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How Prepared is Your Strategy for Winning FinTech Talent in Mainland China?

In response to the disruptive impact of digital technology across the entire industry, a growing number of financial services firms are making investments to enable technology transformation in order to stay ahead in the market. Consequently, FinTech talent is in high demand, which has led to a severe talent shortage in Mainland China. Finding ways to attract and retain FinTech professionals in this fiercely competitive environment is top of mind. In this article, we explore findings from a recent McLagan survey on FinTech talent management in China, helping firms to better understand market trends and prepare for future change.

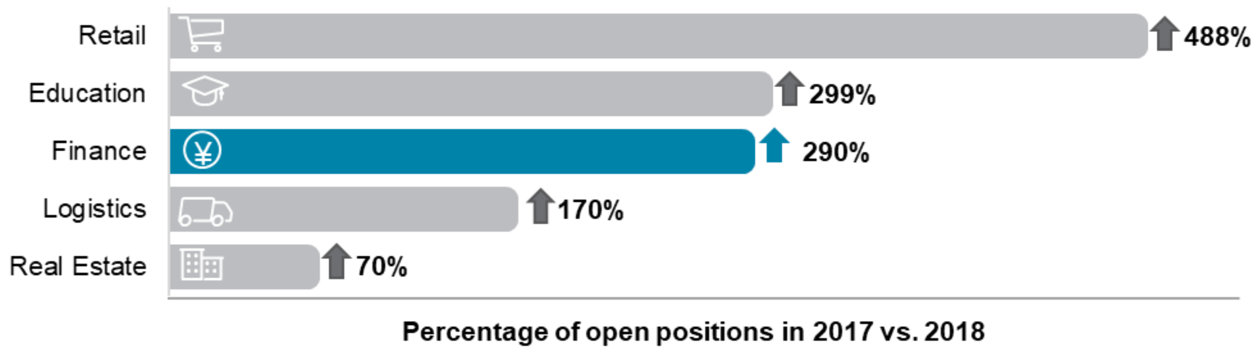
FinTech talent shortage in Mainland China

Businesses in China are struggling to find enough skill-specific talent to keep up with the ever-growing demand of FinTech. This shortage is largely due to the fact that FinTech is a new industry in the region, developing only in the last 10 years. To add to this, higher education programs sometimes lack well-developed plans to train individuals in this highly specialized tech space. Since FinTech is a combination of technology and finance, it requires talent that has both strong technical skills and the ability to apply them to the financial services industry's needs.

According to recently published data from Lagou.com, a popular online technology talent recruitment platform, YoY growth of demand for technical talent has increased 290% in financial services, indicating a supply and demand gap of 1.5 million employees for FinTech talent—a gap that could, to a large extent, hinder the development of the industry.

Empower Results®

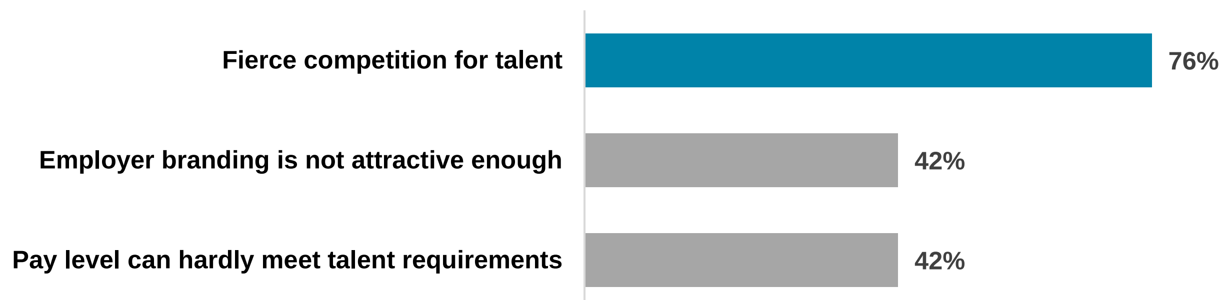
YoY Growth of Recruitment Demand for Tech Talent in China's Traditional Industries – Lagou.com



Source: China's Internet Employment Insight White Paper

This clear lack of sufficient talent directly impacts the recruitment process of financial services firms. As shown in the image below, 76% of firms in our survey list "fierce competition for talent" as a top recruitment challenge. This holds true across various sub-industry groups, including insurance, security, PE, and FinTech. Therefore, finding ways to attract FinTech talent is now a primary task for HR professionals.

Top 3 Recruitment Challenges – Financial Services

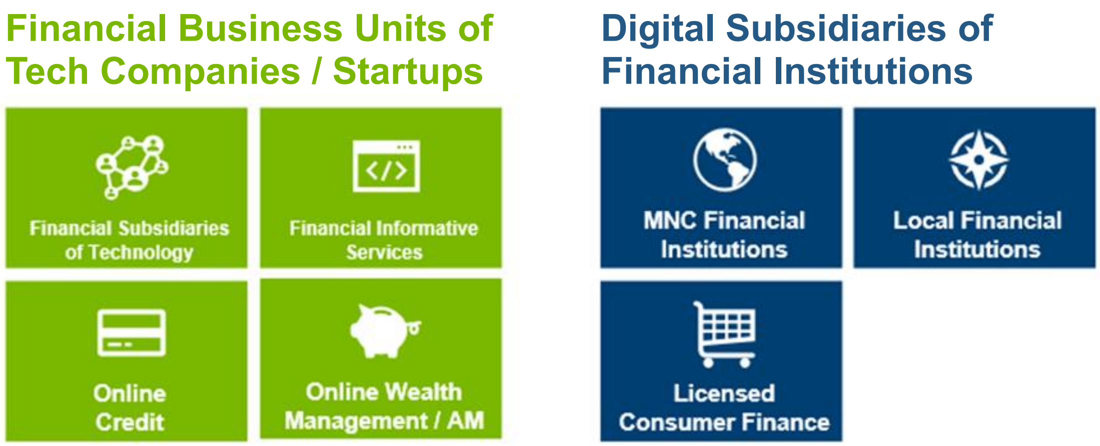


Source: China McLagan Survey of FinTech Talent Management

Where do financial services firms source FinTech talent?

Although there are multi-faceted players of the FinTech business in Mainland China, the sector can be broadly classified into two major types, though combinations of these may also exist. Type one is **Financial Business Units of Technology Companies / Startups** and type two is **Digital Subsidiaries of Financial Institutions**.

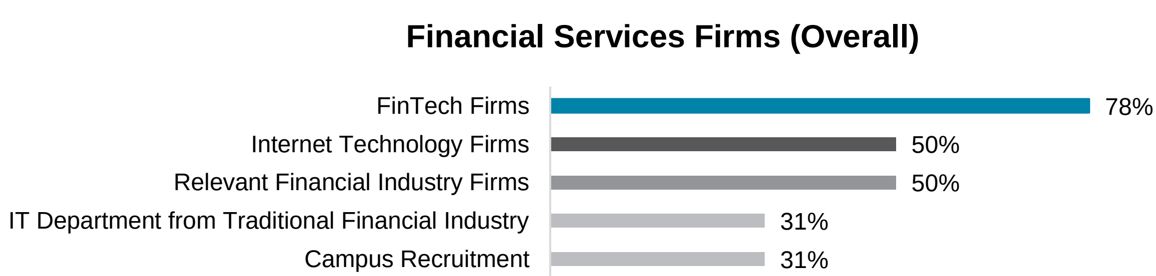
Landscape of Talent Competition for FinTech Firms



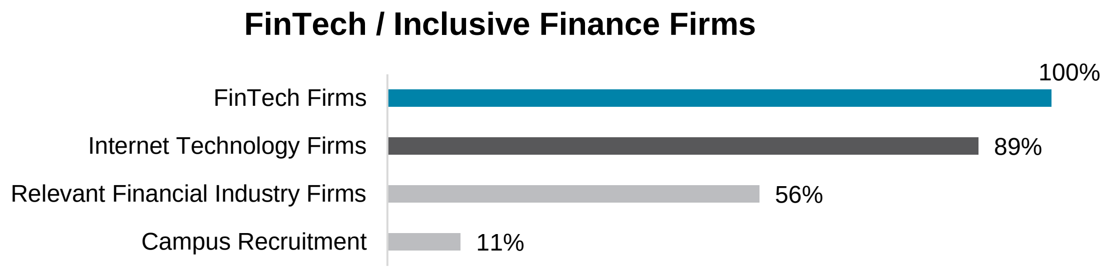
Financial Business Units of Technology Companies / Startups
With the natural advantages of technology, data, and other platforms, firms with strong technology backgrounds are rapidly becoming the core force behind the domestic FinTech sector. Organizations with mature and validated data and advanced technology applications are looking to build business models that are tech-driven, including providing technology platforms to other financial institutions.

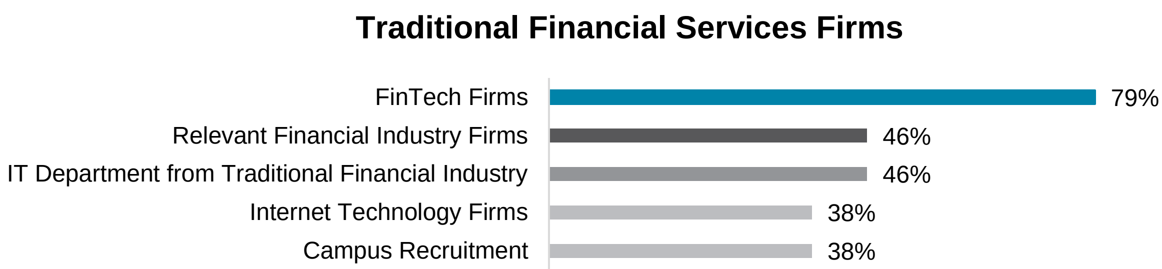
Digital Subsidiaries of Financial Institutions
Independent digital subsidiaries, established by traditional financial institutions, have the capability of building new technology platforms, such as cloud, big data, and artificial intelligence. Having deep industry knowledge provides a great competitive advantage. Institutions with a large retail client base, including banks, securities, and insurance firms, are investing more in digital and tech talent to grow their online business portfolio, improve operational effectiveness, and foster progressive reform.

Recruiting Priorities of FinTech Talent



Recruiting Priorities of FinTech Talent (continued)





Source: China McLagan Survey of FinTech Talent Management

In most cases, FinTech / inclusive finance firms are subsidiaries of tech companies or start-ups. Therefore, more than 50%-60% of their talent population are already tech people and their management philosophies tend to be more tech-like. This explains why our survey results reveal that nearly 90% of these firms chose internet technology firms as their second recruitment priority. Given the technological focus of this industry, there is usually a higher population of tech-skilled talent in these firms, allowing candidates to seamlessly integrate into FinTech positions with little effort. Because financial services management styles differ from technology, it is often difficult for firms to move beyond their traditional industry and hire directly from internet technology companies.

Talent management philosophies: technology vs. financial services

While finding the talent you need is important, attracting this talent and keeping each individual satisfied is another challenge that firms are facing. Talent acquisition and high turnover of FinTech talent is now a widespread issue across the industry. In addition to the fierce competition caused by talent shortages, differing talent management strategies between the financial services and technology industries is another driving factor to consider.

What Are the Key Differences Between Talent Management Philosophies of Financial Services and Technology Firms?

Financial Services Industry: Performance & Rewards Based
In the financial services industry, business outcomes are frequently measured. Since both individual competency and market fluctuations can impact these outcomes instantly, firms highly value end results and individual performance. Thus, the overall management system for financial services is designed to focus on timely recognition and short-term incentive.

Technology Industry: Talent & Development Based
On the other hand, success of technology firms usually involves a longer process to develop, validate, and improve their business model. Therefore, these firms emphasize talent and development, corporate culture, and recognition of the employee value proposition to determine high performers and ensure that sufficient tools and support for these individuals to develop and ultimately stay with the firm are provided. Technology companies pay a competitive salary to employees, with a much lower variable percentage compared to financial services firms. Long-term incentive (LTI) plans are extensively adopted to create a strong link between employees and corporate growth.

As you can see, there are many areas where the talent practices of both industries are not aligned, which can only further increase the barrier in attracting tech talent. To acquire essential skills, traditional financial services firms must determine how to balance the needs of FinTech talent with their current management strategy, adjusting and updating longstanding practices along the way.

A different approach to FinTech talent management

Due to differing business operations and management logic, the FinTech sector is often viewed as separate from traditional financial services firms. These split subsidiaries or structures create the space for a more independent, flexible, and efficient management system, which meets FinTech business and talent needs, while allowing parent firms to focus more on the financial services business.

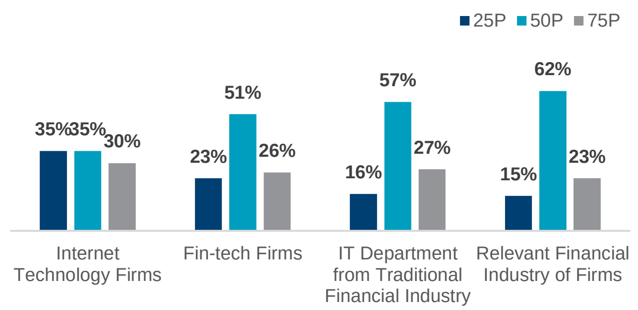
Separate Grading, Compensation, and Incentive System
That said, a growing number of financial services firms are considering separating their grading, compensation, and incentive system under the FinTech business unit or department to attract skill-specific tech talent.

- **Compensation & Short-Term Incentives**
  To compete for talent, an increasing number of financial services firms have adopted independent compensation systems for the FinTech sector, which usually have a differentiated range spread, pay mix, and pay level. We

are seeing financial services firms often use FinTech as their primary compensation benchmark target group, with a benchmark level that is mostly distributed in the 50th percentile.

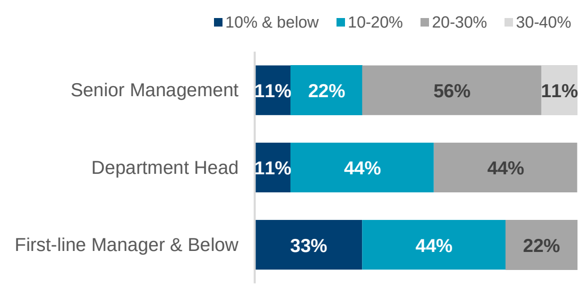
For pay mix, more financial institutions are following their parent company practice, while FinTech / inclusive finance firms are using a structure similar to that in the technology industry. As shown below, more than 70% of companies have a variable compensation proportion of 20% or below for first-line manager positions and lower.

Compensation Benchmark Group & Level



Source: China McLagan Survey of FinTech Talent Management

Proportion of Variable Compensation - FinTech & Inclusive Finance Firms

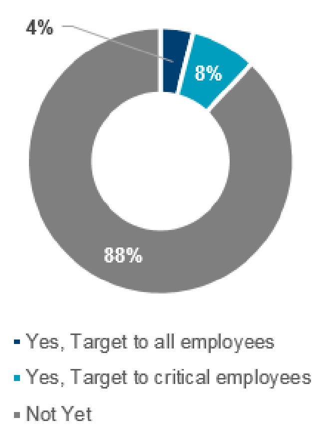


Source: China McLagan Survey of FinTech Talent Management

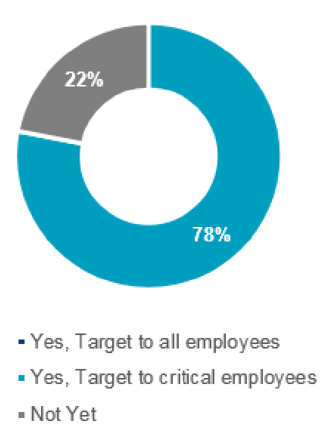
- **Long-Term Incentives (LTI)**
  As mentioned, LTI plans are widely used in the technology industry to enhance talent retention. Therefore, having an LTI plan is a critical way to successfully attract FinTech talent during the recruitment process. Our survey reveals that 78% of the FinTech / inclusive finance firms have already adopted LTI plans. Among them, the most popular plans include ESOP, stock options, and restricted stocks. However, due to regulation, this number is far lower for traditional financial services firms, some of whom use cash-based phantom stocks as an alternative.

Has Your Firm Adopted an LTI?

Traditional Financial Services Firms



FinTech & Consumer Finance Firms



The importance of a differentiated talent strategy

Simply knowing the market is not enough. For starters, paying above the market is no longer the only method to attract talent, nor is it applicable for all. It is essential for financial services firms to look beyond compensation and differentiate their own advantages, rather than just following the practices of their technology competitors. Challenging projects and clear development paths, fast growth opportunities for top talent, comprehensive benefits coverage, and more work-life balance, are a few key differentiators to consider.

Above all else, the FinTech business and talent market in Mainland China continue to change. Firms from both the financial services and technology industries must continue to adapt strategies and practices to remain competitive. Truly understanding where your business stands in the market is the best way to cater to your unique human capital needs.

To learn more about the FinTech sector in Mainland China and how to build your talent practices to align them to your firm's strategy and stage of evolution, please contact our team.

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