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Banking Talent Shortage Tempered by Delayed Retirement—But for How Long?

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Baby Boomers are staying in the workforce for longer than expected, but with a growing challenge to attract younger generations, the banking talent shortage is set to soar.

The banking industry is faced with an interesting conundrum. It is increasingly harder to attract talent, especially those in younger generations. Meanwhile, the average retirement age is towering, with leaders often working well into their seventies. This scenario means the talent gap is tempered—for now. But that won't last forever.

As those final Baby Boomers leave within the next few years, the talent gap in banking is going to stretch beyond a sustainable point. How are leaders addressing this before it's too late?

Retirements in Banking

The topic of Baby Boomers leaving the workforce has been front of mind for at least the last decade. In their prime, Boomers made up a significant share of the workforce, but younger generations haven't caught up in size at the same rate.

It's no surprise, then, that business leaders feel tremendous pressure to prepare for when Boomers finally age out of the workforce. However, fears over what will happen when that day comes are being tempered by delayed retirements. Boomer executives are increasingly postponing retirement, and this reality is changing the entire makeup of the workforce. Forty years ago, more than 60% of the workforce was made up of people under the age of 40. Today, this age group represents just 45%. The number of employees over 60 has doubled—meaning the workforce is older than ever.

In the last few years during the "Great Resignation," retirements seemed to spike—more than half of the 5.25 million people who left the workforce in 2021 were retirees, a retirement rate twice that of 2019. Many were senior professionals and leaders who watched the financial landscape tip in their favor, despite the economic uncertainty. Many were also simply burned out from leading their companies through the worst public health crisis they had seen in their careers.

For a moment, it looked like Baby Boomers were leaving for good. But that trend largely turned around by the following year, when many retirees were back to the workforce by inflation. Furthermore, employers are scared to lose them and have developed retention strategies to keep them around for longer, such as greater compensation and more flexible schedules. One survey of banking executives reveals that almost a third of surveyed banks have offered retention bonuses to key professionals to incentivize delayed retirement. These tactics give companies more time to mine the enormous wealth of knowledge these leaders have amassed over their careers.

The Banking Talent Shortage

That extra time is critical, because at the other end of the generation spectrum, talent is harder and harder to find. Nine out of ten banks are challenged by hiring and retaining new professionals. CEO of Cullen/Frost Bank, Phillip Green, says, “it’s a war for talent,” especially when the post-pandemic turnover rate is at an all-time high.

A significant reason for the banking talent shortage is that banks are losing the prestigious reputation they once enjoyed just a couple decades ago. The younger generation is often choosing fintech or private equity over banking—sectors that promise more innovation and higher salaries. Many banks have only just begun migrating from legacy systems that are inefficient, siloed, and outdated. Larger banking institutions are often full of red tape and traditional hierarchies compared to the entrepreneurial environment of fintech companies—or, at least, that’s the stereotype.

As a result, fintech and other big tech companies have been employers of choice for younger generations. Even with recent layoffs making the headlines within these sectors, it’s unlikely those workers and leaders will turn to the banking industry for new employment opportunities. Most banks simply can’t offer what other tech-savvy companies can.

For those young professionals who *do* choose banking, they’re often not staying in one place for long. Turnover is soaring, and the data shows that compensation hikes are simply not enough to turn this around. With retiring leaders on their way out, the job market has become highly competitive, and culture, innovation, and growth appear to be the biggest selling points over money and benefits.

Overcoming the Banking Stereotype to Close the Talent Gap

It’s clear those age-old tactics of more compensation and flexible work models aren’t necessarily going to work for attracting and retaining the future generation of banking leaders. For young professionals who grew up steeped in technology, in a world headlined by social and cultural issues, a more attractive vision of the banking industry is required in order to close the talent gap.

As EY suggests, banks play a significant role in our society, and banking leaders need to change the prevailing narrative to show banks as a "force of good." Furthermore, modernizing what a banking career looks like along with the work environment itself is critical for strengthening the banking workforce and its leadership potential.

But what does this actually look like? Part of this process requires asking the right questions about the current state of banking as well as working to understand the generations who will be needed to fill the gaps that retirees are leaving behind them. For example, how is DEI defined and measured in your unique bank? Gen Z is the most racially and ethnically diverse generation in the U.S., and they are highly conscious of what makes an equitable and inclusive environment. They are also more sensitive to other social issues, so ESG initiatives and a clearer picture of a bank's social impact are important in establishing a more trustworthy and purposeful image to attract younger leaders.

Furthermore, younger generations seem to favor episodic career experiences, moving from job to job after just a few years. Conversely, older generations have been more likely to stick in one or two main jobs most of their adult lives. As a result, it is critical to evaluate job architecture, hiring profiles, and career mobility in relation to this shift in employee preferences and expectations. Younger talent is also looking for flexibility, robust work-life balance, and a conscientious effort towards supporting employee wellbeing.

Finally, investing in technology, making partnerships or acquisitions within fintech, and ensuring the employee experience is on par with what big tech and fintech firms are able to offer are also key strategies for closing the banking talent gap.

Now Is the Time to Attract Tomorrow's Banking Leaders

There is one additional strategy to attract younger generations to the banking sector, and this opportunity is made possible *because* of the impending wave of retiring Baby Boomers. When older professionals leave the workforce, many leadership and senior-level positions are going to open up. This presents an immediate opportunity for career growth for Millennial and even Gen Z banking professionals.

Ultimately, banks must market themselves as a great place to work, and that requires a comprehensive, enterprise-wide evaluation of how a bank is operating, both internally and customer-facing. Baby Boomer leaders aren't going to be in the workforce for much longer.

Retaining them with more money and flexibility will work for the short-term, but in the long-run, banks must work to attract younger generations in order to address the growing talent shortage.

What has been your experience in hiring and retaining banking talent?