



Unite the Union response to the call for evidence by the Joint Committee on the draft Financial Service Bill

This response is submitted by Unite the Union. Unite is the UK's largest trade union with 1.5 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 130,000 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

Introduction

Question 10. Does the draft Bill adequately deal with the risks posed by the shadow banking system?

1. Unite remains concerned that the Bill fails to pay sufficient regard to the risks posed by the shadow banking sector on the rest of the economy and has raised concerns about excessive leverage and the risk that this poses previously.¹ In particular private equity has had a significant impact in other areas of the UK economy where buyouts took place with the profitable part of the business hived off and sold and the less profitable parts discarded along with the workforce.
2. A Report by PSIRU at the University of Greenwich in 2008 highlighted research by Harvard Business School which found that:

"firms taken over by PE have much higher rates of closure, opening, acquisition and disposal of workplaces, in the 2 years following a PE takeover, than comparable firms: we observe more greenfield entry, more acquisitions, divestitures and establishment shut-downs".²

¹ Unite response to the Treasury Committee evidence session on the banking crisis January 2009

² <http://www.psiru.org/reports/2008-02-PE-WEF.doc>

3. The study goes on to show that the actual change in employment in the establishments subject to PE takeovers was about 7% worse after 3 years, and 10.3% worse after 5 years, than it would have been without the takeovers. Further, in the 2 years following a PE takeover, 24% of employees will have experienced their workplace being closed, sold, or reduced – double the uncertainty compared with a firm which has not been the subject of a PE takeover. ³ The impact of this was also greatest in the finance sector when compared with other sectors of the economy.
4. According to the US Federal Reserve the size of the shadow banking sector stands at \$16,000 billion while the traditional banking sector is around \$13,000 billion. ⁴ Unite is acutely aware of how the crisis has affected the traditional banking sector but less aware of the effects on the shadow banking sector. This highlights the lack of transparency in shadow banking and its effects on the wider economy. However given the interdependency between the two and the enormous global costs of the financial crisis, the world's economies could not afford another such crisis in the future.
5. There should therefore be full public disclosure of private equity/highly leveraged buyout debt including covenants with total transparency in relation to private equity debt. Unite also proposes that the process of due diligence in such buyout situations must include a full economic impact assessment which takes account of the costs to local communities and wider society of any such buyout. The current economic climate is squeezing profit margins in some businesses many of which may also be unable to access affordable credit and with rising debt levels may find that they are susceptible to take over. The fear of this may cause some companies to find other ways to cut costs which could have an impact on terms and conditions, pay, pensions and ultimately jobs.
6. Another element of the shadow banking sector that should be looked at more closely is the trading in 'socially useless' financial transactions. A significant number of these trades are purely speculative with the primary aim of gambling on the price of a commodity rising or falling. Billions of such trades take place every day across the world. Unite and others, including the European Commission, the TUC and the Archbishop of Canterbury, Dr Rowan Williams, have all called for the introduction of a financial transaction tax on such financial trading including foreign currency speculation, hedge funds and derivative trading. It is estimated that a FTT on each trade could bring more than £250 billion into the global economy, providing much needed revenue to plug the hole in the public sector purse in the UK, fight global poverty and fund climate change initiatives. ⁵ Even if the number of trades were

³ Ibid. p3

⁴ http://www.ny.frb.org/research/staff_reports/sr458.pdf

⁵ Robin Hood Tax: FAQs http://robinhoodtax.org/sites/default/files/FAQs_for%20RHT.pdf

to be restricted the potential income from a FTT would still generate tens of billions of pounds. Unite would propose that the Committee gives full consideration to this issue.

Question 15. Are the FCA's primary objectives appropriate? Is significant emphasis given to the promotion of competition?

7. Unite welcomes the proposals laid out in the white paper to support the mutuals sector by ensuring the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) consider the impact of any proposed rules on mutual societies. However this does not go far enough. Unite would wish to ensure that mutuals are safeguarded among the big players in financial services and that a proportion of the market should be maintained which supports diversity and the different business models in both the traditional banking sector and the mutuals sector.
8. Unite would wish to ensure that the future sale of bank branches in Northern Rock and the Lloyds TSB branches being divested in line with competition rules results in increased competition and diversity in financial services. The sale of 318 bank branches of RBS to the Santander Group, which already controls a significant stake in UK retail banking, went against the Government's own recommendations in the Coalition Agreement to foster diversity and increase mutuals. This is despite the Government controlling 84% of RBS. Unite is unconvinced that consumers are likely to benefit significantly from increasing numbers of providers or by those new entrants delivering similar products and services alone. Increasing the players in the market must also come with increasing the business models available to consumers which extends the range of products and services in order that real choices can be made.
9. As well as this the process of switching banks should be made easier and less stressful. Portable account numbers is one proposal put forward⁶ and would seem reasonably easy to implement and relatively cost effective given advances in technology. However switching banks should not obstruct applications for credit or borrowing, where the time spent with one bank is given a higher credit score than for someone who has chosen to move accounts more often.

Question 19. Will the new regulatory arrangements reduce the risk and cost of dealing with miss-selling of financial products?

10. Unite has called for a review of the remuneration system and performance management practices operating throughout the finance sector which rewards sales over service and has urged the Independent Commission on Banking to look again at the link between the two. The Bill also fails to address this link. Many of the reward

⁶ Financial Services Consumer Panel response to the ICB 2011 (page 3)

packages within the finance sector link pay and performance, with the majority linked to sales targets. Managers are under pressure to reach group, branch or regional targets and individuals are under pressure to increase personal and peer group targets. For some people the stress can be intense and act to lower morale and performance rather than produce a positive and productive outcome. This may lead to inappropriate or dysfunctional selling taking place. Unite would wish the Joint Committee to consider this issue more fully to ensure the banking sector applies a process of managing targets and bonus based reward which is transparent, consistent and treats customers and workers fairly.

Question 22. Does the draft Bill contain any proposals or omissions, not covered by the questions above, which cause concern?

11. In 2009 Unite commissioned the Financial Inclusion Centre to look at the UK financial services sector and to prepare a report detailing the areas that required overhaul.⁷ The report highlighted the need for radical reform including the need for the creation of utility banks with public interest objectives.
12. The Report also identified that a serious democratic deficit existed in the UK's financial system with an over representation of shareholder interests over public, employee or wider social interests on many of the boards and committees of financial institutions in the UK. The Bill fails to address this. Retaining the composition of the regulatory and corporate structures which were there before the crisis is unlikely to deliver independent oversight or provide checks and balances to the process. Given the pivotal role banking plays in the economy it is important that the voice of key stakeholders is heard at a strategic level to ensure that the interests of all those directly affected by the decisions of the banks are given due regard.

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⁷ <http://www.unitetheunion.org/pdf/job%201897%20finance%20report%20web4.pdf>

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