Leading banks are known for being able to plan ahead effectively. In formulating their strategies, they carefully consider how elements such as competitor behavior, regulatory environment, and changing customer needs will affect the pursuit of their long-term goals.

Yet many banks today are putting themselves at risk in an equally critical area of preparing for the future: their own human capital. Amid the current demographic reality of rapidly aging workforces, insufficient human-resources planning will place the viability of many financial institutions in substantial jeopardy in the coming years. This peril is linked to the potentially dramatic loss of capacity and know-how that banks will face, across all customer segments, as waves of frontline sales staff and senior and middle managers retire. Multiple bank branches may be forced to close simply because there will not be enough qualified people to staff them.

Unfortunately, “recruitment as usual” will not be able to fill all the gaps that will appear as age pyramids continue to steepen. Competition for talent is becoming increasingly cutthroat in major markets, and traditional recruitment pools are drying up at a faster rate, forcing banks to improvise and to search farther afield.

The heart of the matter is that demographic risk is no longer a peripheral issue that financial institutions can afford to ignore. It amounts to a time bomb—one that can blast away competitive advantage—waiting to go off. But which actions should banks take to defuse the bomb in their own organizations?

**Beating the Clock**

Although most banks have a general awareness of unfavorable demographic trends, relatively few are doing enough to address them. Yet time is short. In many industrialized markets, the percentage of the work force that is over 50 years of age will double, and in some regions
even triple, over the next decade—patterns that will be mirrored in the work forces of major banks and other corporations. (See Exhibit 1.) More specifically, in some countries, the age pyramids of financial services organizations in particular are even more heavily skewed toward older workers than those of other industries.  

Our work with major financial institutions has helped us identify four principal initiatives that banks can take to help them meet the steep demographic challenges that lie ahead.

De-average the work force and adapt the organization accordingly. Many banks look at the average age of their work force when examining HR capacity, but few de-average it. This means, in essence, to seek an extremely high level of granularity in determining—and figuring out how to meet—future HR needs across each specific job function in every branch. For example, rather than starting to search for relationship managers (RMs) who specialize in small- to medium-size enterprises (SMEs) only when job vacancies occur, banks should start analyzing their needs in anticipation of any openings. Questions they should ask themselves include the following:

• How many RMs do we now have in region X who focus on SMEs, and are they working at capacity in every branch?

• How much do we expect our SME business to grow in that region over the next 5, 10, and 15 years, and therefore how many RMs are we likely to need?

• How many of these RMs will reach retirement age each year, and will we be able to fill these positions internally, in every branch, with people who have the right experience?

Part of such an analysis—for any employee category—involves deriving “families” of jobs and skill sets that help the bank determine each worker’s potential for mobility into related posts. Banks must gauge which jobs can usually be filled internally with, say, less than three months of training, and which posts might require far longer periods of mentoring—even several years. The key is to recognize capacity gaps in advance and figure out how to close them or how to adapt the branch network if the gaps cannot reasonably be closed.

Take the case of one large retail bank that began to examine its HR strategy as part of a general goal to reduce its cost-to-income ratio by 20 percentage points. At first glance, the bank’s overall staffing capacity appeared more than adequate to pursue that goal in the short term. Yet when the planning horizon was extended beyond 2010, the bank discovered a looming drop-off in sales capacity that, if left unchecked, would result in a highly inexperienced sales force by 2015. Then, by further examining age pyramids and demand for full-time equivalents (FTEs) at the branch level, the bank saw that nearly 25 percent of its branches—specifically those that were small and located in areas where the bank was subscale—were in danger of no longer being commercially viable within five years owing to the planned retirement of senior salespeople. To address the situation, the bank began a region-by-region HR-planning initiative that included closing or selling branches in which the required future staffing levels were deemed too onerous to meet. This program is already producing lower costs and a more streamlined branch network.

Another large financial institution, following counsel to closely analyze its HR planning, discovered that 35 percent of its back-office and support-function work force would be eligible for retirement within six years. To help address this problem, the bank chose to build both national and regional platforms and to offshore half of its back-office activities. These decisions enabled the institution to reduce its need for back-office and support personnel—thus narrowing its labor supply-and-demand gap—and to cut its overall costs.
Both banks succeeded in turning a demographic liability into an asset by being a first mover in their market to address demographic risk—and, in so doing, enhance their competitive position.

**Segment employees rigorously; rising stars and rank-and-filers deserve different levels of HR management.** Determining which specific sales and management posts, branch by branch, can be filled internally as waves of senior people retire also involves exploiting the fact that all employees are not created equal. Although some banks have made efforts to separate the rising stars, or the highest-potential workers, from the rank-and-filers, or those who appear relatively inert, many of these initiatives have not gone far enough.

First, more rigor must be applied to how past performance is measured, and a process must be created to segment employees according to their future promise. This can be seen as an extension of the de-averaging exercise, looking past the sheer numbers that will be needed in each post and branch, and beyond average training times, to explore each worker’s personal adaptability among job families and skill sets more deeply. Second, norms involving frequency of contact and degree of mentoring from local and regional HR functions must be developed for each segment. In our experience, up to 50 percent of banking employees typically fall into the rank-and-file category and only 5 percent into the rising star category—not the right proportion for a fast-moving environment.

One major bank, for example, noticed that its field HR managers were spending an inordinate amount of time trying to convince hesitant employees to relocate in order to accept vacant positions—instead of focusing more effort on the highest-potential employees who were more versatile, quick learners of new skills, and already willing to move. In some cases, the lowest-potential employees were getting the most attention from the bank’s HR department and, at times, overly generous enticements. To help correct the problem, the bank gradually implemented a staff segmentation program that has helped it use its HR resources more efficiently and gain a clearer perspective on which future HR needs can be met internally and which cannot.

**Tap nontraditional recruitment pools and manage workforce diversity.** The growing disconnect between evolving HR gaps and the level of talent available in traditional recruitment pools—not to mention intensity of competition in the labor market—is making it necessary for banks to evaluate candidates from more diverse backgrounds. Relatively few institutions are exploring these waters fully, but those that have done so are benefiting substantially.

Two venerable European financial institutions, for example, realized at roughly the same time that they faced recruitment shortages for thousands of entry-level positions in their branches. Having determined that standard candidate sources would be insufficient, they decided to fish in new ponds, interviewing people with lower-than-usual educational levels and embracing a wider range of social and ethnic diversity than they had in the past. They also shopped in other industries, such as travel and retail consumer goods. In one recruitment round, one of these institutions took more than 60 percent of its new hires from this new pool.

There were inherent challenges to this approach, of course, such as having to adapt recruitment techniques. But both banks innovated smartly. One rented a huge sports stadium for a recruiting event, and the other temporarily transformed branches into recruiting offices. The banks also altered their branding messages to feature a younger, “think different” tone. Another challenge was to maximize the speed and quality of core banking training, a task that both institutions addressed aggressively with highly focused programs. Mentoring initiatives aimed at ensuring full integration with colleagues from more traditional backgrounds were also adopted and are making progress despite some initial difficulties.

**Drive productivity, motivation, and retention of older workers.** Productivity among older workers obviously varies by individual and by function. And although one might assume that RMs improve with age—having ostensibly acquired better knowledge of products, a deeper client portfolio, and more finely tuned sales skills—the truth is that productivity in late career phases often slows down. (See Exhibit 2, page 4.)

Banks can adjust by redesigning compensation packages to include a higher percentage of variable, performance-based income—which often enhances production. But it is equally important to realize that monetary considerations are not a panacea. Senior RMs, who typically have already acquired a certain degree of affluence, are often more highly motivated by feeling that they are truly valued players on a top-
Few banks know how to foster such sentiments, however.

In truth, banks need to find new and innovative ways to encourage older workers through both financial incentives and career-path initiatives. Rather than pushing “senior citizens” out the door, give the best ones reasons to stay, such as by blending their sales time with mentoring and training roles and allowing them to retire in phases. Actions like these can create a virtuous circle that engenders knowledge transfer from senior to junior workers and can contribute to cost cutting through fewer working hours and flexible schedules.

One major bank, for example, has instituted a demographically oriented recruitment policy aimed at eliminating age-based discrimination and at keeping productive older employees in the work force longer. As part of the program, the company is actively hiring more people in their forties and fifties. The bank has also adopted distinctive health-management policies and flexible work schedules that appeal to the upper age ranges. These measures have helped the bank balance its age pyramid.

Finally, it is important to note that proactively managing demographic risk is just as critical in emerging markets as it is in highly developed ones. In Asia’s rapidly growing private-banking market, for example, the biggest HR problem is a dire shortage of experienced RMs. With senior sales executives typically managing up to 75 percent of total assets under management and new sales personnel taking up to five years of ramp-up time to achieve sufficient productivity, private bankers need to intensify core training, foster knowledge transfer, tap new recruitment sources, and find innovative ways to prepare for the retirement of their most productive people.

Ultimately, banks and other financial-services providers that have been first movers in managing demographic risk—and in putting HR strategy at the top of the CEO’s agenda—have helped position themselves to lead the pack in their markets. We therefore encourage all banks to ask themselves a few basic questions:

- Do we have a clear understanding of our future FTE demand curve, taking different strategic scenarios into consideration?
- Have we accurately assessed the percentage of our workers, particularly front-office employees, who will be reaching retirement age within the next 5, 10, and 15 years—by region, branch, and exact job category?
- Have we placed each employee into a job-family category, on the basis of core qualifications, and estimated that employee’s potential to move into more senior positions with higher degrees of responsibility?
- Is our workforce sufficiently segmented so that we plan effectively and give our highest-potential people the HR attention they merit—while not overmanaging underachievers?
- Do we feel confident that our internal and external recruitment efforts will be able to fill all the gaps we are likely to have?
- Have we made diversity management a priority?
- Are we getting the most from our over-50 workers in terms of productivity and knowledge transfer?

If your bank’s answers to the above questions are largely negative, your institution would benefit from adopting a more aggressive approach to managing demographic risk. You’ll need to take action, both to defuse the time bomb that is ticking away in your organization and to beat your competitors—some of which may already be beating the clock.

Jean-Michel Caye
Rainer Strack
Christophe Lattuada
Jens Baier
Jean-Michel Caye is a partner and managing director in the Paris office of The Boston Consulting Group. Rainer Strack is a partner and managing director in the firm’s Düsseldorf office. Christophe Lattuada is a principal in BCG’s Paris office. Jens Baier is a principal in the firm’s Düsseldorf office.

You may contact the authors by e-mail at:
caye.jean-michel@bcg.com
strack.rainer@bcg.com
lattuada.christophe@bcg.com
baier.jens@bcg.com

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