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Inquiry into Aspects of Bank Mergers

The Finance Sector Union of Australia (FSU) thanks the Committee for the opportunity to give evidence on 13 March in Canberra. We are writing in response to questions put to us on notice by members of the Committee and to present other information relevant to the inquiry.

We provide the following responses to questions from Senator Cameron.

- *Bangalore. The ABA say that it is a centre of excellence and actually helps productivity and job growth in Australia. I would like you to give some consideration to that comment.*
- *Could you also comment on the ABA's view that there is a skill shortage and that they need to use Bangalore because of that skill shortage?*

There is no doubt that India has positioned itself well over the last decade to take advantage of the massive growth in ICT enabled services and that Bangalore is the most prominent example of this. However we see no evidence to support the claim that off-shoring jobs to Bangalore, or India more broadly, helps productivity and job growth in Australia. Nor do we see evidence that Indian workers are more productive than Australian workers.

In fact, as our original submission highlighted in some detail, there is growing evidence of a lessening of efficiency and quality in customer service owing to cultural and experience factors creating obstacles between Australian and Indian staff. We are now hearing from the most senior managers, through to frontline staff, of growing discontent with the quality of work emerging from Indian off-shore centres.

We note that wages in Bangalore and India are a fraction of those paid for similar roles in Australia. Despite this it is hard to point to gains for any stakeholders other than executives, whose bonuses are generally tied to short term cost reduction measures, and shareholders. We are unable to identify where any of the reduced costs have been passed on to customers. In fact recent reports have found that Australian banks are among the most costly[1] and profitable[2] in the world.

We are also unable to point to higher paid, higher skilled jobs being created by the organisations that are sending jobs offshore.

We also believe that India's strength in this area underlines a number of failings in the Australian context. The increasing trend for the finance industry to send jobs to Bangalore highlights the lack of any long term industry planning or vision by

[1] *Australian bank fees' 22 per cent higher than UK*, 6 March 2009, Daily Telegraph; *Banking Fee Benchmark Report*, March 2009, Fujitsu Australia and New Zealand.
[2] *Living with New Realities: Creating Value in Banking* February 2009, Boston Consulting Group.

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Australia's large corporations. They have simply focussed on short term cost reduction strategies rather than taking the lead and investing in long term skills development that would increase employment, productivity and help to position Australia as a financial services hub.

The claim that there is a skills shortage and therefore banks need to off-shore roles to India is dubious on a number of fronts.

Firstly, most of the off-shoring that has taken place (as documented in the FSU table) is work that has been done in Australia for many years. The decision to move these jobs off-shore appears to be based primarily on cost reduction rather than necessitated by a lack of skills in Australia.

In our original submission we provided the Committee with a case study of an IT worker whose position was off-shored. They subsequently had to seek employment outside of the finance industry despite a wealth of experience in banking and a desire to remain in the industry – this scenario essentially created 'skills wastage' due to off-shoring.

Secondly, if off-shoring is actually driven by a lack of skills then it simply underlines the lack of any planning in relation to skills development by the industry and their reluctance to make long-term investments in the market that delivers their profits. The argument that off-shoring is necessitated by skills shortages may (unfortunately) become a self fulfilling prophecy. A failure to invest in skill development and employment opportunities in the Australian market will simply create, perpetuate and exaggerate the problem.

Thirdly, off-shoring is typically done as covertly as possible to avoid public derision. If the banks are actually forced to off-shore then they should publicly explain why there is no other option and what they have done to avoid this situation.

The FSU retains the view that off-shoring is fundamentally about cost cutting.

We note the Australian Government's stated intention to try and establish Australia as a regional financial services centre[3] - we believe such a move is long overdue. The FSU participates as a member of the Australian Financial Centre Forum Reference Group that was established as part of the process to develop Australia's financial services and look at ways to take those services to the world.

Disappointingly, many industry groups participating in this process seem to use the forum to continue to peddle their mantra's of "less regulation", despite the growing global consensus that the Global Financial Crisis (GFC) was largely caused by financial institutions engaging in risky unsustainable market activities or "extreme capitalism" as it has been referred to by some commentators.

The major banks and other financial institutions have continually demonstrated a short term view of the world and continue to act in a manner that demonstrates little obligation towards the Australian community that provide them with billions in profit. The banks have not 'stepped up to the plate' despite the urging of the Government to do so.

We are often told that off-shoring is simply the result of global market forces; however we believe these market forces are currently distorted due to information asymmetries. In most cases consumers are simply unaware that off-shoring has

[3] *Government and Industry Set the Agenda for Australia to Become a Financial Services Hub*, Prime Minister and the Assistant Treasurer, 31 July 2008.

occurred and consequently cannot make informed decisions which form the essence of properly functioning markets.

To make this a reality and assist consumers to make informed decisions, we urge the Committee to recommend to government the need for ‘right to know’ legislation that mandates the requirement of banks and other corporations to expressly inform consumers if and when their data is being accessed and processed offshore. Such legislation should also seek the consumers written consent before data can be transferred off-shore.

- *In that submission they also say that their estimate of off-shoring is 3,200, compared to your 4,900. Could you give me some comment on that?*

The FSU stands by its estimates of the number of jobs off-shored as detailed in its submission on 6 February. The FSU table does include approximately 500 positions from outside the banking sector, however this doesn’t account for the difference between the FSU figures and the ABA’s. We invite the ABA to specify which jobs it believes have not been off-shored.

The FSU (and other unions) are constantly frustrated by the level of secrecy employed by major corporations regarding the number of jobs that are being moved offshore. We note that even the Parliamentary Library commented that “despite the media interest in this topic it is very difficult to quantify this phenomenon” and that most “of the information in the press relies upon the offshoring activities of specific high profile companies, such as Qantas or the major banks.”[4]

Unfortunately the number of jobs sent off-shore has risen to over 5,000 since the FSU put forward its last estimates (new table attached) and it appears likely the trend will continue with the FSU receiving constant briefings from many of the major banks about positions that are “under review”. We applaud the Commonwealth Bank’s commitment not to send any jobs off-shore for the next three years and note that Westpac has recently given similar assurances. We hope these announcements encourage or even shame the others to follow suit.

- *Could you give me a view as to whether you think we could end up with a virtual banking system in Australia?*

If the trend towards off-shoring continues then the FSU believes Australia will be in danger of becoming a banking “shop-front” where products will be sold; however the in-depth understanding of supporting software platforms, processing of account and personal information, and capacity for innovation and design of new products will reside off-shore.

- *Could you give me a view on executive salaries— bonuses, share options, golden handshakes, golden hellos, golden parachutes? Can you tell me how that improves productivity, how it improves consumption and how it improves the overall banking sector, and why there is no succession planning being done in the banks; why they need to go overseas to get some of these cowboys in here to run the banking system?*

The FSU has long been critical of the excessive executive salaries that exist in the finance sector and unfortunately the major banks often provide the most prominent

[4] *The statistical evidence for offshore outsourcing and its impact on the Australian labour force*, Guy Woods, Parliamentary Library, August 2007

examples of this.[5] We note that the highest wage under the new banking award that will apply from 1 January 2010 is $43,264[6] – approximately 300 times less than the $12.96 million ANZ CEO Mike Smith was paid in 2008.

We have often witnessed the disregard adopted by the leaders of the finance industry for their employees, their customers and their communities. We believe this has often been a consequence of massive remuneration packages based largely on short-term incentive (STI) payments. An extreme example of short-term incentives can be found at Macquarie Bank. In 2008, Alan Moss had STI's totalling $27.2 million which was more than 40 times his base salary.

The attached AFR tables from November 2008 set out the various components of CEO remuneration for Australia's largest companies. The FSU notes with concern that many bank CEO's received STI's that were equal or even greater than their base pay. In many cases the long term incentives were of lesser value than base pay or STI's.

The banking system plays a critical role in the economy and the consequences when things go wrong are significant, widespread and long lasting. The FSU believes that one of the primary 'drivers' that led to the GFC was a short-term approach from many finance executives that had been institutionalised by instruments such as large STI's. The finance industry must entrench a long term and sustainable approach in all its activities, including CEO remuneration, to ensure that we never experience GFC2.

The FSU welcomed the Prime Minister's announcement that APRA would be developing principles on executive pay for authorised deposit taking institutions. The FSU has long standing concerns regarding incentives for banking executives that are too short-term without appropriate regard for their longer term effect on customers, staff and the stability of the sector.

The FSU believes that a large amount of activity in the finance sector marketplace is based on short term competition for growth or market share rather than sustainable practices. This type of activity is often promoted by STI's for executives which are then imposed on finance sector staff as sales targets for a wide range of financial services such as home loans and credit cards. Targets carry the implicit message that ever increasing sales are good and desirable – the FSU does not share this view and believe it is detrimental to consumers, finance sector staff and the wider economy.

Increased consumption is generally viewed positively by market economists; however financial products are often very different to physical products. Purchasing any financial product is a serious matter, especially a home loan which is usually the biggest financial commitment a person will make in their lifetime. Financial services can often be characterised as relationships between a consumer and an institution that will be ongoing for upto 30 years or more. Consequently the FSU would argue that 'improved' consumption will be achieved by sustainable practices being adopted and encouraged by finance sector boards, CEOs and flowing down to all staff levels.

The FSU has developed a *Charter of Responsible Lending* that was launched in October 2008 to try and address concerns regarding sales targets and responsible lending (copy attached).

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[5] *Macquarie Bank boss earns $33m*, The Daily Telegraph, 15 May 2007; *ANZ Bank's CEO Mike Smith earned $12.96 million in year*, The Daily Telegraph, 18 November, 2008; and we note that the CEO's of the 4 major banks have all earned over $6 million from 2006/07 onwards.

[6] *Banking, Finance and Insurance Award 2010* (MA000019)

In relation to termination payments or "golden parachutes" to executives the FSU welcomes the Governments recent moves to require shareholder approval for any termination payments that exceed one year's base salary.

The figures in the table below were taken directly from annual reports in the final year of an executive's tenure. Most examples demonstrate a disconnect between items declared as 'termination' benefits, the salaries paid for a part year and the ultimate payment made for that financial year. Additionally, some of those listed represent examples where the executive was fired following poor performance.

Organisation	**Name**	**Salary**	**Termination**	**Total Amount**
CBA	Chris Cuffe	$2.82 million	Unknown	$32.75 million
AMP	George Trumbull	$0.86 million	$7.50 million	$14.08 million
NAB	Frank Cicutto	$0.68 million	$6.62 million	$7.54 million
ANZ	John McFarlane	$2.08 million	$0.92 million	$6.75 million
SUN	Steve Jones	$0.25 million	$2.05 million	$6.70 million
AMP	Tom Fraser	$0.89 million	$4.68 million	$6.10 million
AXA	Geoff Tomlinson	$1.21 million	$4.16 million	$5.56 million
NAB	Peter McKinnon	$0.69 million	$1.30 million	$3.39 million
AMP	Tim Wade	$0.57 million	$1.96 million	$3.28 million
NAB	Ian Scholes	$0.28 million	$2.24 million	$3.26 million
AMP	Paul Batchelor	$1.33 million	$1.4 million	$2.92 million
NAB	Mike Laing	$0.59 million	$1.23 million	$2.86 million
NAB	Ian Crouch	$0.74 million	$0.98 million	$2.85 million
AMP	Warwick Forster	$0.46 million	$1.74 million	$2.83 million
AMP	Gary Trail	$0.12 million	$2.06 million	$2.19 million

Source: Annual Reports[7]

We also welcome the recent announcement of the Productivity Commission Inquiry into executive remuneration and we will be making clear in our submission that we believe the levels of executive remuneration are excessive, out of step with real wages in the industry and unjustified against the output of individuals.

In regard to the question of succession planning, we are aware of some recent attempts, both successful and not, by CEO's to groom internal candidates to succeed them.

However, it is not the role of management to determine the next leader of these large corporations; it is the role of the board of directors. Company directors in our sector jealously guard their right to choose and discard CEO's, which from a corporate governance perspective has some relative merit.

There is no doubt that Australia has and can produce CEO's and executives from amongst its own pool of talent and corporations such as our banks should invest more in the development of their own people before casting around outside the organisation and internationally.

One of the associated concerns with bringing in external appointments to an organisation can be a lack of understanding and appreciation of internal cultures, values and skills. This often manifests itself in 'clean outs' of experienced staff and

[7] *Termination Benefits for Executives of Australian Companies*, Geof Stapledon. Sydney Law Review, Volume 27, No.4 2005.

restructuring that often provides little productivity benefit and is often simply a re-creation of an historical structure dismantled by the previous CEO.

Cynically, this process could be viewed as simply the new CEO seeking to stamp their authority on the organisation.

The sourcing of CEO's and executives from international markets could sceptically be seen as an attempt to further inflate executive remuneration levels. By casting for talent in markets such as the UK and US, the board then has a competition argument for increasing remuneration levels.

- **ACCC survey – Westpac/St George**

We note that this issue was raised during the recent hearings and the ACCC continues to refuse to release any results from the survey it conducted. The FSU lodged a Freedom of Information request in August 2008 for the results of the survey (excluding any individual responses). The ACCC estimated that 47 documents existed that provided a summary or overview of the survey responses and that a fee of $3,396 would apply just for asking the ACCC to make a decision whether to release any of the documents. The FSU did not proceed with the request given that it could involve significant expenditure of member's money for little or no result.

- **Commonwealth Bank/Bankwest merger**

CBA managing director Ralph Norris said at the time of the Bankwest purchase: "This (merger) has not been predicated on job losses as an acquisition".[8]

We note with disappointment (but not surprise) that Bankwest has now announced it will cut 400 jobs despite assurances given to the West Australian Premier and the Federal Treasurer that there would be no job losses.[9]

This goes to the argument we presented in our submission about the need for stricter processes to be in place to keep bank management to their undertakings during mergers.

- **McNair Poll – Westpac/St George**

As requested by Senator Furner we have attached a copy of the poll conducted by McNair Ingenuity Research for the FSU regarding the Westpac/St George merger – we believe the results make for compelling reading.

If you have any questions in relation to this submission please contact Rod Masson, National Communication and Policy Manager, on (03) 9261 5330 or James Bennett, Senior Policy and Research Officer on (03) 9261 5405.

Yours sincerely

Leon Carter
National Secretary
13 May 2009

[8] *Union slams BankWest job cuts measure*, The West Australian, 30th March 2009
[9] *400 Bankwest jobs go, up to 3000 'at risk' at Westpac*, Herald Sun, 31 March 2009.