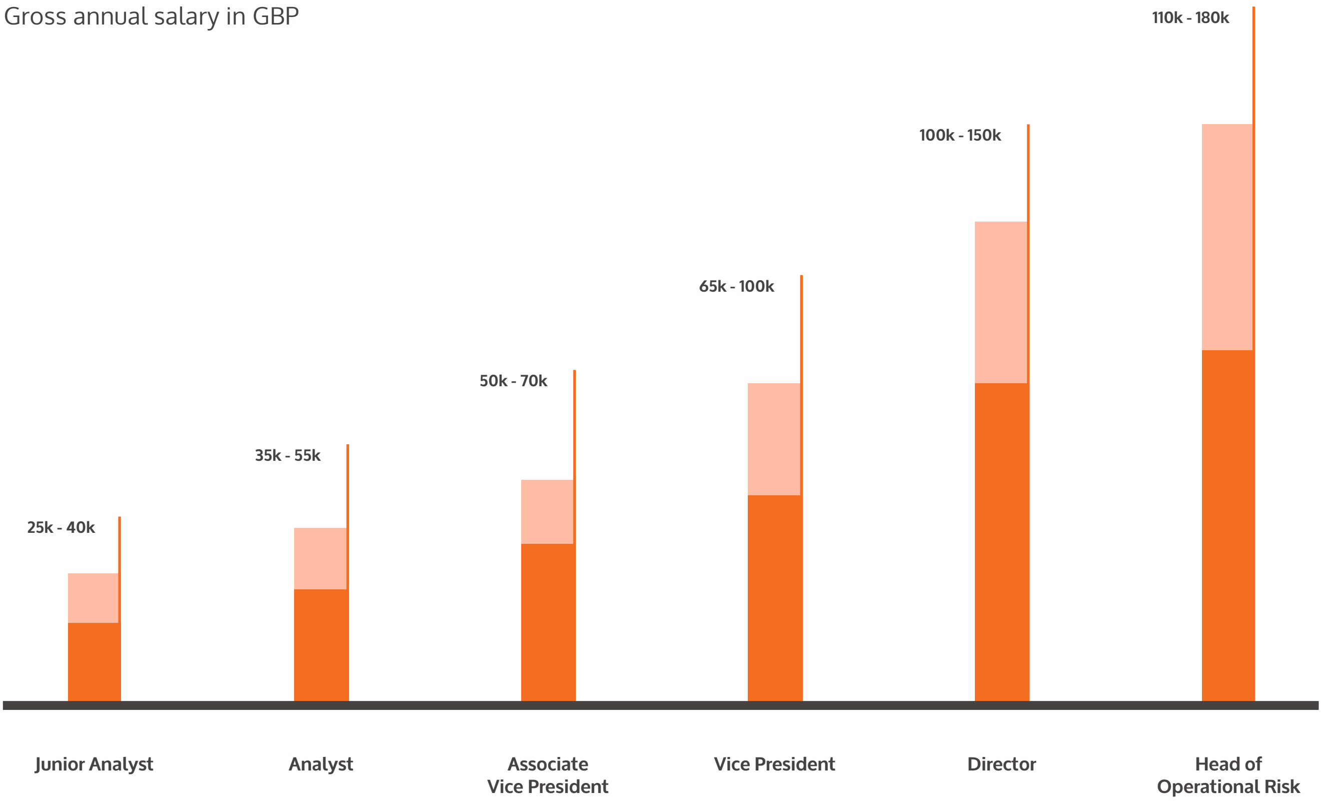
Private Banking - Credit Risk

Gross annual salary in GBP



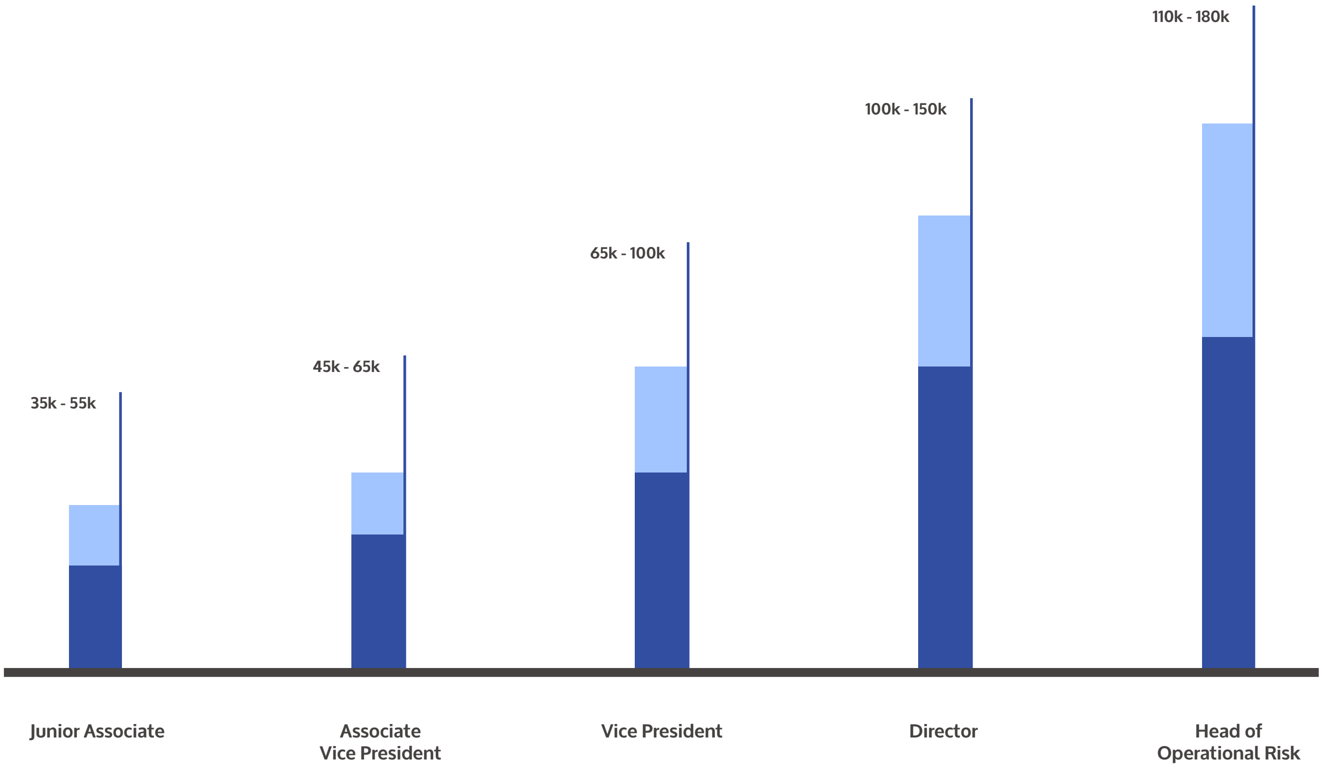
Private Banking - Operational Risk

Gross annual salary in GBP



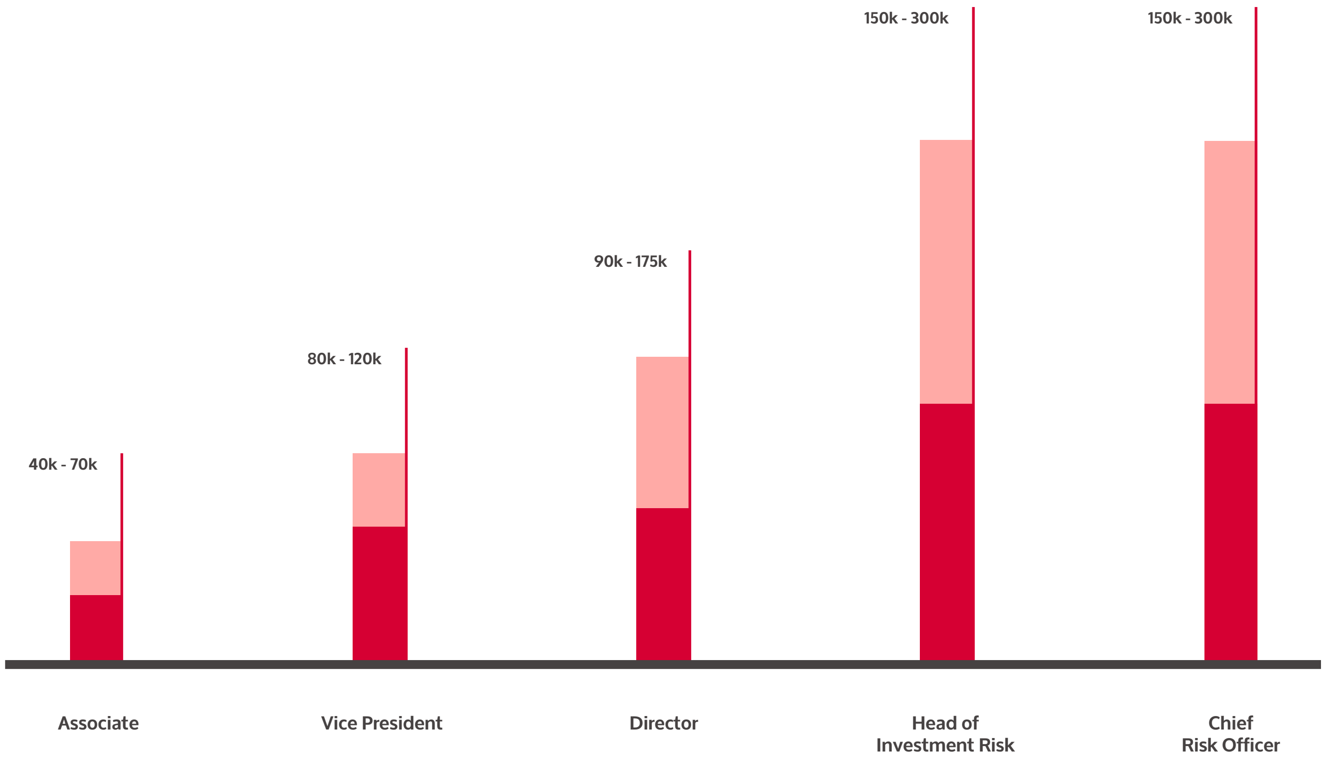
Asset Management - Operational Risk

Gross annual salary in GBP



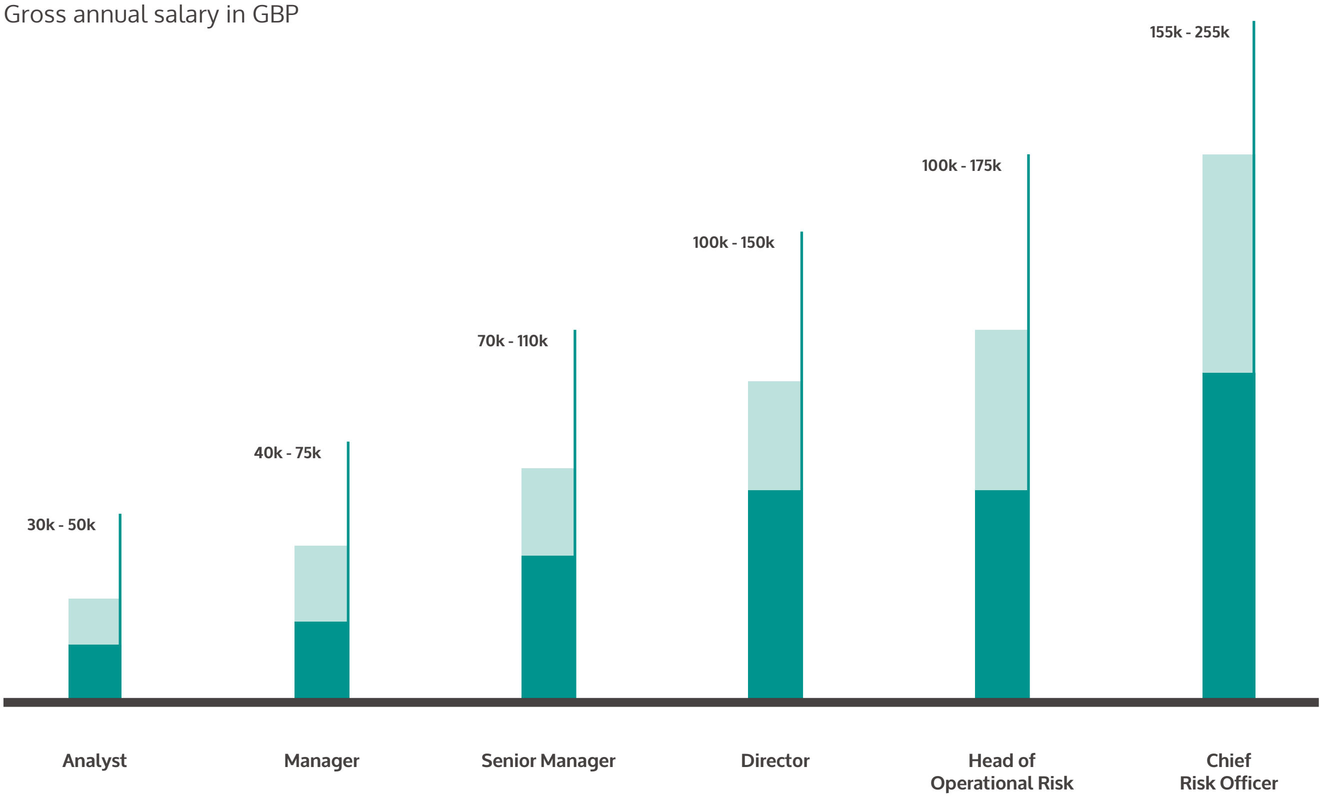
Asset Management - Market / Investment Risk

Gross annual salary in GBP



Insurance - Risk

Gross annual salary in GBP



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