The state of global wholesale banking: 2023

ODGERS BERNDTSON

OUR THIRD SURVEY OF ITS KIND, AT A TIME OF RELENTLESS DISRUPTION

When we surveyed senior wholesale bankers post pandemic, they noted that unlike the global financial crisis, banks were part of the solution and reported a "once in a lifetime opportunity to improve their brands". But to truly "build back better", they would need to speed up digital adoption, enhance client relationships providing significant help with liquidity, and have truly agile leaders.

For this whitepaper we returned to industry leaders globally, to give insights into the most pressing issues facing wholesale banking, provide a picture of some of the ongoing developments, and gauge their mood concerning industry outlook.

Interviews were conducted during the post-pandemic environment, during deglobalisation and at the height of global inflation and the cost of living crisis. Naturally, these crises loomed large but we also addressed important issues like the growth of ESG, the impact of hybrid working, the rapidly changing mindset of junior colleagues, and the evolution of leadership.

Like our previous surveys, our interviewees sit at the top of their respective organisations.

THE WORLD IS BECOMING A BIGGER *AND* SMALLER PLACE

Communications tools like Teams and Zoom have made the world a much smaller place, enabling the geographic dispersion of teams. Talent is also more globally mobile with the opportunity for companies to recruit from anywhere. But as one senior banker notes, "it's difficult to conduct investor meetings over a screen." And while technology offers a global reach, there appears to be a greater focus on local markets. Some banks are reducing their global footprint and retrenching – refocusing on regionalisation. "The world has become more insular," a senior banker told us. "A nationalistic element has come in across the board globally," said another.

BANKS ARE REFOCUSING ON NATIONAL MARKETS

It is clear from our interviews that banks are refocusing their activities from a geographic point of view. One US banker told us, "there's a lot of pressure to bring business back to the States." Another said their bank "had been on a shrinking trend for the past three months and will be over the coming months. Depending on the geopolitical context the slowdown could last six months to several years." While expansion clearly isn't on the table in the current market, some bankers recognise there is a balance to be struck between a headquarters providing global leadership and local entities with local knowledge and operating with a degree of autonomy.

DOING BUSINESS GLOBALLY IS HARDER, ESPECIALLY IN CHINA

A range of issues is compounding the reduction of global banking activities. Brexit, for example, has made it difficult for some banks to centralise some of their activities in London. Increasing tensions between China and the West is impacting supply chains and how companies are organised, and subsequently, how they are financed. Geopolitics is also reducing banking's physical footprint and it was noted how several global organisations are retrenching from specific geographies. One senior banker summed it up: "people are rethinking interdependencies."

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THE SPOTLIGHT IS ON ESG

ESG, particularly the 'E', has become central for many wholesale banks' activities and thinking. "ESG is part of every discussion," one senior banker told us; another said non-compliance was not an option and would drive up the cost of capital. It is broadly agreed that pressure from investors and asset managers is driving the trend: "it's important to investors, and so it's important to wholesale banking." Corporates are also playing their part as ESG will factor into the ability to access funding in the long-term. Whilst the EU is seen as a global ESG leader, there is increased momentum in the US and several bankers also note increased client engagement around ESG in that specific region.

ESG IS NOW CENTRAL TO THE WHOLESALE BANKING SECTOR

There wasn't a single interviewee whose bank wasn't taking ESG seriously. Bankers told us about launching ESG strategies, setting KPIs, creating committees, sharing best practices across global offices, rebuilding traditional products and services, and providing green financing. Working with clients to make the transition to sustainability was also a consistent theme across bankers' responses. One senior banker mentioned pressure from regulators to tighten practices and provide reporting, as well as the complexity of realigning products to the Paris aligned benchmark to ensure they were green. However, another told us that, "regulators are looking for feedback on ESG and the bank's views are considered."

While there is plenty of impetus to achieve ESG goals, challenges still exist. More than one banker told us "data is the key issue for ESG," while another cited greenwashing and the need to ensure it wasn't rewarded. Staff education is also critical: "within the ESG agenda there is a skills gap which we are striving to plug and build a pipeline of talent for." Another told us they were educating staff about how to have ESG discussions with clients. For example, what is Energy scope 1, 2 and 3 and how do you measure it.

CAN SUPPLY KEEP UP WITH DEMAND?

ESG is taking centre stage with investment highly profitable in the current energy crisis. But one senior banker did question its potential for growth, given supply chain disruptions and the need for materials and parts in green energy construction.

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ESG IS KEY TO ATTRACTING TALENT

Employees, particularly those at a junior level, are increasingly concerned with a bank's ESG values and commitments. This factors into both job decisions and engagement: "junior staff are less engaged if they don't see progress or tangible results on ESG issues," one senior banker commented. Greenwashing also cropped up, with the acknowledgement that younger colleagues were wary of hollow proclamations. Yet several banking leaders did point out the contradictory behaviour of younger staff: "their personal lives are often not in line with what they expect from an employer." One gave the example of younger employees vocalising their ESG demands but still flying to Bali for a holiday.

WHOLESALE BANKERS HAVE A CRITICAL ROLE IN NAVIGATING THE INCONSISTENCIES ACROSS THE ESG AGENDA

"The energy crisis in Europe highlights the complexity of being both pragmatic and ESG compliant," one banker told us. Another cited electric vehicle investment as a universally accepted better alternative to petrol cars, despite the heavy mining cost and impact on the environment. What's clear is wholesale bankers have a VIP seat to the inconsistencies across areas of ESG, and will play a central role in navigating them.

The current focus is also very much on the 'E' in ESG. One banker told us his bank is "spending more time referring to energy transition and the drive to net zero, rather than talking about actual ESG." However, more than one respondent thought the focus would quickly move more towards the S in ESG, especially in Europe.

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WHOLESALE BANKING LEADERSHIP IS CHANGING

Across the board, wholesale banking leaders felt the leadership paradigm was evolving. What's more, this change is directly linked to what junior colleagues expect from their leaders and their workplaces. According to the bankers we interviewed, leadership now requires a more inclusive approach based on building a connection with people. Leaders are expected to act as guides and facilitators for younger colleagues rather than applying a command-and-control style. Importantly, they must clearly embody certain values and beliefs. Junior colleagues want to know what the organisation, "is giving back and what value does it bring to broader societies and communities." It is now very much a banking leader's responsibility to answer these questions.

JUNIOR STAFF LESS PATIENT TO BUILD A CAREER

All respondents acknowledged junior staff are in a strong position because of the jobs market. They expect swift career progression, are less patient about promotions, and are comfortable asking for large pay packets. "Promotions are now attainable in one year instead of three," a senior banker told us.

At the same time as managing these demands, senior bankers are faced with the challenge of attracting and retaining talented people. For example, one banker told us colleagues with 4/5 years' experience in key functions were being approached regularly with job opportunities.

JUNIOR STAFF HAVE HIGHER EXPECTATIONS, PARTICULARLY AROUND WORK-LIFE BALANCE

Many senior bankers told us their junior colleagues had higher expectations about the company's values, the work they wanted to do, and their desire for work-life balance. According to one senior banker, junior colleagues are making "life choices over career choices." It is also apparent junior employees are highly vocal about these expectations and with a plentiful jobs market many banks are striving and struggling to accommodate these demands. Some, for example, are creating more dynamic junior roles where employees can learn product knowledge and engage with clients and other colleagues, and "not just do grunt work." Working up the career ladder is also not as appealing for a younger generation of bankers, as one senior banking leader notes: "we need new and broader incentives for people – more than just money!"

> " Promotions are now attainable in one year instead of three. "

MAKING HYBRID WORKING WORK IS CHALLENGING BUT IT IS ALSO A NON-NEGOTIABLE

The general consensus is hybrid working is here to stay but it's not perfect for everyone. The biggest challenges appear to be the difficulty in separating personal and professional life, the training gap it causes for junior employees, and the lack of culture and belonging. One senior banker told us, "young graduates back at the office have given positive feedback regarding the interaction and collaboration at the workplace." Another senior banker spoke to the specific nature of the banking environment and why this may drive more office presence: "the competitive pressure in some areas of corporate banking may see more employees want to come into work more often."

Several bankers also commented on the practicalities of working remotely: "companies need to implement methods of working so people feel like a team even when at home, and to avoid quiet quitting."

One banker notes the role of managers is becoming more important, "with the need to focus on productivity and output tailored to individuals rather than a blanket approach."

Despite these challenges, almost all the senior bankers we spoke to agreed hybrid working was a non-negotiable for junior colleagues who are happy to leave if it's not on the table. There's a sweet spot to be found with two to three days in the office being the current norm in banking. As one senior banker stated: "we acknowledge that you don't have to be there all the time but we need to strike a balance."

It's worth noting there were a handful of dissenting voices who believed a return to five days in the office was both inevitable and necessary. How they would implement this given the very clear mood of junior employees is more opaque.

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THE FUTURE OF WHOLESALE BANKING

There was no overarching agreement about the future of the industry, with senior bankers providing both positive and negative outlooks. Some believed inflation could be an opportunity with increased income on the lending book: "we are entering a new 'golden era' for wholesale banks as access to capital and the cost of money is higher and more limited." Others pointed to pressures this would place on the cost of funding and the cost of debt – a 'new normal' banks would need to navigate. Generally, respondents felt working capital and cash management were strong but they would still be helping their clients overcome challenges in the year ahead.

CORPORATES IN WAIT AND SEE MODE

One senior banker told us their bank had "a relatively good balance sheet and was looking for opportunities in the coming downturn." While a handful of others pointed to the impact of ECB programmes being wound down, lower consumer spending, increases in warehoused stock among FMCG customers, and growing liquidity issues. What's certain is the uncertainty about the future with most banks waiting to see how badly economies are hit: "banks are not committing capital," one senior banker explained.

BANKS AREN'T FACING UP TO REALITY

Despite a cohort who were clearly bullish about the short-term future of wholesale banking, one banker was less than optimistic: "if you are top two in equity markets, but top seven in debt markets, then you can deal with it. But if you are a seven or eight for both, then it's a no go." Many banks, he argued, "don't face up to this reality." His views were echoed by another who noted there were no problems with default rates or loan loss provisions because companies loaded up balance sheets at low interest rates, "but fee generation is down dramatically."

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DIGITALISATION MOVES DOWN THE LIST OF PRIORITIES

In our 2020 report digitalisation and the need for digital skills was a core theme among our interviewees. It was universally accepted that the pandemic sped up digital adoption, creating a skills gap that many felt needed to be plugged. Three years on and the anxiety around digital seems to have lessened. “Banks still need to move fast on this,” one senior banker noted but things like ESG, inflation, and recruitment and retention, were clearly of more concern. One driver of this could be the changing relationship with the fintech industry: “fintech was previously seen as a competitor, while now it’s seen as a partner,” one banker commented.

MOUNTING REGULATORY PRESSURE

“ALM aspects are increasing, raising the stakes for all banks,” a senior banker said. While another told us, “the time to market is becoming increasingly long due to the internal compliance processes, slowing down developments.” For many banks this ‘ever growing’ regulatory landscape is driving demand for, and the importance of, compliance and risk teams.

A PAN-EUROPEAN CONSOLIDATION COULD BE ON THE HORIZON

There are mixed views on banking consolidation, though more than one banker predicted there could be a pan-European consolidation to challenge in the global marketplace, arguing such a development was highly unlikely despite the economic headwinds. Still, several of these bankers recognised smaller banks will at least need to collaborate, and perhaps even share infrastructure in order to stay relevant.

CONCLUSION

For wholesale banking the world is in flux and uncertainty seems guaranteed. There are challenges ahead but the scene is set for wholesale banks to act as a force for good for global ESG, strengthen relationships with struggling clients.

With experience of multiple economic downturns and largescale industry developments, banking leaders will be at the forefront of navigating this new era. Because of this, we wanted to provide insights into how best to build a wholesale banking career.

According to those we interviewed this starts by setting a goal and building the foundation for a long-term plan. Of course, this means deciding early on what it is you want to do within banking – a key piece of advice from several banking leaders. Achieving this plan means embracing change and working out of your comfort zone with the aim of developing adaptability to new environments. "Learn and adapt," one banking leader said. "Move into different roles and departments," another advised. "Try different things every few years," a third echoed.

To create career opportunities, banking leaders told us networking is critical. This includes building a network of mentors internally and externally, and investing in new relationships around the world. Finally, stepping into a leadership role as quickly as possible and developing the confidence to challenge and take risks will provide huge career advantages. As one banker said, you need "daring and shouldn't be afraid of making mistakes."

ANY QUESTIONS? NEED TO KNOW MORE?

We'd like to hear your feedback on this whitepaper, so please don't hesitate to get in touch and we'll be happy to help with your questions, challenges or comments.

DISRUPTION: MEASURING THE CONFIDENCE IN SENIOR LEADERSHIP TO SUCCEED

Our second report of its kind, the Leadership Confidence Index 2022 measured the levels of confidence in C-suite teams, including CEOs, to deliver amid disruption. This report has become increasingly relevant as the frequency of disruptive events grows globally. You can see what successful organisations are doing to lead more confidently through disruption by downloading the Index now at **https://www.odgersberndtson.com/en-gb/insights/odgers-berndtson-finds-a-boost-in-confidence-in-business-leadership**

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