Submission to

Senate Economics References Committee

Inquiry into the Post-GFC Banking Sector

Submitter: Geoff Derrick (National Assistant Secretary)

Organisation: Finance Sector Union of Australia

Address: Level 2, 321 Pitt street Sydney NSW 2000

Phone 1300 366 722

Fax (02) 9320 0094

Email: info@fsunion.org.au

Contents

Disclaimer statement

Whilst all due care has been taken in collecting, collating and interpreting relevant information, some omissions may have occurred. The statements and opinion contained in this document are given in good faith and in the belief that they are not false or misleading.

Introduction

The Finance Sector Union of Australia (FSU) welcomes the opportunity to contribute to the Senate Economics References Inquiry into the post-GFC banking sector.

The FSU represents workers employed in the finance sector in Australia and exists for the purpose of providing a collective forum for them in pursuing fairness in their employment and improvements to their working conditions. The finance sector employs over 400,000 people in Australia and is a key contributor to the national economy. It is in all of our interests to have a strong and healthy finance sector in this country, and this includes a healthy lending market. The FSU is concerned about lending trends that have become prevalent throughout the industry post the GFC.

Scope

The FSU will discuss concerns held around banking practices in a post GFC environment, in accordance with the terms of reference as set out by the Senate Economics References Committee Inquiry into the Post-GFC Banking Sector. Particular attention will be paid to part d) of the Committee's terms of reference that seeks to examine the impact on borrowing and lending practices in the banking sector both during and since the global financial crisis.

Please note that our submission is primarily based on our experience as an organisation representing finance sector workers, and so our particular concern is the way that these borrowing and lending practices are affecting employees in the industry as well as the broader borrowing community. It is the union's view that a healthy lending market that has the confidence of the community requires effective regulatory supervision and transparency. These things are in the interests of lenders, their staff and their customers.

The FSU considers the operation of lending targets in the industry and how this affects lending behaviour, best interest duty and the Future of Financial Advice (FOFA) legislation, the growth in lending and the human impacts on employees in the industry.

The following submission represents an overview of the union's analysis of the current situation; we would welcome an opportunity to expand on this submission through oral evidence if the committee thought this worthwhile.

Operation of lending targets

As the union representing banking workers, we hear a lot from our members about the operation of lending targets, and the ways that these lending targets impact on both our members as well as on the wider community. The FSU tracks incoming calls from members and problems with performance targets consistently outnumber all other issues that members call the union for advice and support on.

Current practices in the lending market are dominated by sales targets placed on individual bank employees. These include but are not limited to targets around home loans, credit cards and insurance products. Commissions and bonuses, as well as access to annual pay increases are built into performance pay systems that are designed to drive aggressive lending behaviour.

Sales quotas are set centrally and imposed from above, often apportioned to staff members without regard to the demographics of the area, staff experience or to other relevant market factors. They are used to threaten the security of employment of bank staff with many employees suffering significant stress and related poor health. The result is that bank employees are regularly placed into a conflicted position where the interests of their customer do not align with the interests of their employer, or with their own self interest of being able to maintain a job and receive an annual pay increase to at least keep pace with inflation.

Over the past 12 months, FSU members have run campaigns in three of the major banks about their lending targets. These campaigns addressed issues of the unreasonable targets, micro-management as well as the fact that employees were expected to make up their targets for any periods of absence from work including annual leave and sick leave.

Best interests duty

The FSU supports the Future of Financial Advice (FOFA) reforms recently passed by the Parliament as a first and necessary step in ensuring that members of the community can be confident that when they deal with the banking sector, the advice they receive is based on their best interests and that if customer interests conflict with those of the bank or its representative(s) the advisor is bound to act in the interests of the customer.

FOFA outlaws conflicted remuneration arrangements that, through the payment of incentives for the sale of certain investment products put the interests of the financial service provider and the provider's representative ahead of those of the client. This conflict was at a centre of the Storm Financial collapse and has been a scourge on the industry for many years.

The FSU believes that the same best interest duty that applies to investment products from 1 July 2013 should apply to debt products. Put simply, investment products are one side of the financial services equation and debt related products are the other. If the principle of best interests duty applies to investment products, it should also apply to debt products. It is unconscionable that a bank has a best interests duty to its investors but does not owe the same professional duty to its borrowers.

Changes in the lending environment

It is acknowledged that the growth in bank lending in Australia has slowed markedly since the global financial crisis. In an economy where banks are five of the top ten companies (by market value) listed on the Australian stock exchange and banking and finance makes up approximately 30% of the value of the stock exchange this throws up significant challenges for the economy and the share market in particular.

Market analysts have ensured that our banks are continuously scrutinised for their capacity to maintain and improve shareholder value. We have three of the "big four" banks (ANZ, Westpac and NAB) reporting profits on a quarterly basis and the other (CBA) reporting half yearly. All of them set individual performance targets on either a quarterly or half yearly basis.

Despite some commentary to the contrary, the banks do compete head to head on lending and deposits. But that competition is severely constrained by the dictates of market analysts and the short term focus that they employ. Any bank that seriously broke away from this short term focus and replaced it with long term investment and strategic planning would risk the wrath of an insatiable investor class reliant on exponential growth and short term results.

As a consequence of this, banks seek to drive competitive advantage through cost saving regardless of whether these "savings" are in the national or even the corporate interests. In the 1990's banks responded to an economic downturn with widespread branch closures and sackings that led to many local communities and their economies suffering through the centralisation of economic activity to regional centres and capital cities. In the post-GFC environment we again see cost cutting through the off-shoring of entire processes that means that Australia risks losing its local capacity in critical functions.

FSU has, with the Australian Services Union, separately released an updated report entitled 2012 Report – Off-shore and Off work: The future of Australia's service industries in a global economy produced by the National Institute of Economic and Industry Research on the impact of off-shoring now and in the future that demonstrates the cost to the economy and to jobs from a failure to tackle the global race to the bottom in service jobs.

While the system growth for borrowing pre-GFC levels was in the order of 7% to 8%, today it is probably closer to 4% of 5%. However the competition between borrowers still sees individual performance targets for employees in the sector rising by numbers significantly higher than system growth predictions. This divergence is justified on the basis seeking to grow market share but clearly not every bank can grow market share and not every target can be met.

The consequences of failure to meet target can be devastating on bank employees and they range from wage freezes through to bullying, mental health issues and sackings. Knowledge of these serious consequences drives behaviours throughout the sector. The result is that in an intense working environment customer interests can be subjugated to those of the bank.

Impacts on finance sector workers

The FSU submits that a lending system that operates by placing individual staff members under intense personal pressure will result in staff members engaging in risky lending practices that are not always in the best interests of the customer. The following is a brief summary of some of the cases that FSU has handled in recent times, and some comments from members involved in a recent dispute around lending targets at the Commonwealth Bank.

Written comments from CBA members in relation to lending targets

Example 1

I know when I have not made my targets; I sit in my car in the car park and have to talk myself into going in. I feel so anxious and sick in my stomach that I have to take deep breaths to relax and tell myself that "I can do this". How ridiculous! I am a CSR on $20,000 a year. This sort of anxiety should not be put on us. At one stage at my branch, 5 out of 7 customer service representatives were on anti depressants for work related stress issues.

Example 2

These targets have caused me stress at home and at work, I have begun to grind my teeth and have erratic sleep at night due to stress. It has been increasing at a rapid rate and I have seen a doctor over this. I am always in a hurry – no one has time to do their job properly. At the end of every day I go home both mentally and physically exhausted – I have no time to go to the toilet or even to get a drink of water. Branch morale and self esteem are at the lowest ever in my 27 years in the bank. PLEASE WE NEED HELP!

Example 3

My moods are now tied to how many referrals I achieve – if I have a week with no success I'm stressed and anxious and have nightmares. Even with a good week it doesn't boost me that much because I am thinking ahead to the next week.

Example 4

Every day I go home and still keep thinking that I did not meet my target. Every day we are told what we have to get and must report every hour what we have got, my stress levels increase and make me feel that I wanted to force sales on the customer. My year to date target is behind as I had four weeks annual leave to visit my dying father and attend his funeral. Sometimes I am asked every hour what I have achieved so far. I have tension headaches, stress and sleepless nights because the target is hard to get and every product has to be activated to get points.

Recent members who have received assistance from FSU advocates

FSU advocates support many members around issues relating to their lending targets. These issues include being placed on performance improvement plans over not meeting targets, workers compensation claims due to stress as well as issues where members have been dismissed. The following are a couple of examples.

ANZ

Example 1

A member worked for ANZ for 30 years, she changed jobs but her targets didn't change and she could not reach them. The member felt she had no choice but to resign as it was affecting her mental health and family.

Example 2

A member was placed on a performance improvement program, and was frustrated and distressed about it not being conducted correctly. This led to high levels of stress and during this process the member lost her unborn baby. The bank has denied her workers compensation claim.

Example 3

An area manager has threatened members over poor sales performance leading to hospitalization of 2 staff in the area.

CBA

Example 4

A branch manager was harassing staff members about targets, including conduct such as banging on the toilet door asking how long our member would be. Member developed high blood pressure and ended up leaving the industry.

Example 5

A member feels bullied by his branch manager but didn't have the strength to deal with it. At this point in time the member is due to be investigated but is not attending work as he has a medical certificate which states "member cannot discuss any work related issues". The member has submitted a workers compensation claim (it is still to early to say what will happen). The bank wants to have a meeting with him in despite a recommendation against this from the medical professional who as of last week wanted to institutionalise him due to his mental health. This is an ongoing case.

Example 6

A member changed branches and they only gave him five weeks to perform in the new branch before they started performance managing him in a bullying way including phoning him at 9 pm at home and telling him they were going to sack him. Member had a breakdown and was hospitalised and is still unable to return to work.

NAB

Example 7

Member has a medical certificate dated in March 2011 which indicates a diagnosis of "acute anxiety state with physical symptoms and secondary depression" due to "3 years of conflict at work". NAB hasn't accepted the claim yet (this has been going on for a year, if not more). Member is institutionalised at the moment.

Example 8

Member has an issue around meeting sales targets. This was handled poorly resulting in member suffering anxiety. He is currently receiving shock therapy and is unable to return to work in his current state.

WBC

Example 9

The member had a work related accident. Her return to work plan was not followed by her branch manager and the member would get in trouble for not doing more. Eventually the member was placed on a formal performance plan due to not achieving her targets. Member had a set back.

Conclusion

FSU is extremely concerned about the changes to lending practices post the global financial crisis, and the impacts that these changes are having on finance sector workers.

FSU believes that the current operation of lending targets for individuals combined with the penalties employees face for failing to meet targets, such as failure to receive pay increases, workplace bullying, performance management, and termination of employment, work to create a climate where employees are often forced into situations where they are not workign in the best interest of the customer.

FSU supports the introduction of Future of Financial Advice (FOFA) legislation as a positive step in breaking the conflict that employees face in deciding whether they are providing advice that is in the best interest of the customer or in their own best interest, when it comes to investment products.

FSU submits that the FOFA legislation should be extended from investment products to also include all debt products.