

Mr Jerome Davidson
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Dear Mr Davidson

Australian Financial Centre Forum (AFCF) Reference Group

The Finance Sector Union of Australia (FSU) welcomes the opportunity to contribute to the process for positioning Australia as a regional financial services centre. We apologise for the lateness of our submission.

The FSU represents 50,000 members employed in the finance sector across Australia. Our members deal with the day to day operation of financial services and have an active interest in promoting a professional, efficient, sustainable and fair marketplace for financial products.

The FSU supports the vision of a “financial services sector which is open, competitive and underpinned by strong, stable and sound institutions.”

The finance sector provides essential services and employment for approximately 400,000 people and underpins many other business activities. For these reasons we do not believe the sector should simply be shaped by so called ‘market forces’ that often result in the pursuit of spiralling executive remuneration, increased fees and charges, and increased shareholder returns through activities such as large scale mergers and off-shoring. The FSU believes that a large amount of these activities are based more on short term rivalry for growth or market share rather than sustainable practices to meet genuine consumer need.

Our comments in relation to some of the draft principles are set out below.

(a) A highly skilled and innovative workforce, supported by a world class education and training system...

The FSU supports this principle and has been actively involved in issues regarding training and education for the finance sector. In May 2008 the FSU hosted the *Futures in Finance Skills Forum* which was the result of growing concerns across the industry about looming skills shortages. Given that a skills shortage could severely impact upon the productivity and competitiveness of the industry, it was the Union’s observation that, if the industry was to achieve status as a financial services hub, then it would need to proactively ensure it could meet these skill challenges. Individual companies were achieving variable results by taking steps to address the skills shortages they were facing; however there was no coherent industry wide response to ensuring the future supply of skills.

The key objectives for the Forum were to:

1. Bring together decision makers, leaders and policy makers from industry, government and academia to discuss future challenges.
2. Canvas issues around skills and labour needs and gather ideas about how we plan for the industry's needs now and for the future.
3. Provide an opportunity to share common issues and find common solutions
4. Contribute to the future growth and success of our industry and its people

The Forum was attended by senior people representing finance companies, finance industry associations, universities, the Victorian and Federal Governments and the FSU. The forum was addressed by the Deputy Prime Minister, Julia Gillard and the Victorian Minister for Industry and Trade, Theo Theophanous.

One of the main recommendations to come out of the forum was for a high level Federal Government entity to be given responsibility to work closely with industry stakeholders to develop a clear vision for the industry's future and then develop, coordinate and implement an industry plan to increase the industry's capacity to export financial services and to make Australia a financial hub in the region. A critical part of this plan will be to build the skills in Australia which will be required to support this vision and plan.

The detailed report and recommendations from the forum are attached.

(b) An open, competitive financial system...

The FSU supports this principle but believes that changes should be made to aspects of the regulatory structure to ensure that competition in the finance sector delivers benefits to all sectors of the Australian community.

One of the main concerns the FSU has is the extremely low threshold test for allowing major mergers in the finance sector. Under section 50 of the *Trade Practices Act 1974* a merger will be allowed if it lessens competition – the prohibition only occurs if it *substantially* lessens competition. In simplistic terms this means if a merger isn't particularly bad then it can proceed.

The FSU believes there should be an onus on merger parties to demonstrate that a positive outcome will occur rather than simply the absence of a major negative. The FSU strongly supports the adoption of a public benefit test for all bank mergers with the concept of 'public benefit' defined as widely as possible to include employment levels, access to services and impacts on low income and disadvantaged consumers.

The FSU's detailed views in this area are set out in our submission to the current Senate Economics Committee inquiry into Aspects of Bank Mergers.¹

The FSU strongly supports the existence of second tier or medium size banks such as Bendigo Bank, Members Equity Bank and (until recently) St George Bank. These institutions have long been recognised as having an important role in stimulating competition in all Australian banking markets. The Wallis Report in 1997 recognised that not only have regional banks become an increasingly important source of

¹ http://www.aph.gov.au/Senate/committee/economics_ctte/bank_mergers_08/submissions/sub12.pdf

competition, but also have successfully lead the way on service, innovation and pricing on some products.²

In their paper on competition analysis of Australian bank mergers, Garry Goddard and Greg Walker outlined that such banks:

“... were considered to be efficient, innovative, geographically focused, close to their customers and sufficiently differentiated from the ‘look-a-like; majors to provide an incentive for the major banks to remain competitive’ by the TPC and later reiterated by the ACCC.”³

Second tier banks have a positive impact on domestic competition, innovation, consumer choice (in particular, the effect on bank fees), and customer satisfaction, particularly when smaller banks poll significantly better than their larger counterparts.⁴

The global financial crisis has obviously impacted on all financial institutions and the FSU supports the introduction of the deposit and wholesale funding guarantee to promote financial system stability and ensure the continued flow of credit through the economy. We understand that the pricing schedule charged to institutions for these measures has been designed to differentiate on the basis of risk profiles; however the current fees have resulted in the smaller banks being charged 80 basis points more than the major banks⁵ to access the guarantee and therefore making it much harder for them to compete against the major banks.

The FSU is aware of a number of institutions that believe that the fee structure is anti-competitive and we note the comments by ABACUS that it “does not reflect the prudential regulatory framework that aims to give equal protection to all deposits held by Authorised Deposit-taking Institutions.”⁶

The FSU would support the fee structure being reviewed to ensure that second tier banks are not competitively disadvantaged and continue to play their vital role in the market place.

(c) Access to offshore market opportunities...

The FSU supports the general principle that Australian financial services providers should have access to off-shore markets; however we are concerned that the increasing trend is for these markets to be used as places where jobs are exported to at the expense of Australian workers and then the corresponding services are effectively imported back into Australia. (*This trend is discussed in more detail under principle (d) and (g)*).

(d) A competitive and efficient taxation system...

The FSU commissioned the National Institute of Economic and Industry Research to undertake research and modelling into the impacts of off-shoring on the services

² G Samuel, “Competition issues in regional and rural Australia - speech to Australian Bankers Association 3rd Annual Regional banking and Agribusiness Forum”, ACCC (09/09/05)

³ Goddard, K and Walker, G, “Competition Analysis of Bank Mergers in Australia”, *Journal of Law and Financial Management*, 1,1,2002

⁴ “Not so satisfied with NAB”, *the Sheet* (retrieved 30/05/08)

⁵ <http://www.guaranteescheme.gov.au/rules/pdf/schedule-5.pdf>

⁶ *Abacus submission to the Australian Financial Centre Forum*, 30 December 2008.

sector in Australia. The report was finalised in 2008 and had the following observations and recommendations regarding taxation.

“1 Tax system

In the short term, Australia will need to look at the use of incentives and disincentives to turn the tide on the vicious cycle of off-shoring and its impact on Australian jobs and competencies. Many businesses in the services sector are driven by short-term considerations rather than long term. For some financial institutions, off-shoring is often used as a short term investor relations exercise to distract from poor profit results or lack of strategic direction. Sending a few thousand jobs off-shore may appeal to the short-term horizon of investment analysts who are rewarded on three month or annual performance but it may also handicap the business and the country in the long term. US Presidential aspirants Hilary Rodham Clinton and Barack Obama have both identified the US tax system as an issue in off-shoring claiming that it provides an incentive for companies to move jobs off-shore. They say that in its rush to embrace off-shoring, the US overlooked the costs of job losses and have vowed to remove incentives for moving jobs to other countries. The Australian tax system needs to be similarly reviewed so that it removes any encouragement for off-shoring. In order to reverse the vicious cycle, incentives should be introduced to retain jobs in Australia as these jobs will contribute to the ongoing development of Australian competencies and competitive advantage. By creating a more favourable tax treatment for income earned in Australia compared to income earned from off-shoring work that could be undertaken in Australia, Government will be able to create a break in the cycle.”⁷

The FSU strongly endorses these sentiments and continues to campaign against the trend for companies to send jobs off-shore. Australia will not become a financial services hub if we continue to export jobs rather than services to off-shore locations.

(g) A reputation for integrity and transparency...

The FSU strongly supports this principle and actively works towards it wherever possible. Unfortunately the finance sector (banking in particular) is often viewed as having a low level of integrity. We believe this status has developed due to a number of high profile factors such as executive remuneration, fees and charges and the shift away from a culture of professionalism and service towards a culture of sales and marketing. This shift is clearly demonstrated by the widespread introduction of sales targets for finance sector staff which are increasingly used as the only way staff can access increased remuneration.

The culture of sales targets is, by definition, designed to maximise sales which (even inadvertently) will lead to a higher risk of inappropriate sales occurring. If staff are constantly under pressure to achieve sales then this will inevitably lead to some consumers being sold products that they may not be capable of repaying or even need.

We stress that the FSU does not automatically object to the principle of performance pay for meeting targets. The FSU’s policy on performance pay and targets⁸ is that they should only exist once a system based on a guaranteed CPI increase is in operation. If

⁷ *OFF-SHORE AND OFF WORK, The future of Australian service industries in a global economy A call to action, A report for the Services Unions of Australia, May 2008, National Institute of Economic and Industry Research [http://www.fsunion.org.au/Upload/Offshoring%20Report%20-%20NIEIR%20-%20May%202008\(3\).pdf](http://www.fsunion.org.au/Upload/Offshoring%20Report%20-%20NIEIR%20-%20May%202008(3).pdf)*

⁸ FSU Policy – Regulation on Performance Based Pay – 2007 (www.fsunion.org.au)

wages for finance sector employees cannot go backwards, then the pressure to meet sales targets will inevitably be lower.

A survey of FSU members, predominantly in the established banking sector, found that:

- 52 per cent of workers felt obliged to try and sell debt products even when a customer didn't need them;
- 63 per cent felt that inappropriate sales targets are having a negative impact on their ability to provide responsible customer service; and
- 59 per cent felt pressured to make inappropriate sales to meet sales targets.

The principle and practice of disclosure is widely accepted, particularly in the financial services marketplace as a way of ensuring transparency. There may not be the same direct link between the individual sale and the specific financial incentive that exists in other areas; however the fundamental issue is that targets do create a link which should be made transparent to the consumer.

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. The financial regulatory system should try to ensure that the majority of loans are appropriate and do not result in people becoming overly financially committed.

A recent report by Fujitsu predicted that the number of households experience 'mortgage stress' in June 2008 was approximately 750,000 with over 300,000 of those experiencing severe mortgage stress.⁹ In Treasury's evidence to the Senate Inquiry into housing affordability it was stated the home repossessions have doubled in four years, rising to approximately 10,000 homes repossessed in 2007.¹⁰

Given this increase in people experiencing difficulties we believe that any regulatory regime should enshrine some form of principles to mandate 'responsible lending' practices. The FSU believes that such measure would ensure 'healthier' competition in the finance sector. In line with this belief the FSU has developed a "*Charter of Responsible Lending*" (attached) which calls for greater transparency in relation to disclosure of remuneration in the sale of financial products.

We note the comments of the Financial Stability Forum who observed in relation to the US sub-prime crisis that:

"The combination of weak incentives, an increasingly competitive environment, low interest rates and rapidly rising house prices led originators and mortgage brokers to lower underwriting standards and to offer products to borrowers who often could not afford them or could not bear the associated risks."¹¹

We accept that the a major aim of any business is to maximise profits, however we would argue that the sale of major credit products such as home loans has an ethical dimension as well as wider implications for society if inappropriate lending practices become widespread or systemic. Institutions that engage in riskier home lending practices may lose a percentage of profits when things go wrong, however they will

⁹ *Anatomy of Australian Mortgage Stress*, Fujitsu, 2008.

¹⁰ *Senate Select Committee on Housing Affordability in Australia*, 1 April 2008 Canberra.

¹¹ *Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience*, Financial Stability Forum, 7 April 2008.

almost always have some form of security or mortgage insurance to minimise these losses.

In contrast, the potential impact on a consumer may be devastating and have wide ranging effects such as increased demand for welfare services, lower work productivity due to stress and absenteeism, and greater reliance on support networks to survive. The majority of the negative impacts when things go wrong are primarily absorbed by the consumer and society – not the institution engaging in the practice.

The other area where FSU believes there should be increased transparency is in relation to the practice of off-shoring. The FSU has been actively involved in the debate about off-shoring and in 2006 the FSU and other unions released a comprehensive joint policy on off-shoring¹² that called for a number of policy responses including – ‘right to know’ legislation that would require service providers to disclose the country where services are being provided from and requirements for informed consent before personal data is transferred off-shore. Both of these were adopted as ALP policy at the 2007 National Conference.¹³

In Australia there is currently no requirement for companies to disclose whether services are being provided off-shore or to seek consent if personal data is going to be transferred off-shore. Indeed, many consumers may not be aware that services are being provided from a different country given that some call centres actually go out of their way not to inform consumers if work or data is being handled ‘off-shore’. Surveys in the UK and Australia found that the majority of customers felt that companies should tell them if they are providing services from off-shore locations or storing data off-shore.¹⁴ A logical comparison is labelling laws for various products where companies must state the ‘country of origin’ so that consumers can make an informed decision.

The principle of relevant disclosure to ensure consumers can make informed choices is also fundamental to the concept of effective and efficient markets. In addition, consumers are increasingly making choices based not only on price and quality, but also on how companies are conducting their business in relation to ethical, environmental and labour market standards. The principle of ‘right to know’ has been adopted in France¹⁵ and legislation has been introduced into several State legislatures in the USA¹⁶.

National polling commissioned by the FSU and other unions clearly demonstrated strong community concern about the trend toward off-shoring.

Some of the findings include:¹⁷

- 89 per cent believe the Australian Government should act to protect Australian workers from losing jobs because work is sent offshore
- 85 per cent believe the Government should require all financial institutions to disclose whether they store customer information overseas; and

¹² http://www.fsunion.org.au/Upload/Offshoring_2006_FINAL_Table_updated.pdf

¹³ ALP National Platform 2007 (Chap 12, page 205).

¹⁴ *Attitudes to Offshore Labour*; McNair Ingenuity Research, May 2006; *Finding the balance: The Effect of Offshore Customer Contact on Profit and Brand*. Contactbabel, 2004.

¹⁵ “*Outsourcing Victory in France*” Press release 18 October 2004 - <http://www.union-network.org>

¹⁶ For more information see <http://www.nfap.net/researchactivities/globalsourcing>

¹⁷ *Attitudes to Offshore Labour*; McNair Ingenuity Research, May 2006

- 90 per cent said they would choose a business that stored their information in Australia rather than overseas.

If you have any questions in relation to this submission please contact our National Communication and Policy Manager, Rod Masson, on (03) 9261 5330.

Yours sincerely

A handwritten signature in black ink, appearing to read 'L Carter', with a stylized flourish at the end.

Leon Carter
National Secretary
23 March 2009