



NFU statement at

ECON Public Hearing Towards further consolidation in the financial services industry

We support the ongoing process towards a further consolidation of the European financial institutions if some pre-requisites are in place.

Employee reluctance

The major question you want us to respond to is the employee perspective on cross-border consolidation and especially the findings in the Financial Integration Monitor that the employees seem to have a somewhat reluctant attitude towards further consolidation.

Employees will always be reluctant to losing their job. The challenge is to consolidate in such a way that the employees' worries will diminish, and both the employees that will be out of job and those still remaining share the belief that consolidation is a good thing.

The employee reluctance is of course no surprise. Thus far, most of Europe's employees and workers have not experienced that much positive from the dynamic effects from the ongoing internationalising of companies.

In the Nordic countries we experienced, during the early 1990's a tough period of employment in the banking sector. More than (30 000) of our colleagues were made redundant in the process of rationalisation that had to follow from the financial crisis. The next step to improve the performance in the industry was the natural steps of consolidation. You know all about that process and how fast it turned in to a consolidation that crossed borders. Of course, this led to more redundancies.

This was hard for the employees that were pointed out as redundant. It was also challenging for the trade unions that dealt with this process to negotiate descent conditions for the colleagues leaving the industry. Furthermore, unions focused on giving the colleagues that would remain in the banks as good conditions as possible to create a profitable business that could provide them with secure jobs under good conditions. This process went on with a minimum of industrial actions.

The Nordic bank industry is now strong and well positioned in the Nordic financial market - a market that nowadays also includes the Baltic Sea region.

Three pre-requisites

We believe there are three important pre-requisites that are absolute necessary to make this consolidation a success and to be carried out without unnecessary turmoil on the labour market. The first is employee involvement; the second is a pro-active approach to competence support and development in the banks and the industry. The third pre-requisite is a strong system in the surrounding society to make sure the freed resources the redundant bank employees constitute can be used in other profitable sectors of the economy.



The first pre-requisite. In Scandinavia the employee representatives are regarded as natural stakeholders and full worthy partners in running the business. Employee representatives are represented on the company board in our one-tier systems in all trans-national financial institutions. This gives the employee representatives a good insight in the economical position of the company and they can validate whether the proposed merger or acquisition are based on sound economical calculations or not. Many mergers and acquisitions are supported by the employee representatives even if they lead to cost cuts of overlapping functions. The employee representatives can support the merger or acquisition and hereby act as controllers on behalf of the rest of the employees. Or, they may argue on the company board why this is not a good proposal or what could make it better. It is important to make sure that all effects are taken into account when the restructuring of a company or an industry is being discussed. Employment and social effects must always be included.

Regarding employee involvement, we would like to point out that good employee participation regimes should never be a factor leading companies not to choose a certain type of organisational structure (re the 10th Company Law Directive on cross-border merger, the SE statute). The overall objective should be to have identical or similar arrangements for employee participation based on best-case European legislation, irrespective of the organisational structure of the company.

The second pre-requisite. Investment in competence building is a shared responsibility between employers, employees, trade unions and public authorities. Employees have a responsibility and duty to develop their competence to be able to contribute to the business at their best now - and in the future, to maintain their employability. The employer should provide possibilities for developing the competencies of its workforce. At the same time the employer has the right and duty to demand for its workforce to keep its skills updated. Therefore the employees and the employer have a mutual interest in developing appropriate Life Long Learning programs. The trade unions in Nordic companies have often negotiated agreements with the financial institutions on how training should be organised and remunerated.

The third pre-requisite. In mergers and acquisitions there will emerge synergy effects. This is expected to generalise immediate gains from the affair and pay for all its costs. Regardless of how realistic this is, it will force employees out of the company. The profits in the Financial Services Industry have reached such levels that not all cost cuts seem rational and reasonable. Normally negotiations will take place regarding the compensation for the resignation. Even though this could be regarded a natural contractual negotiation it leads to surprisingly hard resistance from the employer and hard words from the employees. Agreements regarding compensatory schemes for redundant employees should come as no surprise to employers. Such agreements should be included in the prior evaluation of any merger or acquisition.

If the redundancy is made due to an industrial reorganisation the employee has an additional problem – they might need to change sector and even profession. When some industries in Scandinavia have to go through tough redundancy processes they organise competence pools from where employees can apply for new positions within or outside the company. This should also be organised by the government to make sure that the freed resources are shunted as quickly as possible to a contributing position in some other sector of the society. This might be easily solved via an employment service or via re-training and educational programs. This has to be provided by the governments, the Member States.

When those three pre-requisites are in place we will strongly support a further consolidation of the European Financial Industries.

As regards mergers and acquisitions, we would also like to make a reference to the conclusions of the ILO Tripartite Meeting on the Employment Impact on Mergers and Acquisitions in the Banking and Financial Services Sector (9 Feb 2001) which states the following: “Governments, employers and workers have a mutual interest in ensuring that merger and acquisition outcomes conform to the overriding need to maintain a prosperous and competitive financial industry. Taking public interest into account, governments have a primary responsibility to ensure accessible and efficient financial services that guarantee financial stability, and offer decent working conditions. This responsibility also extends to the effects of mergers and acquisitions in the sector. Governments have a role in anticipating and addressing the negative social and employment impacts which mergers and acquisitions may have, and to assist the social partners to find commonly agreed solutions to mitigate the negative effects of mergers and acquisitions. In this context, the social partners have a role to play in ensuring effective social dialogue.”

Local banks for local growth

In doing so we would like to point out that fewer and bigger banks must not lead to a sparse retail office net. One perspective of retail market integration and an increase of cross-border mergers and acquisitions easily forgotten is the risk of concentration of retail distribution of financial services. This causes practical problems for customers that actually need to enter the bank. But, more importantly, it also creates a mental and geographical distance between the bank and the local society. Recent research, for example done by Lars Silver from the Centre for Banking and Finance, Stockholm, points out the important role for a local bank as a distributor of credits. Local capital invested in local business gives a good control over risks and promotes creditors willingness for long term commitment. This is a perspective that also strongly supports the Lisbon strategy.

Furthermore, it is vital that every citizen is guaranteed access to basic financial products - no matter level of income or where he or she lives. This is unfortunately not the case today and we fear a negative development. As regards cross-border access, the situation is far from satisfactory, and the issue of bank accounts is a very good example of this.

Consumer education

It is important that the consumers increase their knowledge regarding financial products. The employees play a key role in this process. Employees should be guaranteed enough training and education to be able to give excellent customer service. A harmonisation of the rules regarding the competences needed for this work is appropriate. NFU underlines the responsibilities of the employers when it comes to providing relevant and qualified training to all employees in the finance sector during paid working hours.

The conflict between selling and giving advice must be addressed. It is important that the customer knows what type of service he is receiving. This is not least important for the employees, who should not be squeezed between individual sale goals to sell a certain product and giving the customer objective and adequate service. Problems have emerged when it comes to the possibility to reach sales goals due to the simple fact that a proper financial advice takes more time to deliver than a clearer sale of a product.

Consumer protection

NFU would like to give examples of measures taken to increase consumer protection. One important step in Sweden was the “Financial Advisory Services to Consumers Act” (No: 2003:862) that entered into force the 1 July 2004. The aim is to increase consumer protection. The Act means that a businessman shall ensure that the person who performs the advisory service is sufficiently competent. They shall also make sure that what has occurred at the time the advisory service was provided is documented. The businessman shall in his advisory service operations observe good advisory service standards and treat the interests of the consumer with sufficient care.

A parallel development regarding securities is the Swedsec AB licensing, which started in April 2001. The purpose of the licensing is to increase the basic competency of persons employed on the Swedish securities market. The object of increasing the basic knowledge of such personnel is to increase confidence in the market by, among other things, providing customers increased protection. In general, the licensing requirement shall apply to all personnel involved in trading securities whose primary function is direct contact with outside parties on matters regarding financial instruments, as well as employees authorised to take decisions regarding transactions involving financial instruments which affect the institution's balance sheet. Outside parties include all categories of clients, as well as other securities institutions, stock exchanges, market places, and clearing institutions. Anyone wishing to obtain a licence must pass an examination. This will evince that the person has a sound knowledge of, among other things, financial instruments and their business and legal characteristics, techniques for trading such instruments, and the risks associated with them. The examination also covers the various regulations which govern the securities market. Administration of the securities market and issues regarding internal controls in institutions operating on this market are also on the examination. In general, all companies on the Swedish securities markets are affiliated to Swedsec, even though the license is voluntary.

In Denmark are the rules somewhat similar to the above. The Danish rules have been implemented in Danish legislation by way of an executive order on good business practice for financial undertakings. Norway has a similar system as the Swedish law but it is voluntary.

Conclusion

The legislators should not offer cross-border consolidation as the only viable alternative for financial services sector growth. It is important that a consolidation of the industry is guided by principles of employee involvement and participation, respect for the employee made redundant in the process and, of course, products distributed in an efficient way.

Facts on NFU

The Confederation of the Nordic Bank, Finance and Insurance Unions (NFU) is an organisation for co-operation between trade unions that organise employees in the banking, finance and insurance sectors in the five Nordic countries. At present, eight trade unions are affiliated to the NFU, two in Denmark, two in Sweden, two in Finland and one in each Iceland and Norway. Through these trade unions, the NFU represents 160 000 employees on the Nordic financial market.