



Unite the Union response to the Treasury Select Committee Inquiry on the Final Report of the Independent Commission on Banking

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

Due to the short response timescale, this response will focus on the issue of remuneration and the effect the financial crisis has had on workers in the finance sector.

- Unite has expressed disappointment at the outcome of the ICB final report and, in particular, some key omissions, including calling for a change to remuneration and reward systems, as well as recommending changes to the culture and behaviour in the boardroom that encourages greed. Unite believes that this is a lost opportunity for a new order of socially useful and ethically robust banking.
- Unite is also concerned that additional costs will be introduced affecting customers through increased charges, and that the workforce, through a reduction in jobs, will suffer as the banking sector seeks to claw back additional costs that will be incurred as a result of creating the firewall between retail and investment banking across the industry.

Introduction

1. Unite is disappointed that there has been little acknowledgement of the effect the crisis has had on those employed in the banking industry. It is estimated that around 150,000 finance sector jobs have been lost since

the beginning of the crisis as a result of acquisitions, mergers, and, ultimately, financial and corporate mismanagement. This has led to an increase in the pace and intensity of work, rising stress levels and lower morale among the workforce, which when combined with concerns over job security, adds further pressures to an already intense working environment.

2. Unite is further concerned that the drive to increase profits to compensate for the eventual costs associated with ring-fencing will be paid for by the workforce through lower pay, further job losses and pressures to increase sales targets; and on to customers through increased charges and higher interest rates on borrowing and lower interest rates on savings.
3. The ICB were in a position to recommend fundamental changes to the way banks are run. Ultimately this requires a cultural and behavioural shift. However, the ICB pulled back from recommending a move towards a more ethical and socially responsible banking system, instead focused on ring-fencing against the existing risk driven behaviours which pervade the industry. Unite sees this as a fundamental failure in the report.

Remuneration

4. The ICB failed to tackle the issues associated with the remuneration systems which operate within the banking sector. Unite has made representations to the ICB and others¹ that there must be an assessment of the role of remuneration and reward and the part it played in the banking crisis and how this must be reformed in order to limit the risk of such a crisis taking place in the future.
5. Many of the reward packages within the finance sector link pay and performance, with the majority linked to sales. The stress placed upon workers in the industry to reach personal and peer group targets is recognised as a significant contributory factor leading to behaviour which may lead to inappropriate selling taking place as well as higher levels of sickness absence and an increase in the number of workers involved in the disciplinary process on grounds of performance.
6. Unite is disappointed that the ICB has also failed to address the link between target based reward systems and the increase in complaints to the Financial Ombudsman Service (FOS), a significant number of which are due to inappropriate sales including Personal Protection Insurance (PPI).²
7. The ICB was tasked in its Terms of Reference with “ensuring that the needs of banks’ customers and clients are efficiently served”.³ The reward system should therefore have been considered if this statement is to be addressed. All aspects of remuneration systems must be

¹ Unite responses to HM Treasury, FSA, Treasury Select Committee between 2008 and 2011

² FOS Annual Report 2010/2011

³ http://www.hm-treasury.gov.uk/d/banking_commission_terms_of_reference.pdf

transparent, accountable, and fair and open to independent scrutiny. They should not be sales driven.

8. The Which? Future of Banking report published in 2010 agrees. It stated that:

“There should be no commission or bonuses received for selling products.”⁴

9. According to the Which? report sales based remuneration systems should be replaced by reward schemes which focus on customer satisfaction, fair treatment and resolution of customer complaints.
10. Unite believes that the adoption of an ethics based culture within the boardroom and filtered down through the company would have improved customer confidence, raised morale among the workforce and improved existing negative perceptions of the industry.

Culture and behaviour

11. Unite is disappointed that the ICB failed to recommend a socially useful banking business model which incorporates a moral and ethical dimension; one which regards good customer service as important as its drive for sales; one that is fair in its treatment of its workforce as well as treating its customers fairly, and one which will serve the needs of society and not just a mechanism for delivering profits at any price.
12. Unite would wish to re-emphasise the points made in our response to the ICB interim report regarding corporate governance.

Weak corporate governance has been identified as a key determinant which led to the crisis and yet the existing system of corporate management and company law remains relatively unchanged. The Treasury Committee Ninth Report of the Session 2008-2009 identified that the Board of Directors (Executive and Non-Executive) have a duty to promote the success of the company. The Report went on to refer to a comment by John Varley (Group Chief Executive of Barclays Bank) to the Committee that banks were the “single, biggest contributor” to the crisis. The Report also included a quote from the Pensions and Investment Research Consultancy (PIRC) who recognised that the Board approved the “business strategies and products that caused such damage...” and they urged the committee to consider the role of the boards.⁵

Indeed the previous Chancellor, Alistair Darling, in his evidence to the Committee stated that the board of directors

⁴ Which? Future of Banking Commission Report 2010 Para 25

⁵ <http://www.publications.parliament.uk/pa/cm200809/cmselect/cmtreasy/519/519.pdf> Para 128

*was an “area which we overlook at our peril.” The ICB has overlooked the role of the Board in this process.*⁶

13. Much of the responsibility for the crisis could be said to lie firmly on the shoulders of the Board of Directors in the banking sector and yet the ICB has decided not to take decisive action to ensure that the boards conduct themselves in a manner which is conducive with good corporate behaviour, social responsibility and which incorporates ethically sound judgements. This could have included tough penalties or legal action which would act as disincentives for risky behaviour. The ICB failed to take a clear stand to encourage a change in corporate culture.

Conclusion

14. The workforce in the banking sector have seen the media portray them, by association, as “greedy bankers”⁷; customers have taken their anger for the crisis out on them;⁸ their employers are making their colleagues redundant⁹ and regulators and the Financial Ombudsman are scrutinising every aspect of their work. It is little wonder Unite members are feeling battered and bruised and more than a little annoyed.

15. It is therefore disappointing that in the most important review of the banking system in a generation those who will ultimately be responsible for turning around the industry were not given any acknowledgment for the contribution they make to the industry, or recognition of the pressures placed upon them throughout the upheaval of the past four years.

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⁶ <http://bankingcommission.independent.gov.uk/interimresponses/>

⁷ Daily Mail: 15th May 2009, The Sun: 26th April 2010, Sunday Mirror: 13th February 2011

⁸ Mail Online: “Bank workers given alarms to deal with public anger.” 28th September 2009

⁹ More than 60,000 jobs have been lost within Royal Bank of Scotland and Lloyds Banking Group since 2008.