



## **Unite the Union response to Treasury Committee Inquiry into competition and choice in the banking sector**

**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 150,000 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**

- Unite does not believe that the Coalition Government is doing enough to promote diversity in the sector;**
- Unite believes that takeover and mergers must be fully investigated by the Competition Commission to ensure that such business decisions are in the best interests of all stakeholders including consumers, shareholders and the workforce;**
- Unite would argue that companies operating in an increasingly regulated market should be more aware of their social obligation and give greater consideration to whether they are 'socially useful';**
- Unite believes that a re-evaluation of the banking business model which incorporates a moral and ethical dimension to the business is required;**
- Unite is calling for guarantees to be put in place in takeover situations which will protect the terms and conditions of the workforce including pensions and a commitment to no compulsory redundancies or site closures for a negotiated period.**

## Introduction

1. Unite welcomes the opportunity to respond to this inquiry and is keen to work with employers to ensure that the financial services sector remains competitive, profitable and sustainable with customers treated fairly and the workforce valued and rewarded appropriately.
2. Unite supports the Coalition Government's intentions to 'promote mutuals and create a more competitive banking industry, increasing competition and encouraging diversity.'
3. Unite stated in a previous submission<sup>1</sup> that the UK needs a diverse finance sector, which includes retail banks, building societies, mutuals, cooperatives and credit unions, providing different products and services, relationships and experiences. A diverse finance sector is better placed to serve the needs of a diverse population including those who presently find accessing financial services difficult.
4. However, Unite does not believe that the Coalition Government is doing enough to promote diversity in the sector. Indeed it would appear that recent announcements within the sector show an increase in consolidation and amalgamation rather than diversification or increased competition.
5. All the evidence points to existing players in the market buying up other existing organisations which Unite would argue reduce choice and creates a homogenous banking sector. This is evident with Lloyds TSB taking over HBOS; Abbey, Alliance and Leicester, Bradford and Bingley and RBS branches bought by Santander Group and Nationwide adding Derby and Cheshire Building Societies to their portfolio.
6. Unite believes that takeover and mergers must be fully investigated by the Competition Commission to ensure that such business decisions are in the best interests of all stakeholders including consumers, shareholders and the workforce. Workers representatives and consumer groups should be consulted to ensure the interests of stakeholders are included in any consultation process prior to the final decision being made.
7. The Government has set up the Independent Commission on Banking<sup>2</sup> to carry out a review on reforming banking and promoting competition and has set one of its objectives as:

*Promoting competition in both retail and investment banking with a view to ensuring that the needs of banks' customers and clients are efficiently served, and in particular considering the extent to which large banks gain competitive advantage from being perceived as too big to fail.*

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<sup>1</sup> Unite response to HM Treasury discussion paper on building society capital and related issues

<sup>2</sup> [http://www.hm-treasury.gov.uk/d/banking\\_commission\\_terms\\_of\\_reference.pdf](http://www.hm-treasury.gov.uk/d/banking_commission_terms_of_reference.pdf)

8. However, while Unite welcomes this review, the date given for reporting of September 2011 would appear to be too far in the future to influence the outcome of the sale of those banks that are wholly or part owned by the state as buyers are likely to become apparent before this date.

### **Sales versus services**

9. While Unite welcomes increased competition which would bring opportunities for employment, we would not wish to see increased competition at any price; where customers and employees feel unfairly treated and unable to challenge the might of the large banks. Indeed Unite would argue that new entrants as well as existing companies operating in an increasingly regulated market should be more aware of their social obligation and give greater consideration to whether they are 'socially useful'.<sup>3</sup>
10. Unite has evidence of dysfunctional selling where products and services were sold to customers which were deemed inappropriate for their needs and the workforce then faced with the prospect of disciplinary action if they failed to reach targets on sales. This does not create an environment for delivering fair treatment to consumers or employees.<sup>4</sup>

### **Business and banking**

11. The UK needs a competitive banking sector which takes account of the needs of customers, including business customers, by providing the ability to access funding in order to grow and expand which is an important part of creating a sustainable and successful economy.
12. There are over 4.5 million small and medium sized businesses in the UK requiring banking services. However, it could be argued that not all businesses have been served well in recent times by the existing players in the market. A lack of access to affordable finance and a shortage of working capital, coupled with late payments, are making the situation difficult for many SMEs.
13. The Federation of Small Business Annual Survey 2009 found that "in the absence of fair lending from the banks and with only 13 per cent of members who have borrowed new finance in the last year seeing interest rates decrease (in line with the Bank of England base rate), businesses have resorted to using bank overdrafts (28%) and their own savings (24%) to stay afloat."<sup>5</sup> The FSB is seeking to restore the trust that has been lost between small businesses and banks by ensuring banks 'lend more finance more fairly'.

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<sup>3</sup> Adair Turner FSA Chairman described some of the work of banks as socially useless.

<sup>4</sup> Unite survey on Sales versus Service

<sup>5</sup> FSC-ICM Voice of Small Business Annual Survey 2009

## **Encouraging diversity**

14. The sector has much to do to re-engage consumers and despite the negative experiences many people have, they remained relatively loyal to their bank. The lack of transparency in the charging structures together with a perception of the difficulties associated with switching banks has meant that in 2009 only 1.2 million of the 60 million current account holders in the UK switched banks.<sup>6</sup> This is despite the biggest financial crisis in modern times and the apparent disaffection many consumers had with their bank.
15. In view of this, new players may find it difficult to penetrate the dominance of existing high street brands or will be required to provide a different banking experience that will capture the market.
16. Metro Bank has made an attempt to break in to the UK high street banking market by opening a branch in central London with a business model aimed at 'service not price' and calling on customers to 'love your bank at last'. The branch opened on Sunday 1<sup>st</sup> August and it is too early to see whether the focus towards better customer service will entice consumers away from existing banks.
17. Unite will however pay close attention to Metro Bank as an employer as it may be that this approach will come at a price as the bank advertises the fact that it is opening longer and later than other banks which may impact on the workers employed at the bank.<sup>7</sup>

## **Consolidation not diversification**

18. The recent announcement that Santander is to buy 318 RBS branches appears to contradict EU rules on competition as well as the Coalition Governments own Coalition Agreement statement on encouraging diversity.
19. Santander has more bank branches than any other bank in the world<sup>8</sup> and through its purchase of other UK high street brands such as Abbey National, Alliance and Leicester and the savings arm of Bradford and Bingley, has captured a significant proportion of the banking market in the UK.
20. With Northern Rock likely to be sold off in the near future and LBG also being forced into selling off branches due to EU competition rules, Unite would wish to ensure any sale of Northern Rock, LTSB or Cheltenham and Gloucester branches are sold to a competitor which increases competition and choice in the market but also by provides the workforce with a degree of job security.

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<sup>6</sup> Guardian 1<sup>st</sup> August 2010

<sup>7</sup> Unite has written to Metro Bank on two occasions to set up a meeting however has not yet received a response.

<sup>8</sup> About Santander [www.santander.co.uk](http://www.santander.co.uk)

21. Unite is calling for guarantees to be put in place in takeover situations which will protect the terms and conditions of the workforce including pensions and a commitment to no compulsory redundancies or site closures for a negotiated period. These practices should be recognised as good corporate governance and provide employees with some degree of protection as significant stakeholders in a business. Those at the top of a company often have comfort in contractual protections in takeovers and the workforce should be able to have this level of protection also.
22. Unite has expanded on its views regarding the conduct of takeovers in its submission to the Takeover Panel Codes Committee and this can be viewed on the undernoted weblink.<sup>9</sup>
23. Unite believes that a re-evaluation of the banking business model which incorporates a moral and ethical dimension to the business is required; one which regards good customer service as equal to good sales techniques; one which gives regard to fairness in employee relations as well as treating customers fairly. This should be a prerequisite in expanding competition and choice in the UK banking sector and should be enforced.

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<sup>9</sup> [Unite response to Takeover Panel consultation](#)