financial services union

Financial Services Union

Submission to the Oireachtas Finance, Public Expenditure and Reform Committee

Introduction:

The Financial Services Union very much welcomes the opportunity to address the Finance Committee and discuss the on-going development of the Banking and Financial Services Sector in Ireland today. In our initial remarks we will set out our views on the key issues facing the sector and the important role the political sphere can play in the future development of the industry.

The Financial Services Union is the leading union in the Banking and Financial Services Sector in Ireland today, representing approximately 15,000 staff. The Financial Services Union, previously the Irish Bank Officials' Association, is unique in the fact that we represent members in the Republic of Ireland, Northern Ireland and Great Britain and have a particular perspective in relation to the changes facing the industry and the challenges of the future.

FSU is a key stakeholder in the Irish Banking Sector. Our members have contributed significantly to the restructuring of the Sector from the calamitous situation faced in 2008 to the situation today where the Sector is increasingly viable.

It is important to acknowledge important milestones within the Banking Industry today, which includes Bank of Ireland's repayment of the final element of state aid in 2013; the flotation of 25% of Permanent TSB in 2015; the announcement in 2016 by RBS of its commitment that its subsidiary Ulster Bank will remain in the Irish market and the recent welcome decision by KBC to remain in Ireland and grow organically.

2017 will also see the likely flotation of part of the State's shareholding in AIB, with the potential flotation of the remainder of PTSB on the agenda for the coming years.

These factors, along with other structural developments in the Sector, make it timely that a fundamental review of the future of the Irish Banking Sector is conducted by Government

Previously, FSU set out key issues which contributed to the Banking crisis between 2007 and 2009 and our submission to the Banking enquiry in 2015 highlights these main observations and is available here. It is the Union's view that a functioning and profitable Banking Industry is important to the development of the Irish economy but this must be balanced with an integrated approach that recognises the important social role that the banking network plays and the importance in terms of citizenship of access to basic banking services.

There are significant pressures and imminent challenges to be faced within the industry and the Union is of the view that this is a timely opportunity to put in place a number of initiatives that assist the development of the industry and creates a better balance in the interests of customers, staff, and the wider economy.

In 2016, our Union rebranded as the Financial Services Union and we are focused on providing professional support and services to members throughout the sector, a role which is increasingly important given the rapid and substantial change that the Sector is undergoing. We have extended our collective and representative role beyond traditional banks into other areas as banks continue to outsource certain functions, or as individuals leave traditional banks and their careers develop in other areas in the financial services sector. Many of our members are now committed to a career long investment in continuous professional development and third-level education. This, we believe, provides enormous opportunities for the industry into the future.

I want to thank the Finance Committee for this opportunity to set out our views and highlight a number of strategic initiatives that are important as we all work to develop the Banking and Financial Services Sector into the future.

Issue 1: Strategic Plan for Banking and Financial Services in the Republic of Ireland.

The Financial Services Union believes there is a need for the State to set out a strategic plan for the sector in order to ensure the continued development of the banking sector in the interest of the economy as a whole; the customers of the bank; and also the staff.

Everybody is aware of the consequences of the failure of the banking sector and the experiences over the last number of years heighten the need for a functioning banking sector which is essential for an economy to grow and prosper.

It is FSU's view that we currently lack a strategic plan in respect of the banking sector. What is now required, before it is too late, is a strategic plan for banking that recognises the need for a functioning banking system but at the same time factors in bank social responsibilities; commitments to customers; impact on staff and the role of technology in shaping the sector.

This is particularly important when one considers the potential growth in the sector post-Brexit and the ongoing change agenda that each of the pillar banks are undertaking.

A similar, if more restricted, initiative has proved beneficial in terms of charting a strategic plan for the International Financial Services sector in Ireland and we believe that this should be extended for the sector as a whole.

The key questions that this Forum may examine includes:

1. What kind of a banking sector does the Irish economy need in the medium to long term?,
2. What controls/oversights should be in place to protect customers and avoid systemic risks while allowing the Sector to innovate and grow.
3. How do we regulate emerging fintech sectors such as peer-to-peer lending and the payment services being rolled out by some of the largest companies in the world include Apple, Google and Paypal.
4. What should the future strategy be for state owned banks such as AIB and Permanent TSB
5. What needs to be done across the industry to ensure the workforce is equipped for a rapidly changing sector and, at the same time, maximise the numbers of jobs.
6. How will change be managed within the industry for customers and how do we ensure that customers have access to basic banking services when the international trend is for banks to consolidate their branch networks in an effort to cut costs and maximise profit.

7. What are the bank strategies for the different channels for serving and engaging with customers? What is the future role of branches, of on-line services; and how can these be developed in such a way that maximises the number of jobs, provides customers with real choices and allows the banks to continue to be profitable.

Undoubtedly banking is changing and there is a lot of focus on digitalisation which will obviously have a very significant impact on the future delivery of banking and financial services in this economy.

It is, therefore, crucial that this Forum is established. While not being prescriptive we see a central role for finance spokespersons, relevant of Government Departments, industry and consumer representatives, our trade union, along with contributions from the academic field.

We do not view this Forum as a "talking shop" – rather it should set itself a tight deadline in which to set out a clear, ambitious vision for banking and financial services in Ireland and create a structure that can allow for an planned development of the industry rather than leave it in a laissez-faire fashion for each institution to focus on its own short-term needs and competitive advantage at the expense of the industry as a whole; staff and customers; and the Irish Economy.

Issue 2: Sustaining Banking in the Community.

Since 2008, FSU has witnessed approximately more than 160 branch closures throughout the Republic of Ireland. It is fair to say that towns and rural communities have borne the brunt of these closures and it is the Union's view that lessons have not been learned from the past.

Initially many of these closures were based on the fact that certain branches were not profitable. In recent years however there is a very strong case that many of the branches remaining in network are profitable and the rationale behind closures are purely short term and driven by a cost reduction agenda.

As a Union, FSU has worked incredibly hard to ensure that the contraction of the branch network does not result in compulsory redundancies. Agreements exist across the industry which protect staff during branch closures and provide options for redeployment and voluntary redundancy. Notwithstanding the above, the Union is greatly concerned that a future strategy of branch closures could become a reality and this could have a serious impact on the social fabric of local communities.

At a time when the current Government has launched a strategy for Rural Ireland and political parties of all hues are developing policy in this area the impact of a branch closure locally on a community has to be fully understood.

In many cases, a centrally located building, often of architectural significance, becomes vacant and sold off to the highest bidder with little or any regard to its significance to the local community. Footfall in the commercial centre of a town can reduce as people will have to travel to another town to access banking services; the close relationship built up over many years by bank staff and local voluntary or sporting organisations can be lost. More importantly, people with limited mobility, low technology skills and those who rely mainly on public transport may have real difficulty in accessing banking services.

It is ironic that at a time when the right to a bank account is gaining increasing traction from those campaigning against inequality and poverty, the right to fully utilise a bank account is becoming more restricted. Notwithstanding many statements from the industry that customers can switch accounts between banks, there is significant evidence to suggest that customers are not enthused by this initiative and seek to retain existing relationships for a variety of reasons.

In fairness, the Financial Services Union has made significant progress in our discussions with a number of banks about the future of the branch network. Indeed, some of those banks have engaged extensively in discussions with us in identifying the role of branches into the future and are committed to retain branches albeit providing different services to facilitate continued community access and relevance. As a template for the future we believe all banks should engage in this progressive agenda.

In relation to branch networks international experience shows the following:

1. Branches in main towns and cities generally provide full service to customers;
2. In smaller communities branches can operate successfully with limited services while retaining a physical presence to meet the needs of customers;
3. Where it is not feasible to retain physical full-service branches other methods of reaching customers can be put in place.

It is important to note that any initiatives need to be security proofed to provide assurance to staff and customers and reduce risk on the Bank.

We believe that the political system has a role to play in supporting communities and would propose that a mechanism to manage proposed bank closures is adopted as public policy. Such a mechanism may involve the following points:

1. A commitment from all financial institutions that between them they would ensure that at least one bank branch remains in each town/locality into the future.
2. Department of Finance immediately puts in place a six-month stay on any proposed closures to examine the business case behind the proposed closure and more importantly to put in place alternative mechanisms to meet the needs of customers as well as staff.

3. To this end an independent expert should be appointed by the Department with banking expertise to assess the impact of any branch closure on the main stakeholders.
4. The expert should be tasked with bringing all stakeholders together to assess the impact of closure on the community and put in place agreed alternatives.
5. A report by this expert would be submitted to the Department of Finance outlining the plans that that Bank or indeed other stakeholders such as the Post Office and Credit Unions have in place to address local customers' needs in the event of closure of a branch.
6. The independent expert's report would be published by the Department of Finance with a requirement on the Bank to provide a formal response before closure can proceed.
7. All costs of this initiative to be borne by the Bank.
8. Part of this consultation should also ensure that staff have the option of redeployment or voluntary severance and not faced with compulsory redundancies in the event of a closure.

This eight point plan would certainly challenge future decisions by Banks to close branches in rural communities and allow an honest assessment of what can be done to address customer needs and the needs of staff.

Issue 3: The Culture of Banking

The Financial Services Union has set out previously its clear view that the culture of banking was a contributing factor to the financial crash and we are more than aware of the hardship and sacrifice faced by bank staff, customers and the taxpayer generally. The effect on individual families, communities and the wider economy is still keenly felt.

It is a fact that we are seeing– albeit in narrowly defined terms – a recovery in the banking sector. Many banks are now reporting year-on-year growth and a return to profitability.

We cannot, however, allow the indices which drove the last financial crash (focus on maximising profit and share value at the expense of staff and customers) to be the sole arbiter of the health of the banking system.

Even since the crisis we have witnessed many leading international financial services companies ignoring the lessons of the past. Regulators have imposed fines for mis-selling, and interference with libor rates. Recently in the UK we saw jail sentences handed down to bank executives and others who abused their position to defraud small and medium sized businesses. The fact that this behaviour is still found in the industry post-2008 is frightening.

If we are serious about learning the lessons of the crash, the culture of banking needs to change significantly.

It is the Financial Services Union's view that the needs of customers and communities should be on a par with repairing balance sheets and returning to profitability. Any retrospective review of banking will see that actions such as pursuit of growth and profit at the expense of customers, staff and local economies cannot be repeated.

In the past, Financial Services Union set out a number of initiatives that need to be taken to address the culture of banking and these include the following:

1. Change the make-up of Boards of banks/financial services companies to include employee, customer and regulator representatives.
2. Ensure that Boards of banks reflect our increasing diverse society and diverse customer base of banks.
3. Move away from target-based sales growth as the main evaluation of success of financial services companies and staff in those companies.
4. Far greater focus needs to be placed on customer service and value for money, transparency and long term success rather than short term indices. Strategies on pay for the future need to move away from performance linked sales measures to skills based pay determination.
5. Pay also needs to demonstrate a reasonable relationship between the highest and lowest paid within an organisation.
6. Enhanced strategy within the banks to remove the culture of fear which unfortunately still has a presence in the industry.
7. The adequate use of resources to assist frontline staff in dealing with the changing nature of banking. Understaffing and lack of resources is a major factor for many of our members who endure unreasonable workplace stress.

FSU's views on culture pre 2008 were provided in our submission to the Banking Enquiry in 2015. The period from 2008 to 2016 has been a time of restructuring in the industry and given the Banks move to profitability it is now timely that the issue of culture is reviewed again and the right tone, beginning with those at the top, is established within the industry.

The union acknowledges that some organisations have commenced work on this agenda (involving FSU in this process). While welcome, this cannot be a matter left to each institution to do willy-nilly or used as an issue solely of competitive advantage or disadvantage. The reality is the culture needs to change.

Issue 4: Pay Strategies within the Banking Sector

As previously highlighted, arising from the collapse of the industry, bank officials experienced significant change to their pay and terms and conditions of employment. It is fair to say since

2013 the Union has secure pay increases (albeit modest) across most financial services companies in recognition of the major contribution by staff to returning the industry back to viability.

The Union still has genuine concerns about the lack of an overall strategy within the industry to develop a comprehensive pay strategy that acknowledges the growing profitability of the Banks, the changing nature of work, the potential increase in cost of living, and the difficulty in retaining staff in a more competitive environment.

Many institutions are preoccupied with performance related pay propositions which in the past, the Union believes, had a contributory responsibility for the problems within the industry.

FSU recognises that employers have a responsibility to manage performance. However, having an exclusive focus on pay for performance based on stringent targets (often but not exclusively linked to selling products) in the short term is highly risky and could have serious implications for the industry into the future.

It is our belief that pay should be determined in a very simplified model that acknowledges the following factors:

1. Inflation and the cost of living and members' living standards.
2. Profitability of organisations and the need for this profit to be shared with employees, not just senior executives.
3. The need for reasonable time spans for individuals to progress from the bottom of pay scales to the maximum scale. While there have been recent positive reforms in some financial institutions it could take up to 35 years to move from the bottom of a junior level scale to the top of that scale.
4. The acknowledgment of the key role of education and training in the industry. FSU is a keen supporter of the Institute of Banking, a body that provides huge opportunities for employees to develop the skillsets which will be crucial to Ireland attracting future financial services companies and developing our domestic institutions. Staff initiative and investment in this regard should be acknowledged in pay negotiations.

FSU proposes that goals and targets, specifically for products and services, need to be balanced with goals related to customer service; effective management of risk; professional development and interactions with colleagues.

We equally believe that any approach which is solely based on individual performance has huge risks and consequently recognition needs to be given to team effort and collaborative working rather than pitting member against member.

This is one of the main reasons it is important that there is robust grievance and appeal mechanisms within organisations, including reference to independent third parties, and this is an area where FSU has successfully negotiated significant reforms in recent years on behalf of members.

In the very recent past the Union has also seen the re-emergence of paid incentives for certain employees either to remain with an existing employer or move to a competitor. These awards are often delivered through confidentiality agreements outside the agreed pay structure within institutions.

While on an individual basis it may seem a relatively minor issue, as the practice grows it can have a corrosive effect within an institution. There is no transparency about these incentives and they undermine the principle of equal pay for equal work. Awards such as these were ultimately counter-productive in the past and the Union does not want to see a return of the practice and it development in the banking sector must be avoided.

Also we are conscious of moves in other sectors to develop a two-tier pay strategy – whereby new entrants are on lower pay and/or inferior contracts to existing staff. Again this practice completely undermines the principle of equal pay for equal work and can be viewed as part of the "race to the bottom" that unfortunately is increasingly prevalent sectors of the economy. We stand united with our colleagues in the wider trade union movement in rejecting these practices.

The Union has engaged successfully in establishing, in at least one major banking group, a career and rewards structure to determine pay transparently into the future based on agreed principles. This strategy has a lot of value and could be useful as a benchmark for the industry as a whole.

Issue 5: Outsourcing within the Sector

Since the early 2000s, a number of banks have engaged in a strategy of outsourcing elements of their IT service. FSU has taken a very strong view that these developments are not in the best interests of the banks themselves, certainly not the customer and indeed the staff.

Over the last number of years, further outsourcing has taken place and the Union has been engaged with the employer and outsourced companies. We now represent workers in companies such as IBM, Infosys, Mitie, Wipro, Banc Tec and HP Enterprises.

Staff have been given the opportunity to transfer into these outsourced companies which have recognised FSU to engage on terms and conditions of employment. In the vast majority of these cases these particular companies have succeeded in their outsourcing propositions on the basis that work will be done in Ireland. The Union is concerned that consideration is being given across the sector for some of these companies to examine the prospect of offshoring work out of Ireland.

This will have significant consequences for employment and the future provision of service to customers.

The Central Bank has a key role here and in the past it has set out guidelines in the event such eventualities take place. The Union's experience, however, is that there is not full transparency in relation to this matter and we believe that a strong case needs to be made for work to be retained in Ireland, particularly in the area of data and IT provision, given the serious problems that banking in Ireland has experienced from outsourcing in the past, as evidence by Ulster Bank's decision to outsource IT to RBS.

It is our view that guidelines should be set out, particularly for State-owned banks, prior to any outsourcing arrangements being contemplated. These may include:

1. The business case for outsourcing needs to be serious and independently examined. As banks return to profitability there is greater capacity to invest in technology rather than using short-term cost savings to outsource IT functions to third parties.

2. If outsourcing is to take place, banks should be required to ensure that outside providers provide these services in Ireland and staff transferred have protection of their terms and conditions of employment and that there is engagement with FSU into the future.

3. The Central Bank should act as guarantor of all such agreements.

4. If outsourcing contracts have been finalised companies should confirm that no attempt will be made over time to offshore given the potential implications this could have for banks and their customers into the future.

Issue 6: Tracker Mortgages

The recent revelations in respect of tracker mortgages are totally unacceptable.

FSU welcomes the role this Committee has played in highlighting the serious questions that exist about tracker mortgages. It is an issue of concern to our members as many have loans from the institution they work for and have faced the same difficulty as other customers have experienced.

The Central Bank review and policy requiring banks to commit to a redress scheme is welcome but we believe a number of initiatives need to built upon in order to address this issue, not just retrospectively but for the future.

1. All banks and financial institutions need to commit to the redress scheme and agree to compensate customers fairly and reasonably. It is important that an effective appeal mechanism is in place if agreement cannot be reached directly by a customer and their bank.
2. We believe it would be positive if the Central Bank would produce an interim report highlighting the progress to date in relation to the scheme; identify the facts that led to the problem developing at the outset; and identify the key remaining questions that need to be answered.
3. A commitment that all bank staff that had loans are treated fairly and reasonably and are given the same resolution as other customers of the Bank.
4. The Central Bank should set out, in very clear terms, policies and procedures to address what happens in similar situations into the future to ensure that the circumstances that led to this controversy should not happen into the future.
5. The Central Bank should clarify what prevailing rate should apply as a part of the redress scheme and a mechanism needs to be put in place to ensure this is fair and reasonable, in the interest of the customer as well as in the interest of the Bank.

FSU acknowledges that this is a complex matter but it is in all parties' interest to ensure that an amicable resolution takes place within the parameters of the redress scheme

Issue 7: Role of Vulture Funds

Concern within the Union is growing at the increasing number of non-regulated providers of funding and other services operating within the Irish market. Given the significant pressures on banks at the moment from the ECB, and its approach to non-performing loan portfolios in particular, there may well be an incentive for many Banks to sell off their non-performing loans to vulture funds, clear up their loan book and improve their capital position.

We believe this development has the potential to be detrimental not just to staff working in these areas, but also to customers and indeed our social fabric. A strong case can be made for other alternative non-profit fund arrangements to be put in place that at least could provide for a more socially acceptable approach to these non-performing loan books and, at the same time, provide an opportunity for individual work outs to be instituted where customers have engaged and require a solution.

FSU are only too well aware that there are many customers still not engaging with the banks and this is a cause of difficulty. This situation will be compounded, not resolved, by a major sell-off to vulture funds. It may have serious implications for significant numbers of families.

The security of a family home is not an issue that will bother many vulture funds but these families may in turn look for the State to provide them housing. The short-term solution could turn into a long-term liability with the State footing the bill eventually.

It is important to note that there are a significant number of FSU members working to resolve serious indebtedness in our Banks and we could be faced with the additional difficulty that these staff may well be under-employed if there was a significant sale of loan books. That work would transfer to companies, not necessarily based in Ireland, not regulated in Ireland and carried out by staff not represented and protected by a union. It is not a scenario anyone wants to see.

Issue 8: Sale of part of State's shareholding in AIB

The likelihood is that the Government will move in the coming months to sell part of its shareholding in AIB. However, as stated previously, we believe a further review should take place prior to this decision being made to ensure that the right decision for the Irish tax payer, customers, and the staff is reached.

As with any change of ownership the Union is concerned that future potential owners would attempt once again to focus on staff pay, terms and conditions of employment and pensions as a way of reducing cost and maximising profit.

It is important to note that previous negotiations with Bank of Ireland were able to arrive at a situation where the movement out of public ownership into private hands was done in an orderly fashion with full recognition of the role of the Union, fundamental protection of pay and terms and conditions of employment both for existing staff and pensioners.

It would be important that similar commitments and guarantees are put in place now, prior to any sale process, to give certainty and protection to staff in AIB.

Staff in AIB have been faced with the closure of the Defined Benefit Pension Scheme for future accrual. In addition, there are significant numbers of staff in AIB who are now pensioners with the Bank and are genuinely concerned about the Bank's future commitment beyond 2018 to the pension fund.

It is timely that as the Union calls for a strategic review of banking that particular focus takes place on these issues where AIB is concerned to ensure that whatever decision is made staff terms and conditions and pensioners entitlements are also protected.

It is also important to note that AIB, like Bank of Ireland, has particular presence in the Northern Ireland market and again there is a responsibility on both banks to recognise their obligations to customers and staff beyond the 26 counties. It is not fair or reasonable that different strategies are applied on the island of Ireland and we have encountered these developments elsewhere in the industry.

Issue 9: The impact of Brexit

The Financial Services Union is a proud member of the Irish Congress of Trade Unions and we have taken a keen interest on the implications of Brexit, not just on the Irish economy as a whole, but also in relation to our members in Northern Ireland and Great Britain.

The Financial Services Union is liaising with politicians and banks to assess the implications, as the nature of the process and its likely outcomes emerge. The Union is concerned that strategies are being considered to relocate jobs from London or Belfast to Dublin at the expense of other bank and financial services employees in the United Kingdom.

The Union believes that there is a potential to attract jobs to Ireland, provided that there is adequate supports put in place for staff to be trained and upskilled to make Ireland a key place into the future for banking and financial services activities.

The Union is obviously supportive of these initiatives, but, not at the expense of jobs in the United Kingdom. As the IDA seeks to attract investment the focus should be on the provision of new high quality jobs in well-regulated firms.

Parliamentarians need to be aware of the significant marketing and branding exercises being undertaken by other countries to attract investment and jobs post Brexit.

We believe that the Forum advocated earlier in this document should have a particular focus on jobs within the banking and financial services industry and develop a strategy that attracts investment and good careers in blue chip companies not brass plate operations.

In particular it would be important for this Committee to acknowledge the role of trade unions in the industry. Likewise we would expect that there would be an open and transparent acceptance of the role of trade unions in potential new investors in financial services in Ireland and not a hidden anti-trade union bias as has been the experience in the past with some FDI companies.

Conclusion:

Irish banking is at a crossroads and an opportunity now exists for the Oireachtas to play a significant role in the future development of the industry and the thousands of staff who give loyal and dedicated service.
This can be done by putting in place a number of initiatives that can assist the industry in meeting the challenges of the future in a way that best serves the Irish economy, customers of the Banks, the companies themselves and indeed the staff.

It is our firm belief that we now need a strategic vision for banking and financial services and a Forum as put forward in this document can gain the support of all the key stakeholders.

Larry Broderick
General Secretary