Global Banks Face "Pay Up or Lose Talent" War in China

By Ai Peng Soo and Samuel Shen, Shanghai/Hong Kong, 14 Apr 2011

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(Reuters) - International banks in China find themselves stuck between a rock and a hard place as the battle for top-tier talent on the mainland leaves them facing a stark choice: either pay exorbitant salaries and benefits or lose their best people to competitors at a head-spinning rate.

China last year overtook Japan as the world's second-biggest economy and the country is positioning itself for a record fundraising boom to fuel its next stage of growth.

The financial market has experienced explosive growth in the past two decades. China now has more than 2,000 listed companies and the world's second-biggest stock market capitalisation, according to Thomson Reuters data. But the pool of financial talent has not expanded as fast, industry players say.

Heady expansion by JP Morgan (JPM.N), UBS (UBSN.VX) and others has aggravated the problem.

JP Morgan aims to have "several thousand bankers eventually" in Asia, Gaby Abdelnour, JP Morgan Asia Pacific CEO, told Reuters Insider this week.

Talent management will be the biggest challenge for the next five years, Abdelnour said. "Guess what? We will be hiring and we will be losing people along the way because everybody else is hiring."

Competition for qualified candidates has driven up wages so much that the gap between salaries of mainland financial executives and their peers in other more advanced financial hubs such as Hong Kong and Singapore, are fast narrowing.

Salaries have increased on average by 20 percent this year for candidates taking new jobs within the financial services industry in China, according to the British recruitment group, Hays Plc (HAYS.L).

Newly hired analysts in China are being offered 180,000-240,000 yuan per year while senior-level executives can expect offers of up to 1 million yuan (94,000 pounds) a year. Bonuses for the lower-tier employees range from 15 to 25 percent of the base salary while senior executives are normally tied to performance targets, according to headhunters.

"Companies that are not giving competitive pay rises have to face serious turnover issues," said Emma Charnock, Hays' regional director for Hong Kong and China.

Hays recently helped a Beijing-based investment bank client secure a new hire from Hong Kong to fill a mainland financial controller's job after the client agreed to pay 40 percent more than what the candidate was getting in Hong Kong, Charnock said.

"There's a lot at stake. If they can't find the right candidates, their expansion plans could be inhibited. It will have a direct knock-on effect to their expansion in China," said Charnock, referring to international banks in China in general.

Another foreign company took the trouble to outline its growth plan in China over the next three to five years and promised a clear career plan for its financial controller candidate before the candidate signed on, she said.

FAST GROWTH

CLSA Asia-Pacific Markets estimates fundraising on China's two stock exchanges will reach 700 billion yuan a year, pushing the A-share market cap to 17 trillion yuan by 2015 and making it possibly the largest market in the world.

Shanghai, which aspires to become an international financial centre by 2020, is preparing an international board on the Shanghai Stock Exchange to allow foreign companies to list on the mainland.

China has also slowly opened its capital accounts and encouraged more cross-border financial products because it wants to raise the global profile of the yuan.

Global banks, salivating at the growth potential, are tapping overseas Chinese, popularly known in China as "returnees," from Asia to Europe and the United States to deal with the small local talent pool.

"There are not many people who fully understand China, fully understand finance and fully understand international practice. So if you use those three priorities, the talent pool is not that big," said David Li, chairman and country head for China at UBS.

The huge growth potential attracted Sun Wei, 25, after she finished her master's degree in accounting and finance at an Australian college last year.

"China's economy is growing very fast. The upside potential is huge," said Sun, now working at a big-four accounting firm in Shanghai. "I have more opportunities here than abroad," she said.

Another banker, Cheng Bing, joined BNY Mellon in March to lead its new trading floor in Shanghai after the U.S. bank was awarded a license to conduct local-currency business in China. He had been a senior executive at DBS Shanghai.

He said that it is not a challenge to find junior traders in China, where trading instruments are relatively basic and fundamental in nature, but it is a challenge to source senior talent.

"Finding senior-level talent with international expertise and local understanding is a challenge for many foreign banks," Cheng said. "In China, policies change a lot and you need to adapt to that."

Cheng also said a higher salary was not the main driver of his move, but the prospect of a better career.

INNOVATIVE CAREER PATH

For overseas financial professionals who already have a solid career, however, any decision to relocate to China is not so straightforward.

It often means moving from a stable, sophisticated and exotic market to one that is less certain, primitive and one-dimensional, said a recruitment specialist and a Hong Kong-based banker.

"A private banker, for example, would be unhappy to move from an advanced platform to a basic platform, even if you offer him or her a larger geographical split," said Richie Holliday, a recruitment consultant with Morgan McKinley, a European headhunting company that recently set up a new office in Shanghai.

China's foreign exchange controls, regulations and an underdeveloped derivatives market limit the range of products private bankers can offer their clients, industry players say.

Uncertainties surrounding the country's regulatory environment and the slow progress of its capital market liberalisation have also discouraged many potential recruits.

"There are still a lot of restrictions and uncertainties in China's capital markets. You are not sure what your business will be like in one or two years," said Alexandre Werno, China business development director of global markets at Societe Generale in Hong Kong.

"If you are a trader and you are based in mainland China, you face a single market which is not very developed," Werno said.

The fact that foreigners will be subject to higher personal income tax rates does not help either. The 45 percent maximum tax rate for foreigners in Shanghai, for example, is significantly higher than the 17 percent rate in Hong Kong and the 20 percent rate in Singapore.

Desperate to attract and retain new talent, international financial institutions in China are embracing more creative and flexible talent management practices and a fast-track to top jobs.

Morgan Stanley's (MS.N) recent decision to promote its top China banker, Wei Christianson, to be joint-chief for its Asian business is seen as a classic example of how China's growing importance has raised the status of Chinese bankers.

"Some banks still consider Beijing as a hardship posting so they have to think around the box," said Charnock of Hays.

"Usually it's an innovative career path. We have seen candidates take up much more senior roles than they would do in some other financial hubs to attract them back," she said.

(Additional reporting by Terril Yue Jones in BEIJING; Editing by Jacqueline Wong and Matt Driskill)