

Financial Sector: Employment Conditions and Preparing the Workforce for the Future

By Ian Lee Wei Xiung and Elysia Lim Fei Ying

Introduction

A driving force of progress in the Malaysian financial system has been its diverse and adaptive workforce. With globalisation and technological advancements having a profound impact on the global value chain, productivity, and consequently jobs, this article examines: (i) current employment trends in the Malaysian financial sector¹; (ii) emerging developments within the financial sector workforce; and (iii) implications and strategies for workforce planning and talent management going forward.

State of the Industry: Key Highlights and Observations on Employment Trends

Positive job creation and hiring appetite by financial institutions

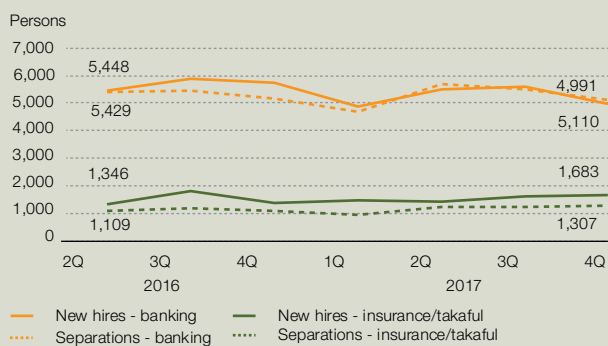
Net hiring trends by the financial sector have been positive in recent years (Chart 1). At end-2017, 164,884 were employed by the financial sector, with Malaysians comprising a significant majority of the workforce (99.6%). Over the past three years (2015-2017), a total of 24,630 jobs were created, of which 90.6% constituted high-skilled positions² (Chart 2). Layoffs and discharges remained low, averaging only 7.5% of total separations³ in 2017 (Table 1), indicating largely voluntary movements due to retirement, resignations and transfers. Over 75% of jobs created in 2017 were filled within the year, with over 80% of these jobs filled within six months. Looking ahead, the trend for job creation is expected to remain positive, with both banks and insurers/takaful operators expecting additional jobs to be created in 2018.

Broad-based movement towards a high-skilled workforce

Another key development observed is the shift in composition of the workforce towards high-skilled workers in the last three years. As at end-2017, high-skilled workers comprised 74.4% of banking sector employees (2015: 69.1%) and 83.4% of insurance/takaful sector employees (2015: 79.1%) (Chart 3). This significantly exceeds the national average for total employment in Malaysia, where only 27.2% of employed persons are within the high-skilled worker category. A more detailed analysis on the ongoing and future implications of a movement towards a high-skilled workforce is further discussed in the later part of this article.

Chart 1: New Hires against Separations

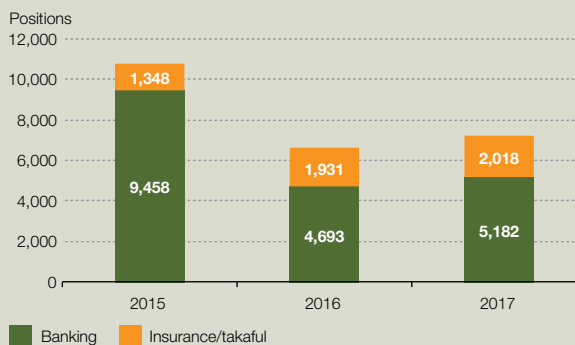
Hiring trends remain stable



Source: Bank Negara Malaysia

Chart 2: New Jobs Created

Sustained job creation



Source: Bank Negara Malaysia

¹ Unless otherwise specified, the financial sector comprises banks (commercial banks, investment banks, Islamic banks, international Islamic banks and development financial institutions), insurers and takaful operators.

² Positions are categorised based on the Malaysian Standard Classification of Occupations 2013 (MASCO 2013). For the financial sector, high-skilled positions are those within the Managers, Professionals and Technicians and Associate Professionals groups specified in the MASCO 2013. Mid-skilled positions are those within the clerical occupations and operative workers group, while low-skilled positions are those within the elementary workers group.

³ Separations comprise the following sub-categories: (i) Quits/resignations (excluding retirements); (ii) Layoffs and discharges; and (iii) Other separations (retirements, transfers to other locations, deaths or separations due to employee disability).

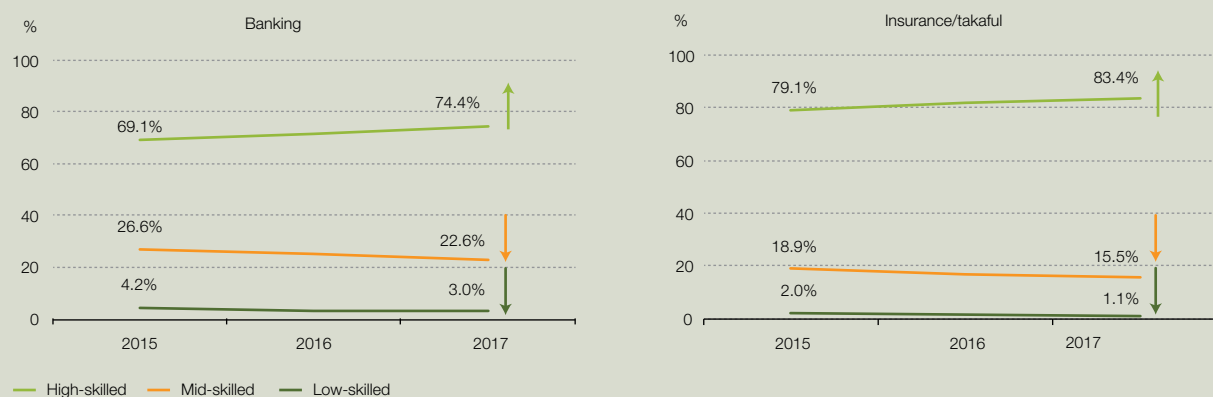
Table 1

New Jobs Created against Layoffs and Discharges in 2017

	1Q 2017	2Q 2017	3Q 2017	4Q 2017
NEW JOBS CREATED				
Banking	1,753	1,220	1,482	727
<i>High-skilled</i>	1,721	1,160	1,403	657
<i>Mid-skilled</i>	29	57	79	69
<i>Low-skilled</i>	3	3	0	1
Insurance/takaful	556	525	494	443
<i>High-skilled</i>	552	519	492	438
<i>Mid-skilled</i>	3	6	2	5
<i>Low-skilled</i>	1	0	0	0
LAYOFFS AND DISCHARGES				
Banking	193	284	311	664
<i>High-skilled</i>	169	226	269	402
<i>Mid-skilled</i>	18	53	37	224
<i>Low-skilled</i>	6	5	5	38
Insurance/takaful	158	137	80	111
<i>High-skilled</i>	73	55	28	56
<i>Mid-skilled</i>	85	77	52	55
<i>Low-skilled</i>	0	5	0	0

Source: Bank Negara Malaysia

Chart 3: Employment by Skills

Broad-based upskilling of the workforce

Source: Bank Negara Malaysia

Proportional growth in productivity and median salary

Consistent with the shift towards a more high-skilled workforce, salaries in the financial sector have continued to increase. Over the 2011-2016 period, the real median salary in the financial sector⁴ grew at a Compounded Annual Growth Rate (CAGR) of 1.8% a year, broadly in line with growth in the sector's labour productivity⁵, which expanded at a CAGR of 1.7% a year over the same period. In comparison to other industries, salaries in the financial sector remain supported by relatively high levels of productivity (Table 2).

⁴ Real median salary is derived from adjusting the median salary for the financial sector by the Consumer Price Index (Source: Department of Statistics Malaysia). For the calculation of salaries and productivity within this sub-section, the financial sector includes banks (commercial banks, investment banks, Islamic banks, international Islamic banks and development financial institutions), insurers and takaful operators as well as capital market service operators and other financial providers.

⁵ Measured by real value-added per worker.

Table 2

Real Median Salary and Productivity of Selected Economic Activities in 2016

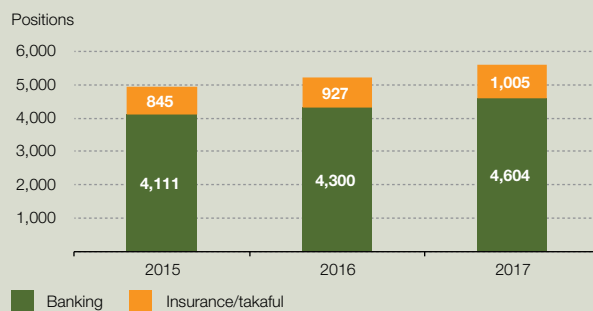
Economic Activity	Monthly Real Median Salary (RM)	Annual Real Value-added per Worker (RM)
Mining and quarrying	3,168	1,134,476
Information and communication	3,038	294,998
Financial and insurance/takaful activities	2,648	201,224
Manufacturing	1,389	106,413
Construction	1,354	39,225
Wholesale and retail trade, repair of motor vehicles and motorcycles	1,302	67,395
Agriculture, forestry and fishing	1,042	51,264
Accommodation and food and beverage services activities	1,007	26,373

Source: Department of Statistics Malaysia

There are some remaining job vacancies despite positive overall hiring appetite

Despite positive overall hiring trends by the financial sector, job vacancies remain at over 5,600 (Chart 4), with high-skilled positions consistently accounting for more than 80% of total job vacancies over the past three years. Based on a survey conducted by the Bank, a majority of job vacancies (over 3,500 positions) were high-skilled positions within the commercial banking sector as at end-September 2017. Among these, high-churning business functions, such as sales and marketing have the largest number of vacancies (33%, 1,185 positions), while highly-specialised functions such as risk management, legal, compliance, project management and credit management were the second largest group (15%, 509 positions). More than 75% of these job vacancies in the commercial banking sector were for entry-level or experienced technicians and associate professionals, indicating strong industry-wide demand for junior- to mid-level employees in high-skilled business functions. Commercial banks cited that the limited number of candidates with the necessary qualifications, exposure and knowledge was among the key challenges faced in filling the vacancies. The evolution of job requirements within the highly-specialised functions underscores the need to focus not only on the absolute supply, but also the quality of supply to meet industry demand for higher-skilled talent.

Chart 4: Job Vacancies

Some job positions remain vacant


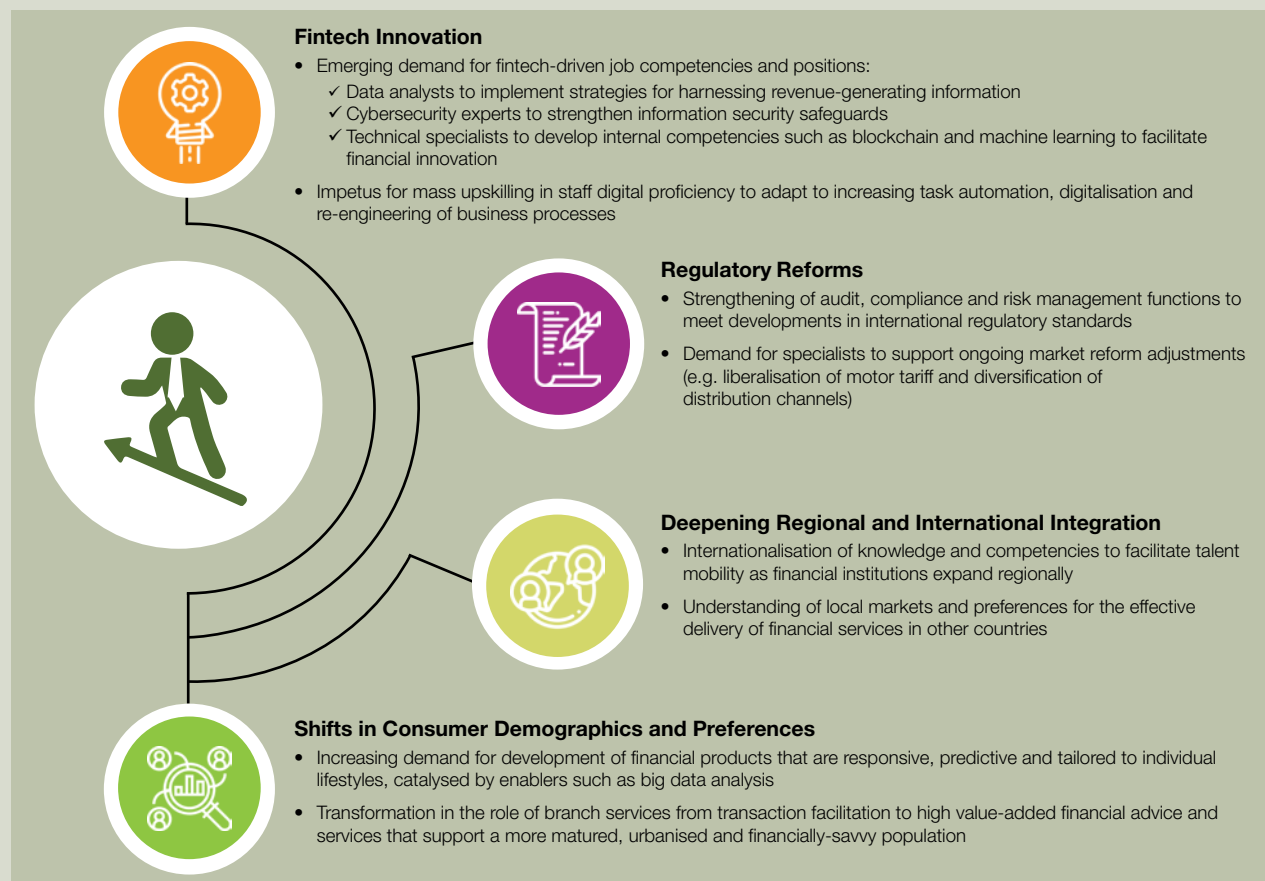
Source: Bank Negara Malaysia

An Evolving Workforce: Trends and Developments Shaping the Future Landscape

The above observations highlight important shifts in job creation, hiring trends and workforce composition that are taking place amid the changing financial landscape. Looking ahead, several factors will be key in shaping the workforce needs of the Malaysian financial sector (Diagram 1). In particular, these factors include the pervasive impact of technology on both business strategy and processes, higher and more complex demands from the ongoing regulatory reforms, expanding cross-border operations and changes in consumer interactions.

Diagram 1

Driving Factors Shaping the Future Workforce Needs of the Malaysian Financial Sector



Source: Bank Negara Malaysia

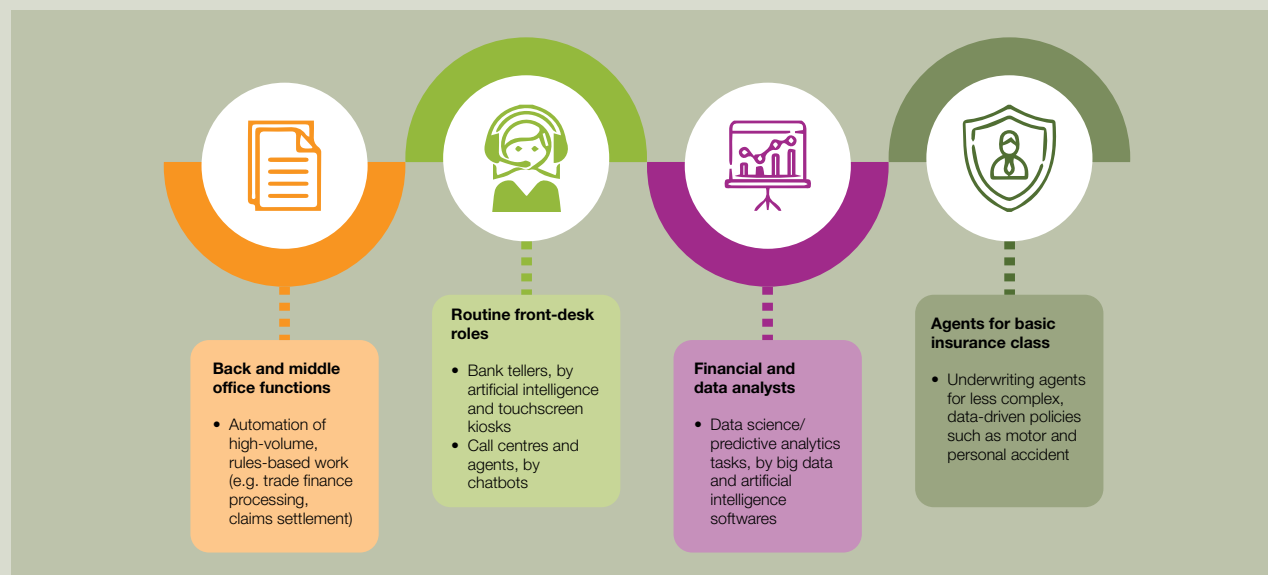
Over the coming years, the confluence of these factors is likely to see new jobs being created within the high-skilled category, accompanied closely by shifts in the role and scope of existing job positions. In particular, technological advancements are expected to expand job opportunities in several key areas, including to support:

- (i) Process streamlining: In a more digitalised society, greater demand will be created for specialised skills to drive continuous process re-engineering to increase efficiencies while delivering superior service;
- (ii) Data analytics: Big data will play a crucial role in expanding business opportunities and managing risks. Financial institutions will need to be able to examine and process large and varied data sets that will increasingly drive decisions;
- (iii) Cybersecurity management: As increasing amounts of sensitive information migrate from paper to cloud, information security will be a paramount concern; and
- (iv) Regulatory and legal compliance: Increasing regulatory complexity will shift greater demands onto technology to support compliance, with risk management, compliance and finance officers taking on more strategic roles in recovery planning, governance, communications and advocacy and organisational development.

The broad reach of digital platforms and changes in consumer preferences have further accelerated changes in the delivery of financial services, replacing physical branch access with mobile- and internet-based connectivity for performing financial transactions. In 2017, banks onboarded over 5.3 million online and mobile banking customers, and notified the Bank of 36 branch closures, broadly in line with declining transaction volumes at these bank branches. While these technological advancements have enabled financial institutions to be more agile and responsive to consumer preferences and a changing competitive landscape, they also herald an irreversible change in the future composition and skillsets of the financial sector workforce (Diagram 2).

Diagram 2

Types of Jobs and Roles at Risk of Technological Displacement



Source: Bank Negara Malaysia

With a significant majority of jobs in the high-skilled category, technology is more likely to augment and redefine job roles in the financial sector, rather than eliminate occupations altogether over the next decade. The effects of automation will also likely be heterogeneous. Like periods of significant technological advancements in the past, the impact across jobs, worker segments and institutions will be uneven despite overall benefits to society from increased productivity, wages and innovation. In line with trends observed in other advanced countries, the gradual displacement of largely manual and more routine lower value jobs will continue. In Malaysia, the number of low- and mid-skilled workers declined at a CAGR of 16.9% and 8.2% respectively over the past three years. Nevertheless, the proportion of low- and mid-skilled workers in Malaysia's financial sector remains sizeable at 24%.

Building the Workforce of the Future: Priorities Moving Forward

These developments bring into greater focus several priorities for preparing the financial sector workforce for the future, which include:

- Equipping the workforce with new skillsets that are relevant and practical for the needs of the future. In line with a heightened focus on professionalism as part of ongoing regulatory reforms, this also entails the raising of professional standards and ethical conduct in the workforce;
- Supporting the transition of the workforce through re-training and outplacement assistance as job functions evolve; and
- Expanding the innovative capacity of the workforce to facilitate future growth, particularly through enhancing data capabilities and workforce diversity.

According to a report by the World Economic Forum, the most in-demand occupations in many industries today did not exist ten or even five years ago⁶. The report also quotes that an estimated 65% of children entering primary school today will ultimately end up working in completely new job types that are yet to exist. The potential disruption that this reality presents is significant. While it is difficult to fully anticipate how job markets will evolve in the medium to long term, it is critical to ensure that strong institutions, arrangements and standards exist to support inevitable adjustments in the financial sector workforce. A number of important initiatives are being pursued by the Bank and the financial industry to this end:

a) Strengthening core competencies and raising professional standards

The demand for new technical or critical skillsets by the industry calls for strong foundations in core competencies that are continuously updated, and conduct that consistently reflects a commitment to high professional standards. This is being supported by:

- (i) Expectations for key personnel in critical job functions in the banking sector to acquire the appropriate specialised qualifications beginning 2018. This covers the areas of credit, compliance, Anti-Money Laundering and Counter Financing of Terrorism, risk management and audit;
- (ii) Continuing progress towards increasing the number of Chartered Bankers among the senior management and boards of banking institutions as part of a broader initiative to professionalise the Malaysian banking industry;
- (iii) Requirements introduced for reporting submissions made by commercial banks to Bank Negara Malaysia to be undersigned by a Chartered Banker beginning 2021. Similar requirements are also contemplated for the Islamic banking and insurance/takaful sectors;
- (iv) Mandatory accreditation of compliance officers in the money services business sector (further details provided in this Chapter), in collaboration with the Financial Accreditation Agency and Department of Skills Development;
- (v) Requirements for Shariah committee members and key Shariah personnel to attain Shariah certifications such as the Certified Shariah Advisor and Certified Shariah Practitioner to be eligible for appointment; and
- (vi) Transformation of key professional training and education institutions for Islamic finance and insurance/takaful to strengthen their capacity to meet new demands and maintain high professional standards for the workforce. This includes the reconfiguration of existing institutions and consideration of sustainable funding arrangements to support key reforms.

b) Developing mechanisms to support re-skilling and workforce transition

While the overall objective is to promote upskilling across the entire financial sector workforce, certain segments, whether by choice or compatibility, will inevitably face the risk of displacement. To mitigate this risk, it is thus important to ensure arrangements are in place to increase workforce mobility and facilitate orderly job transitions. This includes:

- (i) Improving the availability of information on the types of jobs that may be at risk of displacement and projections of the number of jobs likely to be displaced;
- (ii) Identifying new complementary or adjacent job positions that are relevant to the existing skillsets and roles of job segments at risk of displacement; and
- (iii) Providing for an explicit and sustained focus within business plans on strategies to address the transition of staff into new roles, whether within or outside the institution.

Based on the Bank's findings, while some elements of these mechanisms exist within the industry, over 60% of commercial banks, insurers and takaful operators will benefit from having a more comprehensive approach towards workforce transition. The Bank aims in 2018 to work with financial institutions to conduct a holistic assessment of the dynamics of the financial sector workforce, including forecasting skill demand and supply, with the end objective of developing appropriate supporting mechanisms to facilitate workforce transition.

c) Diversifying the talent pool

Over the years, a more diverse finance talent pool has emerged, reflecting an increasing openness of financial institutions to new perspectives, ideas and expertise from non-traditional practices or backgrounds to improve business processes and capture new opportunities. As at end-2017, close to a half of new hires employed in the financial sector were from academic backgrounds outside the traditional fields of finance, accounting, economics, business and actuarial science.

⁶ World Economic Forum (2016), 'The Future of Jobs' Report.

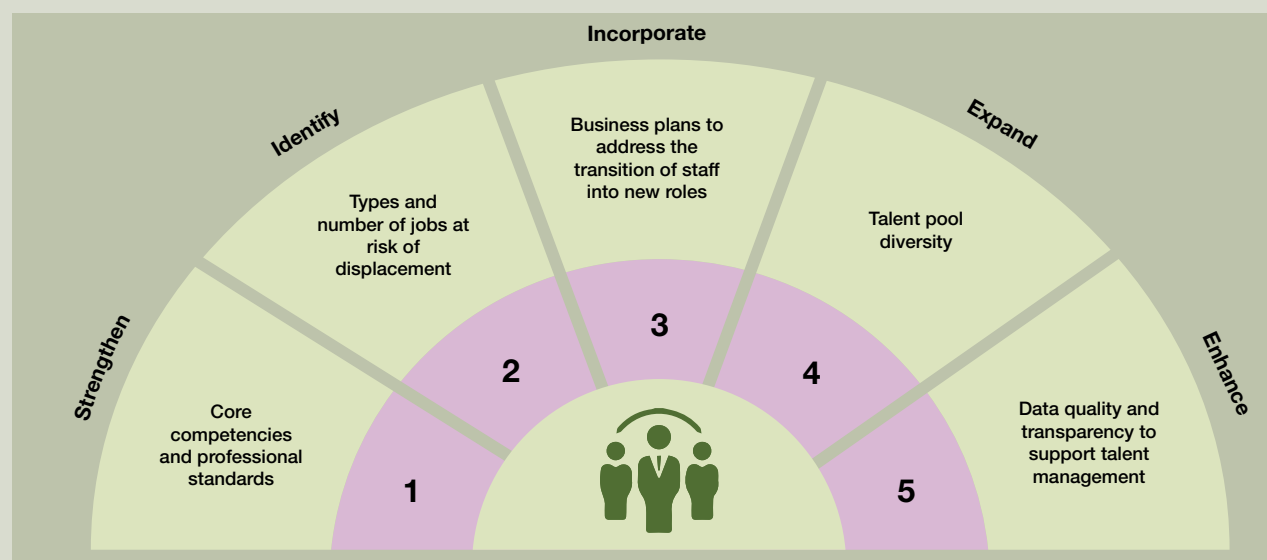
Efforts continue to be pursued to build and diversify the talent pipeline. Intakes to the Financial Sector Talent Enrichment Programme have been expanded to include candidates from new and diverse disciplines. This will be further complemented by the development of a 'Fit-for-Work Programme (FFW)', which is expected to commence in 2018. FFW is a 9-month technical training and placement programme that aims to provide valuable exposure to unemployed graduates in the financial sector, thereby improving their job prospects, while at the same time allowing financial institutions an opportunity to tap into a source of potential talent that may not normally be identified through more common recruitment channels. The programme will build on a combination of selected industry-run training platforms, on-the-job experience and massive open online courses (MOOCs) to help reduce the issue of skills mismatch of graduates and facilitate employment by the financial sector.

d) Enhancing data to support talent management and development

To improve market signalling and reduce information asymmetries for both job seekers and training providers, the Bank published the first set of financial sector workforce data in August 2017. The Bank will continue to enhance the reporting system, including the data structures, with the aim of improving the accessibility and quality of labour market statistics. This will better enable industry players to forecast future talent needs and required skillsets, while supporting industry training providers in the development of more customised programmes. The establishment of the Malaysia Bureau of Labour Statistics is also expected to facilitate more accurate and timely comparison of labour market information between the financial sector and other industries.

Diagram 3

Imperatives for Building the Financial Sector Workforce of the Future



Source: Bank Negara Malaysia

Conclusion

Current trends in the financial sector workforce are indicative of a trajectory towards becoming more technology-intensive and knowledge-driven. This transition has the potential to be highly disruptive in a way that could undermine the broader benefits from a more productive and higher-skilled workforce, unless institutional and industry arrangements are well positioned to not only manage the transition, but enable it by increasing the agility of our workforce. Some of the ways to achieve this are outlined in this article and will continue to be an area of focus going forward to better prepare the workforce for the emerging needs of the future.

References

World Economic Forum (2016), 'The Future of Jobs' Report.