Why Strategic Leadership Is Key in the Future of Financial Services

Restructuring executive teams and filling leadership gaps will enable firms to escape survival mode and jumpstart strategic initiatives.

Economic stability is continuing its modest progress around the globe, but the growth of the financial services sector remains stunted by turbulent events. Every win has appeared to come with a significant, unexpected blow—from bank runs to rising interest rates—turning the future of financial services into unknown territory.

Firms in this sector have, understandably, been hesitant to increase headcounts. However, even in a slow market, calculated talent strategies will be key to long-term success.

A Theme of Hesitancy Persists

The financial services sector has been shrouded by talks of an impending recession for the better part of the past two years, but the road ahead still isn't clear. While bank profitability reached a 14-year high in 2022, high levels of uncertainty in 2023 continue to keep institutions in survival mode—an apprehensive state in which operational stability must come before exponential growth.

The regional banking crisis in particular reamplified fears of volatility. Bank runs, which led to the collapse of First Republic and Silicon Valley Bank, created a significant level of panic across the industry—and concerns aren't fading away. Regional banks took another hit as Moody downgraded the credit ratings of 10 small- to medium-sized banks. And they'll face heightened pressures once again as commercial real estate loans (which make up 30% of small-to-medium-sized bank assets) increasingly mature and depositors expect rising returns.

Rising interest rates are further adding pressure to the financial services industry. While the signs aren't pointing to a full-blown recession quite yet—in many states, unemployment rates remain at or near record lows—leaders are understandably hesitant to take big leaps in any direction. As institutions pull back on organization-wide recruiting and expansion, they're putting full focus on developing careful strategies for the future.

Stepping into the Future of Financial Services on Solid Footing

The softening of the financial market will create cautious shifts in talent strategy. Companies will evaluate and prioritize opportunities to *restructure* before they hire, and strategically shuffle their leadership decks to ensure the right talent is in the right place. These executive changes will make way for new strategies—including succession planning.

Preparing for the uncertain future will start with fortifying leadership teams. CFO turnover is increasingly driven by retirement, while 25% of financial advisors—an aging demographic—remain unsure of their succession plans. As such, financial services institutions must evaluate and address the long-term stability of their teams. In areas where talent and succession gaps persist, firms must brave the uncertain waters of hiring and invest in new leaders who can take them to shore.

Secure leadership will enable banks to initiate a vital transition toward fee-generating business opportunities, such as treasury management and wealth management, while broadening their relationships with both commercial and consumer clients. Ramping up fee-generating business, rather than purely focusing on interest-generating business, will be critical to long-term success and security. A strong executive team can also help firms broaden their markets and customer segments or, conversely, capitalize on a niche with a national team.

However, even with the best leadership in place, it is challenging to simplify the future of financial services. Volatility is expected to remain, and the role of strategic executives will be to *mitigate* the challenges and risks of transformation moving forward.

Challenges to Transformation in Sight

One of the most significant challenges to the financial services industry will be rising scrutiny from regulators. Firms will face pressures to expand their risk, credit, control, and testing teams—leading to fast-growing headcounts without paralleled growth in revenue—which will present a major profitability challenge for some banks. Executives will need to perform a strategic balancing act to surpass competitors with limited risk.

Leaders will also need to play a role in capitalizing on complex business opportunities. In particular, blockchain solutions in the financial services sector will be a growing focus over the next few years, expected to more than quintuple in value between 2023 and 2026. The development of the new PayPal stablecoin, which is backed by the U.S. dollar, has made cryptocurrency more concrete, while the applications of blockchain for cybersecurity are proving to be infinite.

As a result, financial services institutions will start to explore the impact of digital currencies on the sector and compete to become leaders in that area—but mega-banks with large-scale resources and capital will likely set the tone for both blockchain development and crypto banking.

For executives of small- to medium-sized banks, attracting experienced workers and leaders in high-demand, low-supply fields like blockchain will prove to be a growing challenge.

Scrutiny from Candidates to Elevate Recruiting Efforts

The volatility in banking has certainly contributed to significant recruiting challenges in the financial services sector. When candidates consider an opportunity in the industry, they're increasingly scrutinizing the long-term potential of banks. Among those who remain optimistic about the sector, many still doubt the ability of regional banks to compete with mega-banks, such as JPMorgan and Bank of America, in the long term.

Additionally, job seekers are becoming more hesitant to relocate. While high-performing candidates remain open to positions that require relocation—often completing the entire interview process—many end up turning in another direction once they receive an official offer.

Filling on-site and hybrid positions, from the line level to the top, will require strong incentives, like enticing compensation, and innovative strategies. In particular, financial services institutions must find strategic opportunities to attract young, rising leaders—individuals aged 25-44 in entry-level and mid-level positions are most likely to move for the chance to rise through the ranks.

Standing still in the current banking environment isn't an option—especially for publicly traded banks that are required to report their earnings. How will you maximize and develop your current leadership team, so you can securely step into the future of financial services?