WORKFORCE MANAGEMENT

BankThink Labor shortage in banking will persist long after pandemic subsides

By Federico Baradello January 03, 2022 11:45 a.m. EST 4 Min Read

Supply chain issues and labor shortages are present in every industry — and banking is no exception. The financial services industry has suffered from labor shortages caused not only by pandemic dislocation, but by industrywide trends years in the making. Younger veterans are leaving their jobs to branch out on their own, while disenchanted junior executives are gravitating toward fintech, a booming sector that has compelled companies to outsource noncore functions.

While these trends have created new opportunities for niche service providers, it would be a mistake to think this is a flash in the pan that will soon be alleviated by the end of the pandemic or an upturn in the economic cycle.

There is a unique opportunity for technology and service providers to step in and create a new era of fintech banking services, currently being addressed by a motley constellation of providers.

That stems from an understanding that the pain points investment banks are experiencing are not only the results of the pandemic or 2021's Great Resignation, but also from trends with roots in generational cycles and the progress of financial technology itself.

The current problem is not a minor cyclical blip. While there were 10.4 million job openings in August, a whopping 4.3 million workers quit their jobs in the United States. Although this number declined in October, hiring still dropped by 82,000. The financial services and insurance industries alone accounted for the decline with a drop of 96,000. The bottom line? No matter the size of the bank, financial institutions are dealing with retention and recruitment difficulties.

Call it a generational shift, but millennials want to be their own bosses. During the pandemic, companies laid off employees in droves, feeding an already thriving culture of side-hustles and entrepreneurship. This is especially easy to do in a career like investment banking. With years of experience under their belts, millennial investment bankers are coming of age in their careers. Since this trade is all about monetizing relationships, once these executives reach a certain level of seniority, it's only natural for them to break away and chart a path of their own.

The labor shortage in the financial services industry can also be attributed to increasing dissatisfaction with work-life balance. COVID-19 allowed people to work remotely, and now that offices have reopened, office work no longer aligns well with how people prefer to live their lives. An overwhelming 90% of millennials want a four-day workweek, and almost half are considering quitting their jobs in the next 12 months. We hear that junior bankers have become especially disenchanted with the grueling banking industry. In an internal Goldman Sachs survey, first-year analysts with the bank shockingly characterized work conditions "inhumane," with 100-hour workweeks, sleep deprivation and abuse from senior colleagues.

It is no surprise that bankers are turning to fintech for the same reasons consumers do — both are fed up with how legacy banking systems operate. The fintech sector's consumer-centric and innovation-first philosophy has proven to be attractive to junior industry executives. Moreover, fintech growth across services like banks, payments, lending and financing offers more job opportunities. Industry faith in fintech has grown such that investments in the sector hit $21 billion this year — doubling from last year — with an 8.6% compound annual growth rate that's expected to continue into 2024.

The fintech surge also triggered a transition from a full-scale service model to a decentralized service model that outsources noncore functions to niche service providers. Fintechs like Revolut and N26 partner with FDIC-insured banks to manage back-office banking. This leaves these billion-dollar companies to innovate new services and build apps for consumers on the front end.

Investment banking is no exception. A 2020 Deloitte report predicted investment banks will likely discard noncore functions and outsource back-office operations to niche service providers within the next two decades. While the world's largest investment banks like Goldman Sachs and JPMorgan Chase have the juice to buck Deloitte's prediction, mid-and-small-level boutique investment banks do not. This clearly points to the emerging of a substantial fintech market that extend far beyond just the Fortune 500. Why shouldn't small and midmarket banks have access to the same level of fintech seamlessness that are now in-house at the banking behemoths?

In short, the "new normal" of a pandemic recovery is now going to include the growth of a substantial fintech category where junior banking staff, consultants and other related providers now operate. It all makes sense from an efficiency perspective, from a technology perspective and from a human resources perspective.

As the labor shortage in the financial industry continues, fintech providers are stepping into the breach, providing struggling lower-middle-market investment banks with technology solutions that can solve their short-staffing issues. The move to decentralized services is not just a stopgap solution that will cycle out once labor shortages are resolved; this is a growing part of a new normal that will characterize our post-pandemic world.

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