



Unite the Union response to the Independent Commission on Banking Interim Report

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

- Unite is concerned about elements of the behaviour of the banks and the effect the crisis has had on the workforce in the sector as well as its social usefulness;**
- It is vital that the sector tries to re-engage those stakeholders who feel they have been let down by the industry including the workforce, its customers, and taxpayers;**
- Unite has specific concerns that high value sales products continue to be marketed to customers over less lucrative products or savings accounts;**
- Morale remains low among the workforce and the failure of such an important body as the ICB to acknowledge the impact the crisis has had on them and the role they will be required to play in rebuilding its future is disappointing;**
- Unite would call on the ICB to give consideration to proposals that would provide the workforce a voice at a strategic level through their trade union, in order that they are able to express their interests and concerns;**
- The Commission should look again at the issue of reward and ensure the banking sector applies a process of managing targets which is transparent, consistent and treats customers and workers fairly;**

Introduction

1. Unite agrees with the general principles laid out in the Interim Report on the need for structural reforms that will ensure stability and reduce risk and believes that following the extensive consultation process, provided that all views are given appropriate consideration, the financial system should be better placed to deliver a banking system fit for purpose.
2. Unite accepts that by gathering evidence from a wide range of stakeholders it is likely that a wealth of opinion and proposals will be put forward for consideration which will help to inform the final outcome in a positive way and lead to a stable and less risky industry which is good for all stakeholders.¹
3. While Unite acknowledges that the industry itself has an important role to play in putting its house in order to make it safer, strong effective regulation is also necessary. The Commission has taken account of this in the Report. However there are other issues affecting specific stakeholders which have received less attention from the Commission which also need addressed. In particular Unite is concerned about elements of the behaviour of the banks and the effect the crisis has had on the workforce in the sector, remuneration packages, issues surrounding corporate governance, as well as its social usefulness. Following one of the most in depth reviews of the banking sector that has taken place, Unite is concerned that these issues appear to have been left out of the ICB Interim Report.
4. In light of this, Unite will focus this response on consultation question 3.1 which relates to any other reform initiatives which should be examined further.
5. The financial crisis has highlighted the crucial role the banking sector plays in the complex workings of society, and that it has a pivotal role in the functioning of a mature economy. As such the sector has many important stakeholders to consider and Unite is keen to ensure that all those with an interest in the industry have an opportunity to be heard.
6. It is a widely held view that the finance sector has fallen short of its responsibility to society. However it is important that we don't lose sight of the contribution the sector makes to the economy and through hard work and commitment by the workforce, will continue to make in the future. It is therefore vital that the sector tries to re-engage those stakeholders who feel they have been let down by the industry including the workforce, its customers, including small and medium sized businesses and taxpayers by rebuilding trust. It is unlikely that this will come from structural or regulatory

¹ The ICB Summary of Issue Paper responses reported that they received 150 separate submissions from financial sector industry groups, academics, think tanks and members of the public.

reforms alone - it will also require a cultural shift resulting in a change in behaviours and attitudes.

The Workforce

7. Bank workers have been particularly harshly treated during this entire process. Unite would wish to remind the Commission that at the height of the crisis more than 100,000 finance sector workers lost their jobs due to the mismanagement and poor decisions made by extremely well paid executives.² The workforce that remain face continued job insecurity, with job losses being reported across the industry almost weekly and pressures still in place to reach targets or face the performance improvement process with the possibility of being disciplined or dismissed.
8. Each one of these workers is a taxpayer, with many also shareholders in the bank in which they work. This gives the workforce the voice of three strong stakeholders; as a worker; a taxpayer and a shareholder and yet the Commission has completely missed the opportunity to provide a route for adequate engagement at a strategic level for them or their representatives.
9. Where does this leave the interests of workers in this process? Or does the Commission see the views of the workforce as peripheral to the debate about the future of the industry?
10. Unite is frustrated that the drive to reduce costs and increase profits has had greatest impact on the workforce who appear to be regarded as a cost to be restrained rather than an asset to be developed. Profits are more often than not, delivered by people and Unite members are instrumental in creating the profit required to drive the sector forward and contribute to its future success. However we do not advocate profit at any price and would support fair, profitable industries while taking account of the social utility the sector must deliver to society and its customers.
11. However Unite has specific concerns that high value sales products continue to be marketed to customers over less lucrative products or savings accounts. These products have been identified as high value and are 'target driven' with the workforce in one organisation being advised of a target for growth of around 30% this year.
12. Insurance products, credit cards and 'value added' products such as current accounts which come with additional products and services, are being sold to customers who may already hold one or more of the products included in the package. This double selling is not always highlighted to the customer at the time and may not always be in the customer's best interest.

² The Office of National Statistics show that between Q3 2008 the finance sector employed 1,194,000 and by Q1 2010 this had fallen to 1,095,000. However between 2009 and 2011 approximately 60,000 jobs were lost in RBS and LBG alone.

13. If such practices are evident in a large high street bank, Unite would contend that it is very likely that similar practices are also evident across the sector in other organisations. The mis-selling of PPI and the financial penalties handed out to those involved should have fired warning shots across the bows, however only time will tell whether lessons have been learned.
14. Unite would hope that in the new regulatory regime the Financial Conduct Authority (FCA) will be quick to act if such instances of unfair promotion of particular products or services are sold to customers purely to increase profits, without providing them with a clear understanding of what they have agreed to.
15. Despite attempts to put the sector in a positive footing, morale remains low among the workforce and the failure of such an important body as the ICB to acknowledge the impact the crisis has had on them and the role they will be required to play in rebuilding its future is disappointing. Unite would call on the ICB to give consideration to proposals that would provide the workforce a voice at a strategic level through their trade union, in order that they are able to express their interests and concerns.

Remuneration

16. Unite is confused as to why the Commission has not considered fully the role of remuneration and reward and its effect on the banking crisis and how this should be reformed in order to limit such a crisis taking place again.
17. Many of the reward 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. The stress placed upon workers in the industry to sell specific products has been further heightened by examples of inappropriate behaviour by management. This includes bullying, intimidation and humiliation which in turn has led to increased stress related absence, lower morale and an increase in the use of the disciplinary procedure - a vicious circle based upon sales which fails to treat customers or workers fairly.
18. According to the Office of National Statistics 40% of the workforce within financial intermediation (the ONS definition of the financial services sector) earn below £24,535.³ The performance based reward system can then add a further bonus payment on top of this which for some people can make a significant difference to their take home pay. Unite is not calling for the removal of bonus payments. Indeed anecdotal evidence from Unite members is that as current pay levels within the sector remain relatively low for the professionalism, qualifications and expertise levels demanded by many of the roles, many do wish to retain a bonus element to their pay, however one which is transparent and fair.

³ http://www.statistics.gov.uk/downloads/theme_labour/ASHE-2010/tab4-7a.xls

19. The banking sector also contains huge pay differentials with CEOs earning in excess of 100 times the basic pay of those at the bottom end of the pay scale,⁴ which can act to undermine the relationship between those at the top and those at the bottom. It is apparent that a radical review of remuneration policies is necessary in order to ensure a more robust and fair system of reward is put in place across the sector; one which delivers better treatment for customers but also delivers fairness in its treatment of employees. The Interim Report of the High Pay Commission published in May 2011 states that

“Pay is about just rewards, social cohesion and a functioning labour market, and it is the view of the High Pay Commission that the exponential pay increases at the top of the labour market are ultimately a form of market failure.”

20. In 2010 Unite asked members for feedback on an anonymous basis on sales versus service and were alarmed by some of the responses. Unite highlighted these responses in our response to the FSA discussion paper 10/8 on Pure Protection.⁵

21. This showed that considerable pressures were placed on the workforce to make sales to reach targets which could run the risk of inappropriate products or services being sold to customers. Unite members reported incidents where dysfunctional selling could have occurred.

22. Despite the PPI scandal, as indicated previously in this response, it is very evident that the workforce continues to be placed under undue pressure to meet targets and increase sales. It has also come to light that one large bank is considering ways to sanction workers identified retrospectively as selling PPI insurance. It is understood that they could face the disciplinary process or even dismissal for mis-selling this product despite being given individual and peer group targets to sell this product which many of them were rewarded for at the time through achieving sales.

23. The workforce is faced with a dichotomy. Failure to reach targets will result in the disciplinary process or even dismissal, but if at a later date the product is deemed to be toxic, then the individual will be disciplined or even dismissed for selling it. This is extremely unfair treatment.

24. Unite has called for a reassessment of the performance management practices operating throughout the finance sector which rewards sales over service previously and would urge the Commission to give this issue greater priority in the final report. The Commission should look again at the issue of reward and ensure the banking sector applies a process of managing targets which is transparent, consistent and treats customers and workers fairly.

⁴ In 2009 Stephen Hester CEO of Royal Bank of Scotland earned £1.2 million 108 times that of the starting salary of £11,144 in the bank.

⁵ http://www.epolitix.com/fileadmin/epolitix/stakeholders/FSA_Pure_Protection.pdf

Customers

25. The Government has identified that small businesses are likely to be instrumental in rebuilding the economy and therefore it is vital that they are given the opportunity to recruit and expand and may require access to funding to do this. However they appear to be facing barriers by banks that have placed such stringent measures to obtain credit that it is unavailable to many small businesses. This links directly to the issue of social utility.
26. Project Merlin was set up to encourage the finance industry to curb bonuses and increase lending to small businesses – to date it has failed on both accounts. In Q1 2011 lending to SMEs was down 3% on 2010 figures⁶ and excessive bonuses continue to be paid.⁷ The industry has made grand gestures regarding increasing lending, however it would appear that the requirements to access credit is excessively restrictive. Increased demands by the banks for securitised lending, higher interest rates at a time when base rate is at an all time low and higher charges for credit has meant that the opportunities to access these funds is limited, with those most in need being denied funding.⁸
27. Unite would reiterate the comments made in its response to the ICB Call for Evidence that business must conduct itself in a manner which does not jeopardise jobs and takes account of fairness, reasonableness and social justice and delivers an industry which serves the needs of society and not the other way around.⁹ The Government must therefore look seriously at implementing a penalty on the industry, sooner rather than later, for its failure to make credit available while espousing rhetoric about increasing funding to small business. Failure to lend is stifling growth and the economy.

Taxpayers

28. Unite is aware of the recent announcement made by the Chancellor during the Mansion house speech, that he was moving forward with the sale of Northern Rock in order to “start to get at least some of our money back”.¹⁰ Unite would wish to bring the Commission’s attention to a report published by Landman Economics which states that while proceeds from privatisation would be immediate it is likely to be lower than could be expected if the stock market was more buoyant.¹¹
29. By contrast the Landman report argues that re-mutualising Northern Rock would provide a steady stream of revenue over the long run which is likely to be in excess of the up-front payoff which could be expected from a

⁶ Bank of England Trends in lending April 2011: Lending to SMEs

⁷ According to research by the Centre for Economics and Business Research bonus payments in the finance sector amounted to around £7 billion in 2010.

⁸ Federation of Small Business Press Release: PR/2011/11

⁹ Unite submission to the ICB Nov 2010: <http://bankingcommission.independent.gov.uk/responses/>

¹⁰ http://www.hm-treasury.gov.uk/press_58_11.htm

¹¹ Landman Economics: The economic case for the re-mutualisation of Northern Rock, April 2011

privatised sale. The question is whether the Government is prepared to sell Northern Rock off to the highest bidder to obtain a quick financial gain for the Treasury? Or to take the long term outlook, which indeed is what has been demanded of the industry itself, and deliver a greater return to the economy over a longer period of time.

30. Unite would argue that the benefits of remutualisation are greatest to the majority of stakeholders including taxpayers, the workforce, the North East economy and the people it serves. Privatisation benefits the Treasury and potential shareholders most. Unite is urging the Commission to press the Government to consider remutualisation as the best outcome for Northern Rock and the future of the banking sector and which will improve the Government's commitment to diversity.
31. For Unite delivering a competitive banking sector should not only be about providing more providers delivering the same business model. Increased competition should also provide diversity in banking with more providers delivering a range of business models, offering different products and services which give consumers real choice and easier opportunities to switch providers if they are dissatisfied.

Corporate Governance

32. Unite acknowledges that corporate governance culture dictates that businesses must deliver profits in the interests of shareholders and that the Board of Directors are primarily required to serve the interests of those who invest in the company. However Unite was hopeful that a full analysis of the financial crisis and the fundamental changes proposed to ensure a financial sector fit for purpose, may also have paid more than lip service to the effect this had on customers and the workforce in the sector and how they will be affected by the inevitable changes the sector will face in the future.
33. 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. However 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.¹²
34. Indeed the previous Chancellor, Alistair Darling, in his evidence to the Committee stated that the board of directors was an "area which we

¹² <http://www.publications.parliament.uk/pa/cm200809/cmselect/cmtreasy/519/519.pdf> Para 128

overlook at our peril.” The ICB has overlooked the role of the Board in this process.

35. If we continue to put the wrong people at the helm, with a crew inadequately trained, supported, and reckless, the ship will hit the rocks despite the buffers put there to limit the damage. Changes to Company Law are necessary and should include increased diversity on the board of directors and increased stakeholder engagement at board level, including workers representatives, providing a cross-section of views, opinions and analysis.
36. It is evident that the Commission has missed an opportunity to engage fully with all stakeholders or to take account of the wider interests of this diverse group or the social utility the sector provides to society. By appearing to disregard the views of all stakeholders the Commission could appear to be perceived as not as independent as its name suggests.
37. Unite believes that the opportunity of a lifetime to reform the sector for the benefit of all of society lies with the Commission. There is still time to make real changes, albeit decisions which will require courage and determination in order to stand firm against the industrial pressures from the sector, who by all accounts, seek to continue on their course relatively unhindered.

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