



Unite response to the Scottish Parliament Economy, Energy and Tourism Committee Inquiry – *The way forward for Scotland’s banking, building society and financial services sector.*

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 has around 200,000 members in Scotland working in a range of industries including financial services, manufacturing, print, media, construction, transport, local government, education, health and not for profit sectors.

1. Unite welcomes the opportunity to respond to this inquiry and to contribute to the debate in Scotland surrounding the current financial crisis. The impact of the crisis has been felt across the economy with increasing levels of home repossessions, unemployment, redundancy, debt and bankruptcy cases. While much has been written on this issue a considerable amount of anger has been directed at the Executives, Directors and regulators by members of the public to Unite members on the front line who have courageously bore the brunt of the crisis in many different ways.
2. It is clear that the finance sector is central to the effective functioning of the economy. It is also important that following the plethora of evidence, consultation and debate that has taken place surrounding the crisis, that when looking forward, the end result is a finance sector which serves the needs of society; that delivers a fairer, transparent, sustainable and equitable finance sector for consumers, employees, and shareholders - an industry that is fit for purpose.
3. Unite, is well placed to respond to this call for evidence on the way forward for Scotland’s banking, building society and financial services sector as it represents thousands of finance sector workers across Scotland in all grades and all occupations, in banks, investment banks, insurance companies, building societies, finance houses and business services companies.

Q1. What is your view on the cause, nature and impact of the recent difficulties in the financial sector in Scotland?

4. Unite is disappointed with the Committees use of words in this question. The 'recent difficulties' mentioned in the question undervalue the massive scale of events in the sector which has led to around ten thousand job losses for finance sector workers in Scotland as well as the knock on effect being felt in other sectors of the economy with access to credit drying up and the resultant redundancies in SMEs.
5. However in response to the question Unite is clear that the cause and nature of the 'recent difficulties' in the financial sector in Scotland are a result of a combination of inextricable factors which include:
 - Short term decisions which relied on long term outcomes that handsomely rewarded those at the highest level of the banking sector in the short run;
 - An apparent bullish attitude to lending (e.g. 125% loan to value mortgages and unsustainable credit facilities) which created severe liquidity problems;
 - An over-reliance on the regulatory system to properly police the sector;
 - Poor internal risk management strategies;
 - Remuneration policies which were not linked to long term success and sustainability coupled with incentivisation schemes which were target driven and did not take into account consumer needs;
 - Inadequate experience and knowledge of the complexities of the business of Non-Executive Directors as well as inappropriate independent channels for them to challenge business decisions.
6. The impact of these combined factors on the financial services sector in Scotland is similar to that throughout the UK: a breakdown in confidence across the sector by businesses, consumers and employees; a lowering of morale among the workforce as job losses continue; a restriction of competition in the high street; an inability for businesses to access credit and a sector indebted to the tax payers for trillions of pounds.

Q3. What changes can be expected as part of the ongoing and future restructuring plans in the financial services sector within Scotland?

7. Unite has no doubt that a restructuring of the sector is inevitable and reforms are necessary given the massive financial losses incurred across the sector and the cost cutting measures which include a significant number of job losses. However Unite remain concerned that while job losses are a consequence of the crisis, a voluntary route should be sought wherever practicable. This is particularly pertinent

given that tax payers have a significant investment in a number of finance sector companies.

8. Restructuring of the financial system should also include retaining a diverse and vibrant sector. Mutuals and building societies should be encouraged, rather than being financially penalised through the disproportionate levy required to be paid to the FSCS which is based on deposits held. This has had a huge impact on smaller financial institutions that do not make profits in the millions but who have felt the impact of this levy most acutely and for some their survival hangs in the balance.
9. Issues with regards to maintaining Headquarters in Scotland will be paramount in any restructuring proposals. At present three clearing banks retain HQ's in Scotland, Royal Bank of Scotland, Clydesdale Bank and Standard Life Bank with Lloyds Banking Group maintaining a significant presence in Scotland at this time. The retention of these businesses in Scotland is vital for Scotland's position on the international stage and therefore must remain a key strategic priority for the Scottish Government.

Q4. How might these changes affect the business and retail banking market in Scotland, access to project finance, a reduction in competition on the 'high street' for lending, the plans for the retention of functions and 'headquartering' etc and what can the public sector in Scotland do to ensure the best possible result for Scotland?

10. Parts of this question have been addressed elsewhere. Scotland has been badly impacted upon by the financial crisis given the finance sectors input into the Scottish economy and the number of people employed in the sector in Scotland. The Scottish finance sector has performed well in recent years and contributed around 8% to the country's output in 2008 and employs over 90,000 people.¹ From Q1 2000 to Q1 2007 the financial services industry in Scotland grew by 60%.² This level of growth and employment in the past decade is a reflection of what is achievable and with the right level of skills and investment, Unite would argue that despite the present crisis and fall in employment and productivity this does not preclude the sector from similar levels of growth in the future.
11. Competition however has been severely restricted in recent times with the merger of HBOS and LTSB; Co-op and Britannia; Abbey and Grupo Santander. This has changed the face of the high street and impacted significantly on competition for financial products and services for

¹ Strategy for the Financial Services Industry in Scotland 2009 Annual Report

² www.sfe.org.uk

consumers. A diverse and competitive sector is necessary to increase consumer choice and to create demand. Consumers are also becoming increasingly financially aware and the sector requires to address this issue.

12. Unite welcomes the Financial Services Authority announcement that it will now require to see a copy of all company remuneration policies. A thorough review of pay and reward systems within the sector should also be carried out. The sector should not base its pay and reward systems on selling inappropriate products to consumers.³ In the UK this type of behaviour goes against the Treating Customers Fairly policy which forms part of the FSA regulatory principles.

Q.7 What are your views on the current efforts across the public sector in Scotland to respond to the recent difficulties in the financial sector in Scotland and what, if anything, needs to change in the future as the situation develops?

13. Unite is keen to see the sector work closely with the public sector in order to ensure sufficient opportunities and support is put in place to limit the impact of job losses in the sector.

14. Organisations like Partnership Action for Continuing Employment (PACE) offer a vital service to employers and employees offering support, both practical and financial to companies and advice and information to those affected by redundancy. Unite has worked closely with PACE through the FISAB Scottish Jobs Taskforce and would encourage employers to use such services whenever possible.

Q.9 How should Scotland differentiate itself and promote itself as a financial services centre in the future and what steps are being taken by our competitors in this respect?

15. Scotland has always been home to innovation which has heightened its status on the international stage. Innovative financial products are no different and through partnership working with industry experts, the university network and SDI, Unite sees no reason why Scotland is not well placed to continue to develop its international standing as a competitive location.

16. However this will come at a price and the Scottish Government must be prepared to make funds available to increase training opportunities across all key industries by investing in its people and infrastructure to support growth.

³ A survey carried out by Irish trade union IBOA found that employees were placed under pressure to reach target rather than addressing the concerns of consumers. Access the results at: <http://www.uniglobalunion.org/Apps/iportal.nsf/pages/homeEn>

Q.10 How can we ensure that the Scottish financial sector continues to retain a global perspective and does not retreat into a purely localised lending regime?

17. In terms of ensuring Scotland retains a global perspective Unite would wish to highlight the quality of the workforce.
18. It is imperative that the sector does all it can to attract a diverse and talented workforce and is able to retain them. While average earnings in the sector are above the national average when compared with other industrial sectors in Scotland, Scotland's finance sector employers pay less to those who work in Scotland when compared to those who work in financial services in the UK.⁴
19. Despite this the sector has always managed to attract and retain the skills of a significant proportion of Scotland's best qualified people with around 33% of the sector's workforce holding level SVQ 4 qualifications or higher.⁵ However significant damage has been done to the reputation of the sector by the sector itself and it may have an uphill struggle to attract or retain people in the future.
20. The sector may therefore require to be more creative in attracting people into the industry by highlighting some of the less obvious career choices on offer in the sector e.g. IT, HR, advertising and property management functions.

Q. 11 Why are "new" banks choosing to establish themselves in Scotland, what is it that is particularly attractive and how can we build on this and attract additional investment into Scotland?

21. Unite believes that 'new' banks are choosing to establish themselves in Scotland due to the quality of the workforce. The sector appears to pride itself in getting the right people into the right job by paying them an attractive and competitive salary. This is especially evident at the highest level of an organisation. This method of reward must be filtered down the organisation to attract and retain the right people in order to maintain the sector's standing globally.
22. To do this skills and training must be pushed higher up the agenda, an issue Unite has been campaigning for for some time. Skills audits should be carried out to identify current and future skills needs to ensure the workforce is equipped to take account of the upturn when it arrives with training opportunities made available to all workers.

⁴ FISAB Annual Report 2009

⁵ Source: LFS 2008 Q2 (April-June).

Going Forward

Unite has a number of points while not specifically addressed in the questions raised are relevant to the success of the Scottish finance sector going forward.

23. Unite wishes to see an end to the unfair bonus culture – a system which lacks transparency, is inequitable, discretionary, inconsistent and non-pensionable. Unite wants to ensure that our members receive a fair days pay for a fair days wage and this would involve the removal of remuneration systems which focuses on target driven sales to the detriment of consumer needs.
24. It is unsurprising that bonuses have come under scrutiny with the Treasury recently announcing plans to give the banking regulator, the Financial Services Authority (FSA), new powers to control bonuses in all banks, a move which is likely to require new legislation. The new rules would cover the whole of the banking system not just those institutions that are part-owned by the taxpayer, such as the RBS and LBG.
25. On a more general note but not however unrelated, Unite has observed an increase in the workload on our members and has evidence of escalating levels of unpaid overtime as redundancies impact on those who remain. A Unite survey of finance sector members in 2008 found that within banking 63.4% of members work unpaid overtime of which 15% work 10 hours or more per week of unpaid overtime.⁶
26. Unite Finance Sector National Committee recently passed a motion supporting the introduction of a National Maximum Wage. While this policy has not been adopted across the whole of Unite, it remains a significant issue for Unite members in the sector. Unite believes that the excessive pay levels of senior executives has fuelled the huge inequality in pay levels in the UK in both the public and private sector. In order to close the gap and contribute to the restructuring of the economy necessary after the current financial crisis Unite, among others, is calling for the introduction of a national maximum wage of ten times the average UK wage. According to Labour Research Department the average UK wage today stands at £592.70 per week which would give a national maximum wage of £308,204 per annum.
27. Unite will be campaigning around this issue and will be lobbying the Westminster Government to introduce legislation to redress the imbalance in pay and remuneration across the economy. Unite would urge the Scottish Government to support this proposal and put

⁶ Unite Finance Sector Members Survey 2008

pressure on colleagues in Westminster to consider any proposals which restrict excessive remuneration and which aims to tackle the divide between the highest and lowest earners in society.

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