



**Unite response to the Treasury Committee
evidence session on the work
of the Financial Services Authority**

Executive Summary

- 1. 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.**
2. Unite, as the largest trade union in the finance sector, should be recognised as a key stakeholder in the financial services industry and overhaul of the regulatory structures should include trade union involvement in order to enhance the accountability of finance institutions.
3. There should be trade union representation on the boards of all key agencies involved in the regulatory system. The trade unions are ideally placed to provide a 'checks and balances' overview on behalf of employees who have many valuable insights into the industry.
4. There should be some form of 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 Government owns or part owns.
5. All relevant organisations in the sector should be required to have robust and properly resourced risk management structures.
6. There needs to be a forum to allow examination of the inter-relationship between regulation and employment practices and the impact for staff and customer service.
7. Unite calls for a more 'holistic' approach, recognising that remuneration systems, and many other employment practices, do not work in isolation.

8. What steps are the FSA now taking to follow up on its earlier conclusions concerning the positive role of trade unions in promoting financial capability?
9. The FSA's own 'employee engagement' should include collective representation through an independent trade union (it is currently through an in-house Staff Consultative Committee).

Introduction

10. Unite represents some 180,000 workers across the finance sector. The union represents staff 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.
11. Unite welcomes the opportunity to present written evidence to the Treasury Committee on the work of the Financial Services Authority (FSA). The union has made a number of submissions to the FSA concerning its work (including Retail Distribution Review and Treating Customers Fairly) and these are reflected in this response.

Better regulation – a trade union role

12. In October 2008 Unite launched its 'Social Contract for Financial Services'. One of the key points contained in the contract is "recognition of Unite as a key stakeholder in the future of the financial services industry and overhaul of the regulatory structures of the financial services sector to include trade union involvement in order to enhance the accountability of finance institutions".
13. Unite has a wealth of experience in representing and campaigning for its members in the finance sector dealing with the key challenges the sector has faced including mergers, takeovers, off-shoring, outsourcing, restructuring, pension changes and changes to pay systems.
14. There needs to be tighter regulation of the market and strengthening of the framework which regulates the finance industry together with increased powers to hold to account, including criminal proceedings, those who contribute to failings on a massive scale.
15. The internal audit division of the FSA identified a number of systemic failings in the supervision of Northern Rock, in particular the failure of the FSA supervisory team to deal sufficiently rigorously with Northern Rock's management in questioning the vulnerability of the bank's business model.
16. Unite believes this was not an isolated incident but a systematic failure of the procedures and practices of the supervisory systems within the

FSA. It is evident from the current financial situation that the FSA has failed as a regulator. It is necessary to consider in the regulatory overhaul to make the FSA a publicly accountable and independent regulatory body to include trade union representation as well as independent and academic experts.

17. Unite wants to see trade union representation on the boards of all key agencies involved in the regulatory system. It is essential that the employee voice is heard among those with only the interests of shareholders in mind. The trade unions are ideally placed to provide a 'checks and balances' overview on behalf of employees who have many valuable insights into the industry
18. In addition, Unite would like to see some form of 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 economy at large.
19. All relevant organisations in the sector should also be required to have robust and properly resourced risk management structures, which would have dual reporting lines direct to the chief executive and the regulator. Risk management should be treated as a core activity for a financial institution.

Regulation and employment practices

20. Unite would also like to take this opportunity to raise the issue of finance industry regulation and employment practices. Unite understands that employment relations is not within the remit of the Financial Services Authority. However, the union has experienced occasions when the strict demarcation between the two has created a vacuum whereby it is very difficult to pursue issues or identify accountability. Employers justify practices on the basis that the regulator requires them and the regulator does not get involved in employment relations issues.
21. The Financial Services Authority already has 'practitioner' and 'consumer' panels. There needs to be a forum to allow examination of the inter-relationship between regulation and employment practices and the impact for staff and customer service.
22. This is a point we have raised on a number of occasions in various exchanges with the FSA, the Treasury, the Bank of England and the Treasury Select Committee.

Remuneration systems and Treating Customers Fairly

23. An example of where employment practices can impact on customer service is remuneration systems.
24. The incentivisation and target driven culture associated with commission based selling and synonymous with the finance sector has faced much criticism from both trade unions and consumers groups.
25. This type of selling can increase stress, lower morale and prevent positive employee engagement. Consumer groups believe that it increases the risks of mis-selling by employees in a drive to meet often unrealistic and unattainable targets; none of which does anything for consumer confidence or a motivated and productive workforce.
26. Unite welcomes that the FSA's recent Feedback Statement on the Retail Distribution Review gives a high priority to the need to "reduce the conflicts of interest inherent in remuneration practices". The union is keen to see further detail in how this is to be taken forward.
27. In earlier dialogues with the FSA, Unite's predecessor unions have called for the need to consider a more 'holistic' approach, recognising that remuneration systems (and many other employment practices) do not work in isolation. Such an approach is necessary to provide both a response on how the industry could better serve its customers but also to deliver fairness in its treatment of employees.
28. The FSA conducted its own work on remuneration and in relation to 'Treating Customers Fairly' published a 'cluster report' in 2005 which stated that *"all remuneration structures will impact on staff behaviours and it is important to recognise the risks associated with particular incentives and control for them."*
29. The 'cluster' report also concluded that TCF may be relevant for all factors that can incentivise staff, including target setting, promotion, salary increments and disciplinary issues.

Financial capability

30. The FSA's National Strategy for Financial Capability identified the workplace as one of the priority areas to deliver a step change in financial capability in the UK.
31. A report by the FSA's Financial Capability Workplace Working Group found that trade unions have an important role to play in improving people's financial capability and that the potential for trade unions to

promote financial capability in the workplace should be explored further¹.

32. What steps are the FSA now taking to follow up on these conclusions and how are trade unions being involved in the process, including its Money Guidance Pathfinder?

Employee involvement

33. Finally, as part of the Committee's inquiry relates to the FSA's Annual Report, Unite would take this opportunity to make a point in respect of the section in the FSA's Annual Report headed 'employee engagement'. The FSA reports that it has a Staff Consultative Committee which is the forum through which it complies with the EU Information and Consultation Directive 2004. However, the SCC is not an independent registered trade union and Unite hold the view that employee involvement needs to include collective and independent representation and would be happy to discuss this further with the FSA.

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

December 2008

¹ Make the Most of Your Money: a report on the FSA Financial Capability Workplace Working Group educational pilot activities (FSA 2006)