



FSU Submission:

**SUBMISSION TO PRODUCTIVITY
COMMISSION INQUIRY INTO COMPETITION
IN THE AUSTRALIAN FINANCIAL SYSTEM**



FINANCE SECTOR UNION

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SUBMISSION TO PRODUCTIVITY COMMISSION INQUIRY INTO COMPETITION IN THE AUSTRALIAN FINANCIAL SYSTEM

Introduction

- The Finance Sector Union (FSU) of Australia welcomes the opportunity to participate and provide a submission to the Competition in the Australian Financial System review currently being conducted by the Productivity Commission.
- The FSU represents and advocates for more than 400,000 workers in the finance sector - including those who are required to provide general and personal advice.
- Our members have a deep interest in finance sector policy, and also have an advanced understanding of the how the sector works, and areas for improvement. Separate to this review, the FSU has also been watching closely the preparation and implementation of the McPhee and Sedgewick reviews.

General Comments

Australia's developed market economy relies on healthy levels of competition. The challenge for policy makers currently, and especially in the finance sector, is the speed at which the environment is changing, and where the risk lies if regulatory infrastructure does not keep pace with technological change. It is clear that in many areas (uber, airbnb, driverless cars) Government policy has had to play catch up with technological advances. Given that the retirement plans, employment and financial assets of Australians will be deeply affected by inadequate regulation, the FSU holds a view that any easing of current regulatory and policy arrangements for the finance sector should not result in increased risk to the savings of Australians.

The Finance Sector Union recognises the myriad of forces at play in the current debate around the financial sector. We believe we have a positive role to play in:

- Advising on medium and long term policy;
- Improving the prosperity of Australia through the provision of a robust banking and finance sector; and,
- Improving the image of banks, and the business process improvement that is required to build a basis for improved trust.

This submission notes the Terms of Reference of the review, and seeks to draw attention to the three key elements of the current and future finance sector landscape:

1. The Global Financial Crisis, and the lessons learned;
2. The far reaching effects of digitisation for both existing banks and new entrants, and the rapidity of change;
3. The subsequent effect on the finance sector labour market and potential costs to Government and taxpayers.

1. LESSONS FROM THE GLOBAL FINANCIAL CRISIS (GFC)

The FSU submits that many of the factors that gave rise to the GFC, such as sub-prime loans, were not fundamental features of the Australian finance sector at the time. The sector was, however, exposed to the broader global uncertainty as to debt levels and asset valuations. Australia's finance sector emerged from the GFC in better condition than the large majority of jurisdictions around the world. The key factors that contributed to this are:

- The fundamental soundness of Australia's largest financial institutions;
- Government intervention to guarantee the banks;
- Relatively smaller reliance on high volatility products such as derivatives and sub sub-prime bon equivalents;
- A relatively smaller, more concentrated, and more stable finance sector than other jurisdictions.

Notably, Governments and regulators in jurisdictions such as the United States and the United Kingdom have been forced into large scale reviews and regulatory reforms in order to mitigate ongoing risk to the sector.

The FSU submits that recent commentary, inquiries and reports into Australia's finance sector (including the Reserve Bank and the Murray and Ramsey Reviews, and the ABA's Better Banking Reform package) have tended towards supporting the current level of competition in Australia's finance industry, or pointed towards ethical and reputational risk issues, as distinct from the underlying financial health of the sector.

The FSU acknowledges that cross-selling of products (as examined in the ABA's review of Remuneration conducted by Stephen Sedgewick) within large banks is a significant competitive advantage over smaller lenders. Large institutions are more likely to have the hard and soft infrastructure in place to develop and sell these products. However, offset against these advantages are typically larger branch structures that underpin commercial activity, and direct and indirect employment in regional and rural Australia.

Overall, there has been a tendency to acknowledge the underlying soundness of the Australian banking sector. The FSU notes that this is an assessment of the financial fundamentals underpinning the system, and is not a reflection of corporate culture or banking reputation; these elements are another matter entirely.

2. DIGITISATION AND RAPID CHANGE

The finance sector has seen innovations such as electronic funds transfer, automatic tellers machines, and internet banking introduced over the last few decades. These changes have been very significant, but they will be dwarfed by the technological changes that are about to occur. Not only will the changes themselves be massive, they will also happen more quickly than other business revolutions of the past. Some estimates suggest that 40% of current jobs in the broader economy will not exist in ten years time. In the finance sector, the potential impact is even greater.

In the broad, established financial institutions will:

- Increasingly move away from branch structures;
- Seek to provide individualised or bespoke services;
- Provide some, or all, services online
- Broaden product range
- Reduce staffing
- Will be more active in the corporate responsibility sphere (eg not lending to specific sectors in order to preserve or enhance reputation)
- Lay off risk by employing more contractors.

Australia's largest banks have all indicated they will be moving towards new business models that see greater reliance on technology, and less direct employees.

Over the next five years, the aggregate reduction in staffing across Australia could be as much as 120 000 jobs. If this occurs, it will be the greatest shedding of jobs in Australian history, and poses broader implications for policy makers.

The FSU forecasts growth in the insurance, financial planning and superannuation elements of the industry outside the large banks. We also anticipate the growth of second tier banks, and the rise of new digital banks. These new digital institutions will be characterised by:

- Low overheads;
- Little or no branch structure;
- A complete online presence;
- Bespoke banking that assesses customers risk individually;

- Less robust and more risky ‘back of house’ functionality, including greater exposure to hackers.

The current regulatory environment makes the initial licensing of these enterprises difficult, but this is likely to change over time. The FSU believes it is likely that any growth of these banks will affect the market share of the second tier banks relatively more than the existing large institutions.

Over recent decades there have been multiple high profile financial collapses that have left ordinary Australians exposed to unethical behaviour, or poor business systems and judgements. In light of these, Australians have an expectation that there be appropriate oversight of financial institutions.

In a period of high sector volatility, it is reasonable to assume that this expectation will endure.

The challenge for policy makers is to establish an industry regulatory profile that simultaneously promotes competition and protects consumers. The FSU has watched first hand as poor business processes and unethical behaviour by a few has damaged the reputation of the industry as a whole.

We are committed to working with regulators to provide our best advice as to how ethical behaviour in the sector can be encouraged and rewarded, and also to prosecute the case as to why ethical behaviour is, in the long term, conducive to a more competitive market.

3. EFFECTS ON THE FINANCE SECTOR LABOUR MARKET

Banks have an ongoing and active regime of lowering their corporate risk profile. This includes the increased use of contractors, off shoring of jobs, more use of brokers, and greater use of home based work. Each of these are examples of the finance sector outsourcing risks. Equally, the sector will seek to avoid as much risk as possible in the shedding of current jobs and creation of new ones.

The FSU notes that digitisation is a reality now and into the future. Ideally, it improves competitiveness and productivity, helps grow the economy and provides satisfying, well remunerated work. The reality, however, is that there will likely be multiple missteps, a potential for shedding large numbers of workers, and decreased customer satisfaction. Some of the risks can be appropriately worn by the bank or institution, when a customer changes provider.

However, banks are effectively externalising the risk of large scale job shedding to the Australian taxpayer.

Over coming years, almost all finance jobs will be massively affected by digital disruption, with almost 30% of roles potentially replaced by automation and technological advances.

These employees and their families will need to be trained for the jobs of the future. The FSU is currently conducting in-depth research on these needs, and also the cost to Australian taxpayers of providing direct support and subsequent training and assistance into new roles.

Ultimately, many employees will remain in the finance sector, either successfully competing for new jobs in current organisations, or taking up new roles with new organisations. Currently, there is no overarching policy guiding finance sector training.

Structural and policy changes over recent decades have seen very significant shifts in the economic profile of Australia. The changes likely for the banking sector will outstrip the impact of the removal of tariffs, the closure of the car industry, the rationalisation of steel manufacturing and the slowing of mining activity - COMBINED.

The FSU notes that the Australian Banking Association (ABA) has previously prepared a six point plan for improving the good governance and reputation of the banking sector. The ABA plan is a necessary but not sufficient, plan to engender community trust. In particular, there is scant recognition of the major changes on the near and medium terms for bank employees.

To this end, the FSU believes there is a clear opportunity for the Government to bring banks and employees together in order to better position the sector and its employees for the future.

There is a strong case for Government to facilitate a comprehensive sector-wide training policy, funded by the sector, which prepares workers for the jobs of the future. Absent this plan, displaced workers will enter taxpayer-subsidised or full fee training programs; either way, the banking sector has avoided responsibility.

Working with Industry Stakeholders and Government, the banking sector has the expertise, and the responsibility, to develop an industry training plan that positions employees and the sector for the future; a professionalised, ethical, adaptive workforce that the broader community wants to be a part of.

What the FSU proposes could be funded via a proportion of the bank levy. The key elements of such a policy could be:

- Firstly, establishment of an authority to oversee the development of the plan, monitor progress against it, and map future requirements;
- Secondly, identify current skills gaps starting with those jobs that are currently listed on the schedule for the provision of skilled visas;
- Work with the sector to establish core competencies of the future;
- Work with providers to develop sector –wide credentials that are transferrable across the sector;
- The embedding of ethical custom and procedure throughout the sector.

This approach would improve sector competition in the following ways:

- It would reduce the ability of the banks to ‘externalise’ the ongoing training requirements of large parts of the workforce;
- If funded by part of the bank levy, it would redistribute industry wide benefits to the second tier banks and other lenders;
- It would provide a long term pool of appropriately trained staff for recruitment by new entrants;
- It would enhance labour mobility across the sector;
- Appropriate training would maximise ethical behaviour across the industry over time.

The FSU welcomes this inquiry, and undertakes to work cooperatively on the implementation of any recommendations arising.

Yours sincerely

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For further information, please contact FSU National Secretary Julia Angrisano