



**Unite response to the HMT
Walker Review of corporate governance of UK banking industry**

This response is submitted by Unite the Union. Unite is the UK's largest trade union with 2 million members across the private and public sectors. The union's members work in a range of industries including financial services, manufacturing, print, media, construction, transport, local government, education, health and not for profit sectors.

Unite, is the largest trade union in the finance sector representing some 180,000 workers in all grades and all occupations, not only in the major English and Scottish banks, but also in investment banks, the Bank of England, insurance companies, building societies, finance houses and business services companies.

Executive Summary

- **Consumers, employees and society should expect the highest level of corporate behaviour from business;**
- **A key feature of good corporate governance should be a commitment to long term sustainable and transparent business;**
- **Unite members have a direct stake in the fairness, transparency, democratic accountability and objectives of the financial system and its regulation;**
- **A review of corporate governance should include a review of the practices of private equity firms;**
- **It is vital for the financial stability of the UK that the finance sector should have in place robust and properly resourced risk management structures;**
- **It is imperative that those who sit on boards and committees are properly trained and have the skills, knowledge, experience and competence to carry out the role required;**
- **Unite sees the need for greater public interest representation at a corporate level;**
- **Corporate governance should consider addressing issues such as discrimination in pay systems and the promotion of diversity.**

Introduction

1. Unite supports a review of how businesses are governed, welcomes the opportunity to respond to this consultation and believes that good corporate governance is at the heart of a successful business. It is also right that consumers, employees and society should expect the highest level of corporate behaviour from business.
2. A key feature of good corporate governance should be a commitment to long term sustainable and transparent business decisions in order to deliver financial success and true corporate accountability which includes trade union and other stakeholder participation on remuneration committees, company boards and other representative structures including works councils.
3. It is important to correct the damaging impression that boardroom representatives, which share the blame for the financial crisis, are now being given the responsibility for developing policies to prevent a crisis recurring.
4. The finance sector has faced significant public criticism in recent times. What we have witnessed is a culture of greed based on short term, high risk decision-making which richly rewarded some at the top while leaving a legacy of job losses, job insecurity and low morale. This is a sector which has lost integrity in the eyes of the public due to mismanagement, and according to John Mc Fall Chairman of the Treasury Select Committee the 'recklessness and the greed'¹ of a few executives.
5. More widely financial instability and economic uncertainty in the market has led the UK to a situation where we have the highest unemployment in a decade², a significant increase in the number of home repossessions since 2007³ and the inability of SME's to obtain credit, which according to research by the Federation of Small Business has resulted in a reduction in staff, hours or pay of employees for their members.⁴

Securing financial stability

6. Financial stability is of crucial importance to all members of Unite. Whilst our members employed in the financial sector have additional, specific concerns, all Unite members have a direct stake in the fairness, transparency, democratic accountability and objectives of the financial system and its regulation. The global financial crisis is

¹ Reported to the Treasury Committee evidence session on Northern Rock

² According to the ONS the unemployment rate was 6.5 per cent for the three months to January 2009, up 0.5 over the previous quarter and up 1.3 over the year. The number of unemployed people increased by 165,000 over the quarter and by 421,000 over the year, to reach 2.03 million. The unemployment level and rate have not been higher since 1997.

³ www.cml.org.uk

⁴ <http://www.fsb.org.uk/News.aspx?loc=pressroom&rec=5148>

wreaking havoc on Unite members and their families - in relation to their homes, jobs, pension funds⁵, credit and local communities.

7. Financial entities such as private equity firms own, albeit for a short term, company's across the economy particularly in manufacturing and services. The TUC condemns these organisations claiming that private equity firms buy up firms, remove value, restructure them and sell them on as quickly as possible removing the most profitable parts of the business. They then fail to pay the proper tax on their windfall.⁶ A review of corporate governance should include a review of the practices of private equity firms.
8. It is also vital for the financial stability of the UK that the finance sector should have in place robust and properly resourced risk management structures, which would have dual reporting lines direct to the chief executive and the regulators. Risk management should be treated as a core activity for any financial institution.
9. Unite would also wish to see put in place an independent external oversight process to assess, prior to appointment, the probity and competence of senior executives and directors to run the large financial institutions which the taxpayer, through the Government, owns or part owns, on account of the significant impact these institutions can have on the wider economy.
10. It is imperative that those who sit on boards and committees are properly trained and have the skills, knowledge, experience and competence to carry out the role required.
11. It was evident from evidence given to the Treasury Select Committee inquiry into the Banking Crisis, that very senior executives and managers did not have these same competencies and that thorough checks were not carried out by the regulator to ensure they were the right people to do the job.⁷

Public interest representation

12. Unite sees the need for greater public interest representation at a corporate level within the company to provide legitimacy to the decision making process and to oversee corporate governance principles which take into account the interests of all stakeholders.

⁵ According to OECD figures as of October 2008 the total assets of OECD based pension funds had declined by over US\$3.3 trillion or 20% since end 2007 as a result of the deepening financial crisis with the impact being most severe in the UK, along with Ireland, the USA, Canada, Netherlands, Australia and Japan. The full impact has yet to be revealed given "the lack of clarity over the valuation of some illiquid assets" including the same structured products which are the root of the global financial crises. Direct exposure to these toxic assets may be "as high as 3%" of pension fund assets. Pension Markets in Focus OECD December 2008 Issue 5

⁶ www.tuc.org.uk

⁷ House of Commons, minutes of evidence taken before Treasury Committee – Banking Crisis – Former Bank Executives

13. It is important that the stakeholder voice is heard among that of institutional investors and directors, and that the views of a more representative group of people are taken into account who can challenge the existing orthodoxy on corporate governance. This is equally true at an international level within the EU and beyond.
14. Unite has commissioned a report by the Financial Inclusion Centre which looked at changing the financial system which exists presently. The report 'Reforming the Financial System' recommends that a new EU single regulator should be set up to "*set prudential standards for EU financial institutions, act as coordinator-supervisor for larger EU wide financial institutions that represent systemic risk to the financial system of the EU, and set standards for valuing financial assets.*"⁸ This would be additional to the existing UK regulatory system.
15. This report also highlighted the need for greater public interest representation and recommended a minimum number of seats specifically reserved for public interest groups. Unite would endorse this.
16. Unite has consistently argued for improved dialogue at boardroom level for trade unions and other stakeholders. This would provide a cross fertilisation of ideas, thoughts and interests more representative of the society in which we live and in which businesses do business.

Social responsibility

17. It is evident that the finance sector has been badly damaged in recent times both financially and in reputation with much of this self inflicted. It is however vital that the sector rebuilds trust and restores consumer confidence. To do this Unite believes that there must be an acknowledgement of the social responsibility the sector has beyond the interests of shareholders.
18. Good business also goes hand in hand with the notion of 'employers of choice', where employers and even sectors can be seen as positive career choices for those considering future career prospects. The reputation of an employer in terms of behaviour towards consumers, employees and society more generally can and does influence career choices and professional decisions.
19. Furthermore, a recent EHRC report into equal pay within the finance sector shows that 70% of men in the sector earn more than £29,500, while 70% of women earn less than £29,500.⁹
20. This gender difference in pay is an indication of a wider issue of a pay gap within the sector which Unite has been campaigning around for

⁸ Financial Inclusion Centre 'Reforming the Financial System' 2009 p11

⁹ <http://www.equalityhumanrights.com/en/newsandcomment/Pages/financialsectorreport.aspx>

some time, however has found it difficult to obtain cooperation and 'buy-in' from employers in trying to address this difficult issue.

21. It could therefore be argued that the sector has done little in recent times to encourage the country's most talented, creative and ambitious young people to consider finance as a career choice and that corporate governance should consider addressing issues such as discrimination in pay systems and the promotion of diversity if it wishes to attract a rich and diverse group of people into the industry in order to deliver success in the future.
22. Transparency in corporate governance is necessary to provide clear and open reporting and auditing mechanisms which will provide the opportunity for the sector to regain its integrity and which places importance on delivering a responsive banking system which is sustainable and works in the interests of wider society.
23. Unite has produced a social contract for financial services which calls on the Government and finance companies to adhere to five principles which includes:

Recognition of Unite as a key stakeholder; ensure the employment security of employees; protect and improve the terms and conditions of employees, including pensions; end to remuneration packages which reward short-termism and irresponsible risk; overhaul of the regulatory structures of the financial services sector to enhance accountability.
24. Only by adopting changes to the existing structures of corporate governance will we see a radical shift to a more equitable distribution of a company's wealth and a reassessment of business which considers principles as well as profit.

Graham Goddard
**Deputy General
Secretary**

Rob MacGregor
National Officer

Cath Speight
National Officer

For further information on this submission please contact:

Liz Cairns
Research Officer
Unite the Union

Elizabeth.cairns@unitetheunion.com

0141 404 1879

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