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Financial Crisis and Social Dialogue in the UK Banking Sector

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Introduction

This paper assesses the impact of the financial crisis of 2008-10 on the UK banking sector, and considers the role of social dialogue between employers, trade unions and government. It finds that UK banks were already in a major restructuring process prior to 2007. This was driven by deregulation that had permitted a long-term extension of the banks into markets they had not previously focused on and by rising global competitiveness between banks including the emergence of new retailer-based banks.

The September 2007 run on the Northern Rock bank, followed a year later by the 2008 collapse of the globally significant Lehman Brothers, announced the presence of a global banking crisis (in terms of their supply of credit to the rest of society) and of a crisis in the banks (in terms of their own survival). The UK finance sector was particularly exposed because its deregulation of investment banking and of the activities of buying and selling stocks and securities had gone further than elsewhere. One immediate result was to impose down-sizing upon banks that were already undergoing restructuring. Another was that the passive stance of the state as a regulator of UK banks and banking was reviewed and a massive state recapitalisation of two of the largest banks was carried out: the Royal Bank of Scotland (83%) and Lloyds Banking Group 43% became partially state-owned and the national debt increased dramatically in consequence. New regulations are now being consulted on by government in a bid to revamp the regulatory control and consumer protection in finance to ensure higher levels of probity and reduce imprudent risk-taking.

The focus of the paper is on the developments in employment relations associated with the banking crisis and the onset of and subsequent partial and fragile recovery from the national economic recession it generated. Many of these developments were already underway prior to the crisis, but some were new and all are clearly marked by the greater financial stringency and external scrutiny under which the banks are now operating.

Section 1 begins by reviewing the context of British banking and its restructuring up to 2007. The UK had one of the most concentrated retail financial sectors in the world prior to the Big Bank of 1986. After that it had one of the least regulated finance sectors, in which retail bank savings could be used freely as risk capital. In Section 2 we describe

the consequence: the severe banking crisis of 2007-10. This is followed in Section 3 by a description of the UK banking social partners and their policies and responses to the crisis. Section 4 reviews the overall impact of the recession on bank sector employment relations, and Section 5 offers some tentative conclusions.

1. Context of British banking

With the 1986 Financial Services Act the Conservative government of Margaret Thatcher fully liberalised the British finance sector. This development effectively resolved the nearly two centuries long conflict between finance and manufacturing capitalists within the UK by tilting the balance of power and deregulation decisively towards the former. In structural terms what then happened was the absorption of many private and mutual banks and their investment and mortgage-lending activities by a small number of giant retail banks that then used traditional bank deposits to finance increasingly risky lending strategies while regulation became ever more 'light touch'.

The October 27 1986 'Big Bang' was a massive deregulation of financial markets. It involved the abolition of fixed commission charges, the end of the distinction between the intermediary market makers (stockjobbers) and the authorised buyers and sellers of shares (stock brokers). The separation had ensured that brokers did not bet against their clients, and had kept brokerage firms small. The 'Big Bang' also removed 'single capacity' banking and authorised the introduction of electronic, screen-based trading. The result was that both the brokers and the jobbers merged into large global banks, which were also now free to operate 'broad banking' and to deal in securities – something that was not fully permitted in the US under its 1933 Banking Act until 1999. The removal of 'single capacity' banking allowed UK high street banks to operate directly as traders on the London Stock Exchange (LSE), and as insurance companies and as investment bankers. London was already the world's biggest holder of 'off-shore' Eurocurrency deposits, bank deposits nominated in a currency other than that of the host country and which escaped national monetary regulations. What 'Big Bang' did was to integrate the LSE and the international and national banks into the same free market system.

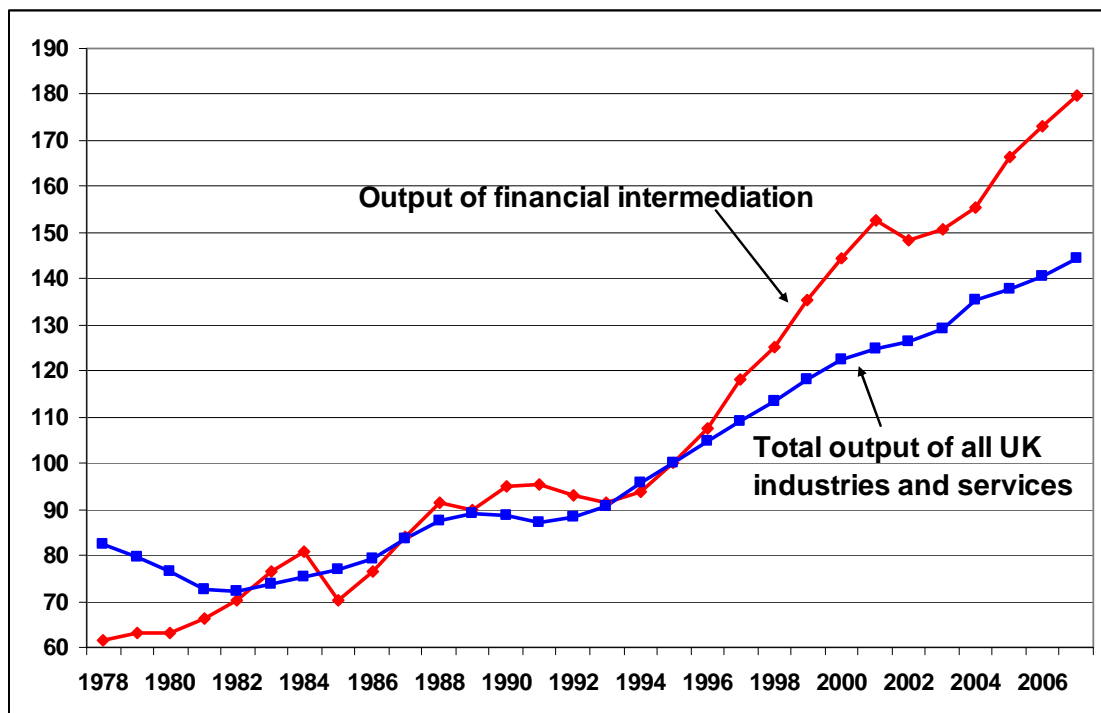
While 'Big Bang' was the most significant moment, the deregulatory reforms did not end there, and were pursued by the New Labour government that was in power from 1997 to 2010. In 1995 a new stock market, the Alternative Investments Market was established without even the regulations of the London Stock Exchange's main market indicating a minimum capitalization or minimum float requirements. In 1997 the Financial Services Authority (FSA) was established by the incoming 'New Labour' government, and in 1998 it took over all regulatory and supervisory authority for the banking industry from the Bank of England. This was the year that saw a major credit crisis with one US institution failing and a sharp stock market collapse. The FSA's power and authority were increased in 2001 when it was given responsibility for dealing with the prevention of market abuse. It also became the single regulator of all investment services, taking over the responsibilities of several other dedicated Commissions and Organisations with authority over such intermediaries as building and friendly societies, fund managers and firms engaged in securities and futures dealing. In 2004 and 2005 it was given responsibility for regulating mortgage sales and general insurance, and in 2006 it announced it would replace the existing prescriptive Conduct of Business rules with a 'new' principles-based approach to the regulation of investment services. The FSA's

'light touch' approach to overseeing the banks became a factor in enabling unfettered risk-taking by institutions that then became too big to be allowed to fail. Finally, in March 2009 the Building Societies and Mutual Societies Act was passed giving building societies greater freedom to merge with other companies and to raise money.

There were several consequences of this lengthy period of deregulatory reform. First, borrowing money became much much easier. This, and income tax cuts for the rich and middle classes, was particularly important in fuelling the drive to privatisation. In the late 1980s, the level of secured debt as a percentage of disposable income was 76 per cent while the level of unsecured debt was 15 per cent; by 2006 these figures reached 126 per cent and 26 per cent respectively. The total debt servicing costs according to Price Waterhouse-Coopers rose from less than 14 per cent of average UK household disposable income in 1987 to nearly 20 per cent in 2007. No wonder the banks actively sought to capture as large a share as possible of this debt, which was largely incurred by the UK's 11.8 million mortgages (McAteer, 2008: 10-12).

Second, the UK finance sector began to grow much more rapidly than the rest of the economy. Figure 1 shows how financial intermediation was in step until Big Bang and then consistently outperformed the rest of the UK from 1989 on. While the volume of gross output in the economy as a whole rose 45 per cent between 1995 and 2007, the financial intermediation sector rose 80 per cent.

Figure 1 UK growth, 1978-2007. Volume gross output indices for Total Industries compared to Financial Intermediation* (1995=100).



* Financial intermediation includes banks and insurance but excludes real estate, renting and other business activities.

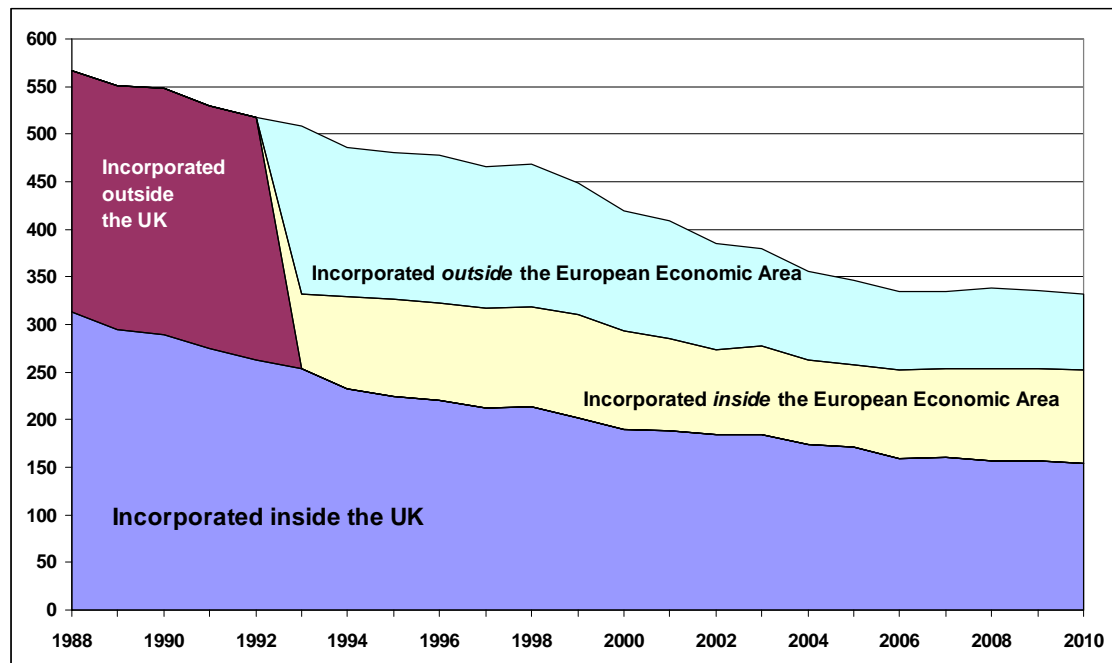
Source: EUKLEMS database, November 2009 release. NACE sector J.

This dramatic finance sector acceleration was fuelled by:

1. a huge increase in personal debt – amounting to £1,459bn in May 2009, of which 16 per cent was unsecured (Financial Inclusion Centre, 2009b: 11);
2. the growth of mortgage lending by banks and the demutualisation of many building societies that then became banks;
3. bank entry into the insurance business;
4. the move of mainstream banks into global investments and trading and their increased importance in bank profits and bonuses; and
5. the cultural shift in the mainstream banks from a customer service focus to a product sales and sales target focus.

The expansion of the finance sector was accompanied by huge restructuring: there was a significant decline in the numbers of banks operating in the UK and an expansion of the share of UK banking taken by foreign-owned banks (non-EU and EU-headquartered) as shown in Figure 2.

Figure 2 Numbers of Banks operating in the UK, 1988-2010



Source: BBA (2010), Table 1.04

The numbers of UK-incorporated banks authorised to carry on one or more activities such as accepting deposits, dealing in investments as a principal or as an agent, managing investments and arranging deals in investments fell nearly continuously. In 1986, the year of the Big Bang, there were 595 banks and licensed deposit-takers. By February 2010 there were only 332, of which UK incorporated banks made up 154, while EU-incorporated banks constituted 98 and non-EU banks 80 (BBA, 2010: Table 1.04). The overall proportion of nationally-incorporated banks operating in the UK fell from 55 per cent in 1988 to 46 per cent in 2010.

Up until 2009 within this smaller number of UK-incorporated banks, however, there were five giant banks, whose roots among the pre-Big Bank clearing banks gave them the foundations to become truly global banks in a world where new information technologies enabled global trading in financial stocks, currencies and derivatives. Each of these had broadened its activities, swallowing up or merging with a different mix of private investment banks, former stockbrokers, insurance businesses and de-mutualised building societies.

The world of UK banking was changing rapidly even before the financial crisis. During the crisis itself, the potential collapse of HBOS led to government pressure on Lloyds TSB to prevent that happening. When the take-over happened in 2009 just four huge bank chains were left as distinct actors, three of which (the Royal Bank of Scotland Group, HSBC Holdings and Barclays) are among the world's five largest banks in terms of total assets (Keeler, 2010). The main retail groups are listed in Table 1, where the six big groups shown above the shaded group are all for-profit banks, the shaded group are 100 per cent state-owned, and the groups below them, are mutually-owned or cooperatively-owned by their members.

Table 1 Major UK Finance Chains, 2009

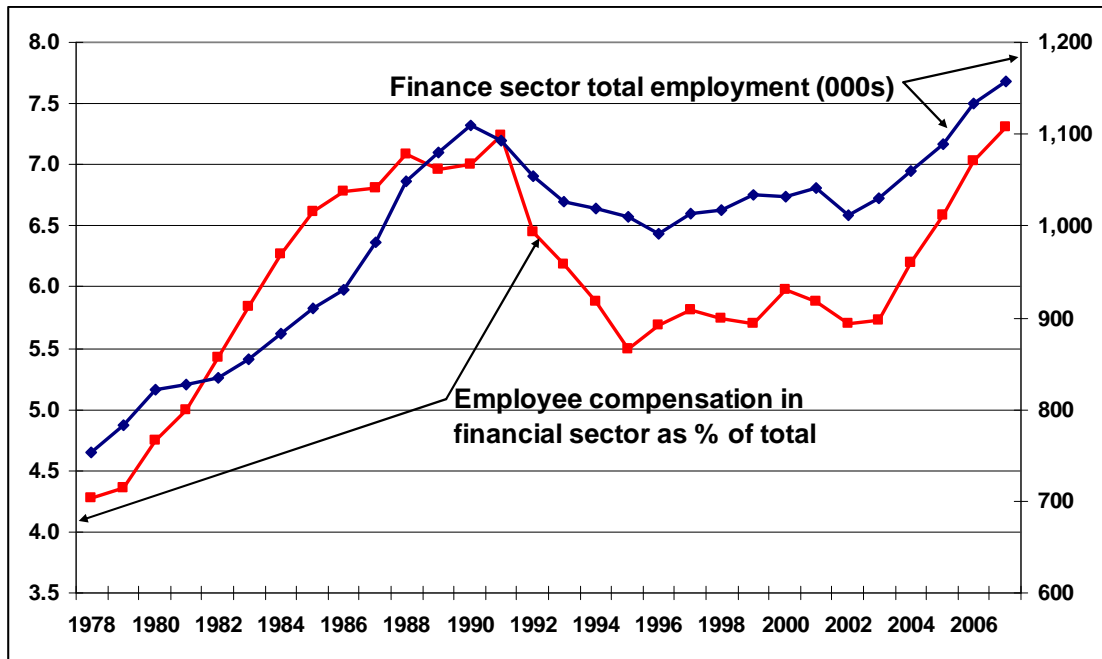
Chain	UK banks in chain	Assets 2009		UK	
		UK (£bn) 2009	Global (\$bn) 2008	Staff total 2009	Branch network 2009
Barclays plc	Barclays Bank	461.3	2,233	55,700	1,698
HSBC	First Direct, HFC Bank, HSBC Bank, <i>HSBC Private Bank</i>	321.7	2,364	82,296	1,369
Lloyds Banking Group	Bank of Scotland, Birmingham Midshires, Cheltenham & Gloucester, Halifax, Intelligent finance, Lloyds TSB, Sainsbury's Bank	662.4	1,664	125,109	2,927
Royal Bank of Scotland Group	National Westminster Bank, Royal Bank of Scotland, Ulster Bank, <i>Adam and company, Child & Co, Coutts & Co, Drummonds Bank</i>	820.2	2,747	98,500	2,355
Grupo Santander	Santander (Abbey National, Alliance & Leicester, Bradford & Bingley Retail & Savings), Cahoot, Cater Alan	196	1,600	20,730	1,168
National Australia Bank	Clydesdale Bank		576	4,000	152
	Yorkshire Bank				186
UK Financial Instruments & Government	Bradford & Bingley	42.4		917	
	Northern Rock	68.0		4,546	
	Post Offices				11,952
Nationwide Building Society	Nationwide*	179		14,623	680
Other Building societies	48 other UK societies	175.2		35,000	2,106
The Cooperative Group	The Cooperative Bank, Smile, Britannia, Unity Trust Bank			12,000	338

*2007 data

Sources: BBA (2010); Building Societies Database 2009 (KPMG: London); BSA press release, 19.1.2010. D. Keeler, 'Annual Survey: World's biggest banks 2010', *Global Finance*.

The finance sector's percentage share of total UK output rose significantly - up from 5.4 per cent in 1985, prior to the Big Bang, to 7.9 per cent in 2007. This increase in the finance sector's contribution partly reflected the sector's increase in employment. From an average of 804,000 in the five years 1978-82, well before Big Bang, it rose to average 1,077,000 employed between 1988 and 1992, and then, after falling back through the 1990s as the continuing growth of part-time work was experienced alongside restructuring and off-shoring, it increased quite dramatically again in the upswing from 2003 to 2007, when finance sector employment averaged 1,094,000. The sector employment growth over the last three decades is shown in Figure 3 (right-hand axis), while the percentage share of total UK employee compensation (wages and salaries) going to employees in financial intermediation is shown on the left-hand axis.

Figure 3 UK finance sector, 1978-2007. Jobs (000s - right-hand axis) and employee compensation (% - left-hand axis) of UK totals



Source: as per Figure 1.

The recovery of finance sector employee compensation in relation to total employee compensation in the UK economy between 2003 and 2007 is related to the growth in employment in the sector as well as the growing importance of substantial remuneration packages for a small minority of staff. It should not be concluded that this recovery was shared by all. Across the sector as a whole, although 56 per cent of employees received individual bonuses, in 2004 these constituted just 10.5 per cent of employee earnings (Arrowsmith and Marginson, 2010: 5). One of our interviewees told us that the basic starting salary for a full-time cashier in the Lloyds Banking Group (LBG) was just £11,000 a year, on which under the recently negotiated harmonisation terms, they would now be entitled to a maximum bonus of five per cent. This compares with the RBS HR

Group Director's £600,000 a year basic salary on top of which bonuses of over 20 per cent have commonly been paid.

Table 2 provides the average five-year employment totals for both the whole financial intermediation sector and the four major UK bank groups identified above: Barclays, HSBC, Lloyds Banking Group and Royal Bank of Scotland.

Table 2 Four main UK banking groups* and financial intermediation employment (000s) and % shares of total employment and value added (VA), 1978-2007

	1978-82	1983-87	1988-92	1993-97	1998-2002	2003-2007
Financial intermediation staff (000s)	804	912	1,077	1,012	1,027	1,094
Big Four UK-owned banks (000s)	286	312	344	377	381	410
Financial intermediation share of UK employment (%)	3.15	3.66	4.06	3.88	3.68	3.72
Financial intermediation gross value added as share of UK total VA (%)	5.09	6.30	5.63	6.29	5.34	7.54
Big Four share of all financial intermediation employment (%)	35.5	34.3	32.0	37.2	37.1	38.0
Average 5-year change in Big Four employment (%)	-	+9.3	+10.2	+9.5	+1.2	+9.1

* Barclays, HSBC, Lloyds Banking Group and Royal Bank of Scotland.

Sources: Financial intermediation as per Figure 1

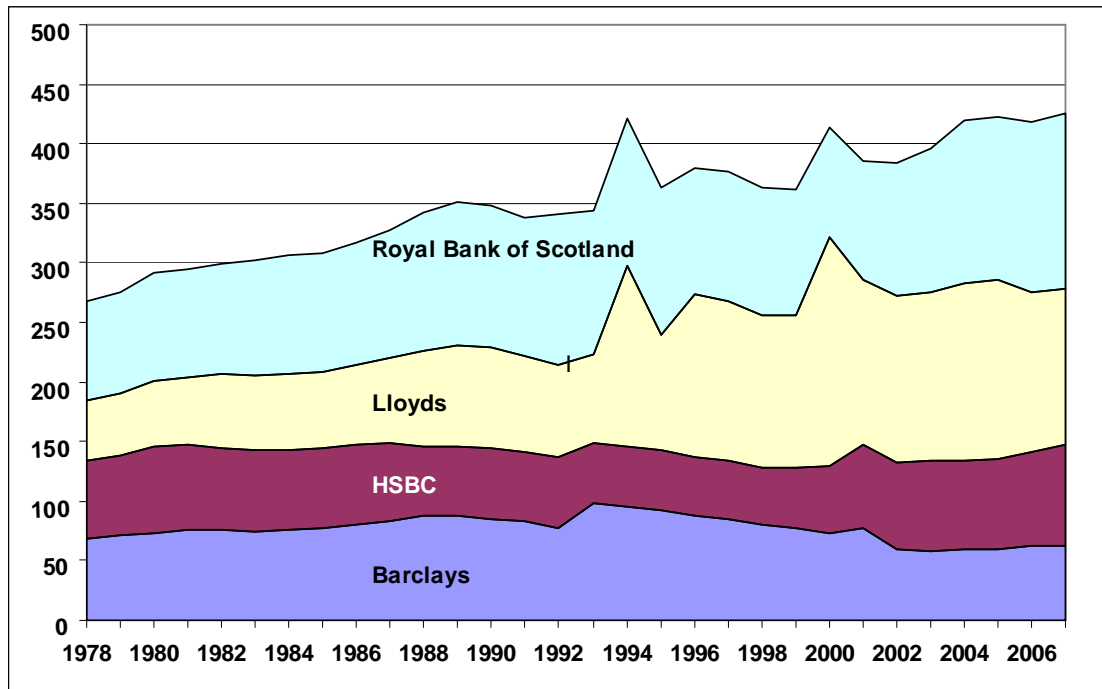
UK Bank staff employment totals: BBA, 2010 Statistical report, Table 3.09

ABN AMRO Annual Report 2009

The aggregate employment growth of the Big Four across the last three decades, involving huge mergers and take-overs and considerable concentration of power, has been extraordinary. There were two peak periods of growth: just before and during the decade after Big Bang; and then a renewed expansion from 2002 to 2007, as shown in Figure 4. Only one of the four banking groups, Barclays, showed UK employment levels in 2007 below (-8,000) its 1978 level; at HSBC UK employment levels were 20,000 higher and in the groups that eventually became the Royal Bank of Scotland and the Lloyds Banking Group employment totals were 64,000 and 81,000 higher respectively. Altogether, their total employment rose from 277,000 in 1978 to 343,000 after the Big Bang in 1988. This level was marginally higher at 363,000 ten years later and, after new acceleration in the 2000s the four banks employed a peak of 425,000 workers¹ in 2007. This was the year in which the first signs of the coming collapse could be observed. In that year these four banks alone comprised 36.7 per cent of total financial intermediation employment.

¹ Including approximately 34,000 ABN Amro workers assigned in 2007 as being employed by RBS (ABN Amro Annual Report 2009)

Figure 4 Four UK Banking Groups, staffing levels, 1978-2007 (000s)



Source: BBA (2010a) as in Table 1; additional data on RBS from ABN Amro Annual Report 2009

Key moments for UK finance

Here we comment briefly on the decisive moments listed in Table 3 for the evolution of UK banking from 1991 to 2009.

HSBC Holdings Company was founded in 1991 to enable the Hongkong and Shanghai Banking Corporation to acquire full ownership of the Midland Bank, another of the then Big Four UK banks. With a fully global presence it is now one of the top three largest banking and financial services groups in the world, but although it only has a small proportion of its global employment in the UK, its primary market listing is on the LSE. It did not seek to access UK government funds as part of the bank rescue package developed in October 2008. At the time, one of our interviewees worked in the HSBC headquarters building at Canary Wharf in London, just next to the UK Lehman Brothers office block which had seen bank staff fired without notice and refused entry to their building. She reported the HSBC reaction being to open a special bar for staff to celebrate their achievement in not being forced to turn to the government, and the discomfort of their competitors. Another private bank worker confirmed that ‘HSBC were very smug, and remain so’.

Table 3 Major restructuring events in British Banking, 1992-2009

Year	Acquiring finance organisation	Acquired/merged finance organisation
1992	HSBC	<i>Midland Bank</i>
1995	Lloyds Bank Group	<i>Cheltenham & Gloucester Building Society</i>
	Abbey National Group	<i>First National Finance Corporation</i>
	Lloyds TSB Group	<i>Lloyds merger with TSB Group</i>
1996	Abbey National Group	<i>National & Provincial Building Society</i>
1997	<i>Alliance & Leicester bank conversion</i>	
	<i>Halifax bank conversion</i>	
	<i>Bristol & West bank conversion</i>	
	<i>Woolwich bank conversion</i>	
1999	Halifax	<i>Birmingham Midshires Building Society</i>
2000	Royal Bank of Scotland	<i>National Westminster</i>
	Barclays	<i>Woolwich</i>
	<i>Bradford & Bingley bank conversion</i>	
2001	HBOS	<i>Bank of Scotland merger with Halifax</i>
2002	Northern Rock	<i>Legal & General Bank</i>
2003	Royal Bank of Scotland	<i>Churchill Insurance</i>
2004	Santander	<i>Abbey National</i>
2007	Royal Bank of Scotland Fortis Santander	<i>ABN AMRO</i>
	<i>Barclays Bank of England credit</i>	
	<i>Northern Rock bank run</i>	
2008	Nationalisation (UKFI)	<i>Northern Rock</i>
	Nationalisation (UKFI)	<i>Bradford & Bingley</i>
	Part-nationalisation (UKFI)	<i>Royal Bank of Scotland (70%)</i>
	Santander	<i>Bradford & Bingley branch network</i>
	Santander	<i>Alliance & Leicester</i>
	Barclays	<i>Lehman Brothers investment-banking and trading divisions and New York office skyscraper</i>
2009	Lloyds Banking Group	<i>Lloyds TSB merger with HBOS</i>
	Part-nationalisation (UKFI)	<i>Lloyds Banking Group (43%)</i>
	Part-nationalisation (UKFI)	<i>Royal Bank of Scotland (84%)</i>
	Cooperative Bank	<i>Britannia Building Society</i>

Source: BBA (2010a); Santander web site.

The big increase in the Lloyds Banking Group total employment shown in 1995 in Figure 3 followed the merger of Lloyds Bank with the Trustee Savings Bank. The new Lloyds TSB then acquired one of the UK's largest life assurance company's, Scottish Widows, when it de-mutualised in 2000, creating the second large peak in the Lloyds graph in Figure 3. The following year the Bank of Scotland merged with the Halifax to form HBOS, the UK's largest mortgage lender, and later acquired its own insurance arm in Clerical and Medical. Over the next few years its high-risk lending spiralled out of control, and in 2007 it was one of the largest retail banks and the biggest mortgage lender in the UK. Its 65,000 staff were located in six main divisions: 30 in Strategy and Operations; 1,117 in Treasury and Insight; 5,313 in Insurance and Investment; 6,141 in

Group; 8,901 in Corporate Banking; and 43,498 in Retail (Jameson, 2010: 1). As the banking crisis deepened in 2008, HBOS was first forced to ask the Bank of England for emergency funding and then, in January 2009 it was taken over by Lloyds TSB - under pressure from the government to prevent it from collapse.

This takeover created a new 'super bank', the Lloyds Banking Group, with 38 million customers, but whose assets, one of our interviewees argues, were not properly assessed under the pressure to complete the deal. The Treasury Committee report (2009: 3) subsequently quoted the Lloyds Group Chief Executive, the American Eric Daniels, as conceding that 'the merger proceeded swiftly on the basis of relatively little due diligence and that the Government was involved to the extent that it offered to waive the competition rules'. After the government initially took a 43 per cent share of the new group, a Lloyds share issue has now reduced the share of UK Financial Investments Ltd to 41 per cent.

In 2000, in a competitive and hostile take-over, the Royal Bank of Scotland Group acquired the National Westminster Bank with the biggest bid in UK take-over history. In 2007 RBS management moved again, jointly this time with the Spanish bank, Santander, and the Belgian bank, Fortis, to buy the major Dutch bank, ABN AMRO, for a new world record amount. Their joint aim was to break it up profitably, but both Fortis and RBS effectively had to be nationalised in 2008 as a result of the losses generated both by the purchase and by their exposure to sub-prime loans in the US. The allocation of its share of jobs helped create the employment peak shown for 2007 in Figure 3. In 2009 the ABN AMRO businesses operating in Holland were partly renationalised by the Dutch government and on the completion of the de-merger in April 2010, its international trading division became a global division of RBS, called the Royal Bank of Scotland NV. The UK government stake in RBS increased from 70 to 84 per cent in November 2009, although its voting share remains limited to 75 per cent in order to allow RBS's shares to remain listed.

Finally, among the Big Four banks, Barclays purchased the former Woolwich Building society in 2000-2001 when its staffing levels rose temporarily before it subsequently closed or merged most of its new branches. Just as the crisis started Barclays also targeted a merger with Holland's largest bank, ABN AMRO. However technical problems with its computerised settlement system and rumours of bad debts in the US obliged it to request a £1.6bn credit line from the Bank of England in August 2007. Then, in November 2007 after Barclays was defeated in bidding for ABN AMRO, its shares were temporarily suspended on the LSE in order to stop a bout of panic selling. Since then Barclays recovered rapidly thanks, initially to a major rights issues supported largely by the China Development Bank and the Qatar Investment Authority, and finally it did not seek access to government share capital in late 2008 or early 2009 when this was offered.

2. UK Banking Crisis, 2007-10

On 1 May 2009 the House of Commons Treasury Committee (HoC, 2009: 3) reported that the origins of the crisis included low real interest rates, a search for profits and a misplaced faith in 'financial innovation', and that 'some of the banks have been the principal authors of their own demise'. It concluded that 'the culture within parts of British banking has increasingly been one of risk taking leading to the meltdown that we have witnessed. Bankers have made an astonishing mess of the financial system'. The criticism could hardly have been stronger.

The UK banking crisis emerged fully with customers queuing up to take out their deposits from the Northern Rock bank in September 2007, after it had sought and received liquidity support from the Bank of England. Its origins were in the merger of two building societies (founded in 1850 and 1865), but Northern Rock de-mutualised in 1995 and became a bank in 1997, thereafter rapidly becoming one of the top five mortgage lenders in the UK. Its business plan involved borrowing heavily within the UK and from international money markets to fund its mortgages and then reselling these mortgages (securities) on the international capital markets. In 2006 it had moved into sub-prime lending via a deal with Lehman Brothers. But when, following the end of the US housing bubble in 2006-7, global demand for securitised mortgages dropped dramatically, it became unable to repay its loans in August 2007. The run ended only when the government announced it would honour all the deposits made. Six months later in February 2008, after failing to attract private sector buyers, Northern Rock was nationalised.

The first run on a UK bank for 150 years and Barclays being forced to access Bank of England credit and having its shares suspended were the signs of a much deeper malaise. In September 2008 UK bank (and other) share prices collapsed in the wake of the Lehman Brothers bankruptcy. The Bradford & Bingley mortgage lender (a former building society that was de-mutualised in 2000) was nationalised at the end of the month with its branch network being sold to Santander. Three weeks later the government announced a £500bn bank rescue package, including a £50bn 'bank recapitalisation' whereby the state could directly purchase bank shares where banks requested this. It had become clear that large parts of bank assets were not real, and that real, 'clean' funding had to be injected in order to retain public confidence in several of them.

The collapse in bank fortunes was highly dramatic. Five of the nine FTSE 100 banks listed separately on the LSE in March 2007 were partly or wholly in public ownership by May 2009. The Treasury Committee (2009: 7) confirm the halving of the stock market valuation of UK banks over the two years from April 2007 to April 2009, and the partial recovery over the following 18 months, as shown in Table 4.

Table 4 Market capitalisation of the FTSE-100 banks, 2007-10 (£bn)

	2 April 2007	7 April 2008	6 April 2009	29 Oct 2010
Alliance & Leicester	5.0	2.2		
Barclays	47.1	32.1	14.3	33.1
Bradford & Bingley	2.9			
HBOS	39.3	21.5		
HSBC	103.1	100.9	74.8	114.8
Lloyds Banking Group	31.6	25.8	12.9	46.9
Northern Rock	4.8			
RBS	62.8	37.1	17.2	25.9
Standard Chartered	20.3	25.5	18.9	43.3
Total	316.9	245.1	138.1	264

Sources: HoC (2009); uk.finance.yahoo.com for 2010 market cap.

The UK Labour government's bank rescue package involved six elements

1. Investing in banks to improve their capitalisation up to required levels to protect them from further runs and thereby ensuring their survival.
2. Requiring banks that accept the offer of state investment to adhere to certain 'good practices' in relation to risk-taking and reward, and to not pay any dividends.²
3. Creating UK Financial Investments to manage at arms length the investments it had made and was making in the finance sector
4. Creating an Asset Protection Agency scheme that would offer a form of insurance against the holding of toxic assets.³
5. Trying to encourage banks to lend to businesses to reduce the risk of an extended general economic recession.
6. Supporting the Bank of England's policy of 'quantitative easing' to increase liquidity.

In the end only two banks took up the government's offer to improve their capital base: RBS and Lloyds. These received £132bn of central bank and government funding. A private bank interviewee in regular contact with management grade staff at the two state-aided banks told us: 'They were suddenly not great places to work'. In 2009 RBS posted the eighth largest loss in the world, of \$4.4bn, despite still being the world's fourth largest lender.⁴

The banks' new business strategies reflected the new environment and increased concerns. In some of the banks the top executives whose strategies had created the mess left. At Lloyds a replacement for the 59-year-old CEO Eric Daniels has just been

² In the agreements permitting access to the APS the Treasury stipulated that UK Financial Investments 'will have a right to consent over the size of the bonus pool in 2009'. *The Guardian*, 7 December 2009.

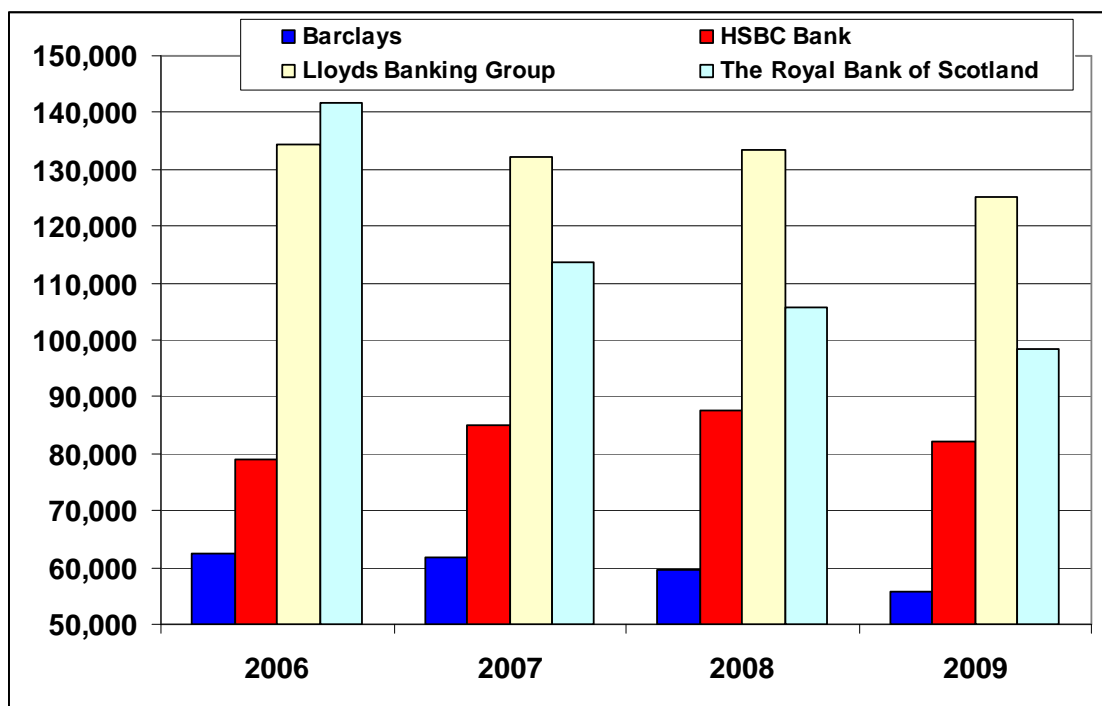
³ Thus in March 2009 RBS placed £325bn with the scheme, accepting liability for only the first £20bn of future losses, for a cost of £6.5bn which it financed through issuing shares to the Treasury. *The Guardian*, 7 March 2009.

⁴ Philip Aldrick, 'RBS posts eighth largest loss in world but is fourth largest bank,' telegraph.co.uk, 20 June 2010.

found but, when he retires in 2011, Daniels will access a £192,000 annual pension plus Lloyds shares worth approximately £9.3m.⁵

In return for agreeing to the state bail-out of LBG and RBS, the EU Commission had also insisted that the banks receiving state aid divest themselves of many of their business operations outside 'core' banking. For example, Lloyds must sell 600 of its branches by 2013, while RBS has committed to selling off its insurance business. In May 2010 RBS announced that it would be dismissing some 2,000 of its insurance workforce of 16,000, while outsourcing about 500 jobs to India. It has also already sold 318 of its branches to Santander, incurring job losses of about 1,500.⁶

Figure 5 Job losses in the Big Four Banks, 2006-2009



Source: BBA (2010)

As Figure 5 shows, job losses occurred at all four major banks in 2009. Since 2006 they have been particularly dramatic at Lloyds and RBS. In September 2010 RBS announced a further 3,500 job losses, taking the total reduction since the government invested in it to 20,600 UK jobs.⁷

⁵ Andrew MacAskill and Jon Menon, 'Lloyds No Closer to Finding CEO as Daniels Plans to Step Down', *Bloomberg.com*, 21 September 2010.

⁶ Jill Treanor, 'RBS insurance business set for flotation', *guardian.co.uk*, Thursday 28 October 2010.

⁷ Harry Wilson, 'RBS 'horror story' as UK job cuts top 20,000'. *Telegraph.co.uk*. 3 September 2010. World-wide job cuts totally 26,600.

The initial parliamentary investigation (HoC, 2009) pointed to the banking crisis resulting from 'a failure not only within individual banks but also of the supervisory system designed to protect the public from systemic risk'. One interviewee described how the Bank of Scotland (the acquirer of Halifax) in particular had a long history of 'integrated finance', whereby it would make loans to individuals and companies that would then use that money to buy equity in their own companies. These loans were therefore effectively worthless – showing as assets when in reality they were toxic. Yet their existence boosted balance sheets and the bonuses of those who negotiated their terms.

Dealing with their own failures, the main banks have now tightened their lending criteria, reducing the mortgage income multiples allowed, assessing more critically the borrowers' ability to repay, and withdrawing or restricting the availability of products (McAteer, 2008: 17-18). More generally RBS and LBG have indicated they will comply with EU requirements that they move back to 'core' banking business operations, and seeking to dispose of 'non-core' activities, although the definitions involved remain somewhat loose. All four banks have also been developing new IT systems to help ensure compliance with the international September 2010 Basel III agreement requiring banks to have at least seven per cent of their long-term loans available. What change that has taken place has essentially been driven by international rather than by tougher internal or national requirements.

Government regulation

Besides providing huge sums to underwrite the bail-out, UK government action has been very limited. In the autumn of 2008 the FSA introduced new rules on bonuses requiring up to 60 per cent of them to be deferred over three years. Yet in 2009 over 2,800 individuals in the City of London working for the 27 companies covered by the rules were still each paid salaries and bonuses in excess of £1m. Of these individuals, 1,300 were employed by UK banking groups, with the rest at big investment banks.⁸ In August 2009 the new chairman of the FSA who had taken office just after the Lehman collapse, Adair Turner, suggested that a transaction (Tobin Tax) could be imposed on City banks, arguing that much of what they do is 'socially useless'. He added, 'It's clear to me that the FSA has to be very, very wary of seeing the competitiveness of London as a major aim. From the point of view of Britain as a whole we have over-relied on the City and we need other dynamic sectors.' He continued by suggesting: 'The really fundamental question is whether the overall level of financial services pay is a consequence of the swollen financial sector which has resulted from over-simplistic financial deregulation.'⁹ In September 2009 Turner repeated his criticisms in the major annual Mansion House address to the City of London. There he concluded: 'The real enemies of the City's success and of the market economy, with all its great potential to spread prosperity and opportunity, are not those who raise these issues, but those who want to ignore them, as if the near-death experience of our financial system only 12 months ago had simply never occurred.'¹⁰

⁸ Jill Treanor, 'Almost 3,000 City staff took home more than £1m last year, says FSA', *guardian.co.uk*, 29 July 2010.

⁹ Phillip Inman, 'Financial Services Authority chairman backs tax on 'socially useless' banks', *guardian.co.uk*, 27 August 2009.

¹⁰ Adair Turner, Mansion House Speech, 22 September 2009, http://www.fsa.gov.uk/pages/Library/Communication/Speeches/2009/0922_at.shtml

The Labour government under Gordon Brown, however, continued to apply a light touch right up to the end of its period in office. Regulatory responsibilities remained divided between the FSA, the Bank of England and the Treasury and kept to a minimum, and nothing changed. Days before losing the 2010 General Election Brown told a journalist: 'In the 1990s, the banks, they all came to us and said, "Look, we don't want to be regulated, we want to be free of regulation." ... The truth is that globally and nationally we should have been regulating them more. So I've learnt from that.'¹¹ Yet no incisive new measures were introduced by Labour between 2008 and 2010.

Nor, despite its pre-election anti-bank bonuses rhetoric, has the new Coalition government in office since May 2010 proposed anything more effective in terms of external bank regulation. Interestingly in the light of the FSA Adair's declaration of the need for a radical shake up of banking, it has said it will rather wind up the FSA. It (and its problematic chair) will cease to exist by the end of 2012 when it will be replaced by two bodies based within the Bank of England: a Prudential Regulatory Authority (PRA) powers to prevent systemic risks and provide day-to-day supervision of the UK financial sector, and a Consumer Protection and Markets Authority (CPMA) with many of the powers taken from the existing Office of Fair Trading. The new PRA agency would be chaired by the Governor of the Bank of England, but the current CEO of the FSA will be the Chief Executive of the new agency, and will also become a deputy governor of the Bank of England.¹² Alongside the existing Bank of England Monetary Policy Committee, the Coalition has also proposed establishing a new Bank of England Financial Policy Committee to focus on ensuring financial stability.

These developments make it very unlikely that the Governor of the Bank of England's suggestion of the importance of separating retail (utility) from investment (risk-taking) banking functions will be implemented. Despite Mervyn King repeating his argument in October 2010 that 'of all the many ways of organising banking, the worst is the one we have today', and that 'limited purpose banking' should be looked at, the chances of this happening are quite small.¹³ Hence the recent replacements of the CEOs who led the banking system to the brink of disaster by top investment bankers Stephen Hester to run RBS, Stuart Gulliver to run HSBC and Bob Diamond as CEO of Barclays, are of concern. None of these big three banks was previously headed up by investment bankers, and now all three are. Investment banking remains hugely profitable for most banks – in 2009-10 it generated 80% of Barclays' pre tax profits and 50% of HSBC's.¹⁴ The RBS CEO Hester has already publicly opposed the UK Coalition government's proposal to raise a permanent £2.5bn annual levy on the banks, arguing that 'the bank system should be taxed like any other industry or sector, not more or less'.¹⁵

In this context, a recent article in the *Guardian* newspaper (30.10.10), '*Sub-prime: it's back*', is also worrying. It reported that although the main banks are still cautious about

¹¹ Helene Mulholland and Patrick Wintour, 'Gordon Brown admits banks needed more regulation', *guardian.co.uk*, 14 April 2010.

¹² David Enrich and Laurence Norman, 'U.K. Shakes Up Its Bank Regulation', *online.wsj.com*, 17 June 2010.

¹³ Sean O'Grady, 'King tells banks they will have to be broken up', *www.independent.co.uk*, 26 October 2010.

¹⁴ Peter T Larsen, 'Investment banker CEOs need to learn new tricks', *Reuters*, 28 September 2010.

¹⁵ 'UK bank levy should be temporary - RBS CEO', *Reuters*, 25 October 2010.

exposing themselves to risk, the UK sub-prime market, which had fallen from 7.2 per cent in early 2007 to 0.4 per cent two years later, was back at 1 per cent of all mortgages in October 2010 and was likely to rise with new sub-prime lenders targeting those borrowers in categories B and C who were now being rejected by the main clearing banks.

Thus although the incoming Chair of the FSA and the Governor of the Bank of England are proposing systemic restructuring to shape a more secure banking system it is not clear that similar lessons have been really absorbed by UK governments of different political hues. What about the views of the social partners?

3. Social partner organisations

Multi-employer bargaining with the trade unions in the UK finance industry ended in the 1970s when the employers withdrew from national collective bargaining with the then representative trade union, NUBE (Tickell, 1997; Contrepois and Jefferys, 2005). Most large banks, building societies and insurance companies, however, continue to formally recognise and negotiate directly at company level with one or more trade unions or staff associations, although the extent to which this facilitates real social dialogue or just complies with legal minima varies considerably. At national level there is now no longer any employer organisation mandated to negotiate on social or employment (pay and working conditions) issues, and although UK workers are now covered by extensive protections offered by the EU social directives, only rarely in a high growth sector such as finance do these provide real enhancements to employee consultation procedures and security. Thus most UK finance workers have had to sign papers personally opting out from the EU Working Time Directive, or have been issued with employment contracts in which the opt-out is included.

Employers' organisations

The two industry-wide bodies that exist are the trade organisations, the British Bankers' Association (BBA), representing 220 member banks from 60 different countries, and the much smaller Building Societies Association (BSA) with all 49 UK building societies as members.

The BBA describes itself as 'the voice of banking and financial services'. It is governed by a Board comprising the Chief Executives of the largest UK retail and wholesale banks. Broadly, the BBA's response to the crisis has been to agree that greater 'prudence' needs to be displayed by the banks, but to emphasise the importance of taking the banks' views and interests into account in any proposed changes. In particular its emphasis is on 'ensuring that the UK financial services marketplace remains internationally competitive' (BBA, 2010b: 1). Hence it recently gently but clearly criticised the Coalition's proposal for establishing a Prudential Regulation Authority within the Bank of England, suggesting that the Treasury should not release total control to the Bank of England, and that 'appropriate commitments on due process and consultation' with the banks must be built into any new arrangements.

The main actors within the UK banking system are thus the huge 'broad' banks themselves. One interviewee described their approach to the crisis like this: 'Initially they were humbled; then, quite soon, they recovered their confidence.' A manager from an independent private investment bank described HSBC and Barclays in the aftermath of the Lehman Brothers collapse as 'smug' and 'arrogant'. He then described how Lloyds TSB asking advisors to review the paperwork and accounts involved in acquiring HBOS in just three days reflected 'breathtaking arrogance'.

The BSA, speaking for a different range of interests that reflect smaller savers and lenders outside the exclusively for-profit sector, expresses a different range of concerns about the Coalition's new proposals. Adrian Coles, its Director-General, argued: 'We seem to be building a more concentrated regulatory system, with a greater amount of power in fewer hands and, at the same time, building a more concentrated banking system with greater market share among fewer institution; this could lead to a huge concentration of risk.'¹⁶ This concern about the trend to concentration reflects both an awareness of banking concentration and the growth in the share of the largest five building societies of total building society assets up from 68 per cent in 1996 to 82 per cent in 2009 (BSA, 2010: Table 5).

Trade unions and staff associations

In 2006, considering only the banks and building societies that employed around 543,000 people, UK bank sector trade union density was one of the highest for the UK private sector, with 30.5 per cent membership and collective bargaining coverage extending to 38.1 per cent. These figures compare with 16.6 per cent union density for the whole private sector and 19.6 per cent for collective bargaining coverage (Arrowsmith and Marginson, 2010: 5).

Since 2007 the only sector-wide trade union representing finance workers is Unite the Union. Its origins were in a continuous trade union clerical worker organisation from the early 20th century in what became NUBE, the National Union of Bank Employees, and then in 1979, the Banking, Insurance and Finance Union (BIFU). In 1999, BIFU merged with two of the major staff associations at the time, the NatWest Staff Association and the Barclays Group Staff Union, to form UNIFI.

Throughout the 20th century NUBE/BIFU/UNIFI competed with company-based staff associations. These had originally been formed by the main banks in the 1920s to discourage their employees from joining independent trade unions but, over the course of decades, they gradually evolved into organisations that were increasingly independent of their managements. In the 1970s, during the expansion of UK trade unionism to its peak level of over half of all employees including increasing numbers of white collar workers, a second wave of staff associations emerged within the insurance companies and building societies, such as the Halifax staff association.

¹⁶ 'BSA calls for new regulatory regime to promote corporate financial diversity and warns on concentration of power in markets and regulation', Press release 19 October 2010.

Another industry-wide union, ASTMS had focused on unionising white collar workers in the insurance sector, absorbing in its growth the Prudential Assurance Staff Association and the Union of Insurance Staffs. Through another series of mergers ASTMS eventually became MSF and then a part of the general union, Amicus. Although UNIFI claimed to be Europe's largest specialist finance sector trade union with 158,000 members in 2004 (down from 180,000 members in 1999), a continuing membership haemorrhage and resulting financial crisis in the face of increasingly sophisticated finance HR functions were factors in its decision to propose a merger with the biggest private sector union Amicus from September 2004.

Within the newly formed huge largely private sector Amicus union of 1.2m members Unifi became the core of a finance sector group with 200,000 members, around 20 per cent of the whole finance sector labour force at the time (Contrepois and Jefferys, 2005). Finance sector membership in Amicus continued to decline, however. In May 2007 Amicus merged with the Transport and General Workers Union to form *Unite the Union*, creating the UK's largest trade union that claimed 1.5m members in January 2009. Within the finance sector the successive series of union mergers have reduced the extent of union pluralism and inter-union competition but in many workplaces have also weakened the sense of identity between the union and its members. The mergers did not eliminate inter-union rivalry, however, in particular within the LBG. In Lloyds TSB and HSBOS, in particular, where the Unite trade union is in the minority, it shares union recognition with two significant independent staff associations: the Lloyds Trade Union (LTU), based entirely within the former Lloyds TSB Bank, and Accord, based both within the former Halifax Building Society (of which it used to be the staff association) and since 2000 within the Bank of Scotland. Union density in the Lloyds Banking Group, assuming 15-20,000 Unite members, and 30,000 each for Accord and the Lloyds Trade Union (LTU), as two of our interviewees argued was reasonable, constitutes around two-thirds of the total company labour force. LTU remains completely independent of any other organisation, although it is closely linked with a marketing company that sells services to its members, while Accord, like Unite, is affiliated to the TUC but not to the Labour Party.

The main employee social partner organisations and their current claimed or reported membership in the banking sector are shown in Table 5.

Table 5 Principal trade unions and staff associations in British banks, 2010

Trade Union	Claimed members	Sector or company %	Affiliations	Policy initiatives through 2007-10
Unite the Union (Finance and Legal section)	170,000	17	TUC; Labour Party	'Social contract' and 'Time for a better deal' campaigns; Research report commissioned
Lloyds Trade Union	40,000	25-33		'India Offshoring'; 'Bonuses deserved'; Anti-LBG harmonisation campaigns
Accord (ex-Halifax, now Lloyds)	29,000	20	TUC	Partnership agreement with HBOS
Nationwide Group Staff Union	14,000	75	TUC	
Advance (ex Abbey, now Santander inc Bradford & Bingley)	8,000	35	TUC	Stress on partnership
Britannia Staff Union (Cooperative Financial Services)	3,600	81	TUC	Support for merger with CFS ; joint working with three other unions

Sources: TUC membership report for January 2009; trade union websites; official certification office website, returns for 2009.

In several of the main banks and building societies union density is thus very high. Among the building societies, 75 per cent density is claimed in the largest of the still mutually-owned banks-cum-mortgage lenders by the Nationwide Group Staff Union. In the Britannia Building Society, which before its 2009 merger with Cooperative Financial Services, was the second biggest building society, staff union membership density is 81 per cent.

In the smaller building societies membership levels are much more contingent. Thus one of our interviewees told us that Unite still has a representative in each of two small East Midlands building societies, the Hinckley & Rugby (11 branches and 104 staff) and the Mansfield (five branches and 52 staff), with up to half the workforce in membership. In the same region a successful union organising drive in 2006 at the larger 319-staff Nottingham Building Society (32 branches) had led to a favourable Central Arbitration Committee decision supporting recognition, and an active group of ten Unite representatives. In mid-2009, however, in response to revenue falls as consumers worried about falling house prices and the risks of becoming indebted, this building society negotiated a zero pay increase with the union and the two smaller regional building societies followed suit. Around this time, Nottingham's management then changed its approach and allegedly briefed its branch managers to discourage union membership. As a result over the last year the Unite union representatives stopped acting for the union and membership has virtually disappeared. Union membership anywhere in the industry cannot be taken for granted with bank workers identities often divided between loyalty to the individual bank and to their professional occupation and sectoral interests (Jefferys, 2011).

4. Employment relations in the financial crisis

Trade union responses

The trade union responses to the crisis reflected their different histories and cultures. While the tone taken was generally one of anger at the incompetence and recklessness shown, the objects of their anger varied considerably as did their proposed solutions. The largest sector union, Unite, immediately raised general issues about the weakness of finance sector social dialogue, the presence of an uncontrollable finance system that fuelled huge pay inequalities; while the largest independent company-based union, the Lloyds Trade Union (LTU), focused on protesting against foreign workers taking UK jobs and on 'sell-outs' by other unions as terms and conditions were harmonised across the Lloyds Banking Group. Most of the smaller unions that reflected strong company cultures made few if any policy statements, preferring to show a willingness to help jointly solve problems with managements involved in cost cutting than to question the crisis or management prerogatives.

The largest trade union in the industry, with claims to represent all finance workers other than senior managers, was very quick off the mark. In October 2008 it launched a 'social contract for the finance sector'. It called on the government and finance companies to agree to:

- 1. Recognition of Unite as a key stakeholder in the future of the financial services industry.*
- 2. To ensure the employment security of employees in the finance sector.*
- 3. To protect and improve the terms and conditions of employees, including pension arrangements.*
- 4. End the remuneration packages of senior executives which reward short-termism and irresponsible risk taking.*
- 5. Overhaul of the regulatory structures of the financial services sector to include trade union involvement in order to enhance the accountability of finance institutions (Unite, 2008).*

However, despite this social contract's challenging content and its significance at the time it was released, it is not clear the union's campaign got very far. Despite having significant numbers of Unite-sponsored MPs, there was clearly very little response from the Labour government. Even the bail-out of the banks by the government changed little internally. One story told us was that on being asked at the RBS European Works Council meeting that followed immediately after the bail-out whether HR policy towards the unions would change as a result, Neil Roden, the then HR director, curtly replied: 'No. It's business as usual.'

The union Unite initiated another general response. It commissioned the Financial Inclusion Centre to research and prepare a 21-page report 'Reforming the Financial System' in 2009. Along the lines sketched by the Governor of the Bank of England and the Chair of the FSA, the report proposed the separation of banks into two distinct entities: common good, utility banks, whose operations would be restricted to core retail and commercial banking services; and much more tightly regulated investment banks. It also called for the reestablishment of a new long-term strategic investment and lending bank (FIC, 2009a). In 2010, in response to the Coalition Government's proposal for

massive public sector cuts, Unite then called for a 'Robin Hood' tax on the financial institutions.

The staff union centred on the Lloyds bank, the Lloyds Trade Union, adopted an entirely different perspective on the bail-out of the banks. Ian Partridge, its General Secretary wrote to LTU members that 'Nationalisation for any prolonged period will not be in the interest of the UK economy, customers or staff. Political influence over Bank lending decisions would certainly not be a good way of allocating the amount of money in the economy to businesses.' The LTU focused instead on defending bonuses in Lloyds, suggesting they were justified by the bank's profits, and focused on a narrow sectional appeal to 'Lloyds' workers, encouraging them to oppose off-shoring jobs to India. Thus it continued to promote an 'India Campaign' featuring a thumb in union jack colours with the slogan: 'Keep Lloyds TSB jobs in Britain'. In June 2009, for example, it issued a press release arguing 'Over the past 12 months, the Lloyds Banking Group has not only increased to over 5,000 the number of jobs it has now transferred to India – in the process, replacing existing UK based staff but it has also been flying in to the UK hundreds of workers from India who have replaced existing UK based IT staff and contributed to forcing down pay levels of IT Contractor staff'. A second newsletter that month then questioned the government's role: 'The Government has important questions to answer over why, when it owns 43.4% of the Lloyds Banking Group on behalf of the UK taxpayer it is not using that influence to force Lloyds into investing in and protecting the jobs of UK-based staff. Moreover, why at a time of rising unemployment is it providing visas to overseas workers, who would otherwise have no legal right to work in the UK?' In October 2010 the LTU continued its xenophobic campaign in the wake of announcements of IT job cuts of 1,273 permanent UK staff, 998 UK contractors and 1,737 workers in India, arguing: 'It is disgraceful that at a time when such considerable numbers of LBG IT Staff (Permanent and Contractors) are about to lose their jobs, the Bank should nevertheless still be transferring the jobs of existing staff to India.'¹⁷

Alongside this campaign, throughout early 2009, the LTU also mounted a 'bonuses deserved' campaign against a Lloyds Bank decision to raise the performance level thresholds at which bank staff bonuses were paid to most staff, describing the move as 'shameless opportunism'. Its argument was that bank staff had earned the bonuses they received – pointing to the low level of wages most received.

Before the full onset of the banking crisis the sector union Unite and the much higher membership density (largely Halifax-based) Accord trade unions negotiated a pioneering partnership agreement with HBOS management. This resulted from the desire of the two unions to work together more closely, but also through government policy favouring partnership arrangements and the presence of strong supporters among senior HR managers and in the form of the then HBOS chief executive. Signed in July 2007, it came into effect in September 2007.

Partnership agreements were not new in banking. A set of partnership principles had been signed between Barclays Bank and the Unifi trade union in April 2000, shortly after the Barclays Group Staff Union had merged with BIFU. This followed strike action over pay in 1997, and the realisation by management that 'an adversarial type of climate... is going to slow the business down. I think speed (in managing change) is one of the key

¹⁷ *Bank Announces 4,600 More Job Losses As It Cuts By 40% Group IT Workforce* at http://www.ltu.co.uk/news_item/225

elements of the back-drop to why partnership and the collaborative relationship, both with employees and with the union is important' (quoted in Wills, 2004: 333). Its first 'principle' was 'To secure and promote the long-term success of Barclays'. One of the Barclays agreement's aims was to help the establishment of a stronger network of recognised trade union representatives, something not always appreciated by local managers, and the success of the arrangement was not self-evident to union members, who were not always convinced of its legitimacy (Wills, 2004).

At HBOS, however, according to a study commissioned from the IPA (Industrial Participation Association) 'a unique feature of the agreement' was 'the commitment of all parties to raise union membership to 70 per cent' (Jameson, 2010). A senior manager recognised that this got HBOS 'unusual looks from others'. The coincidence of the presence of an HBOS chief executive and senior HR and employment relations directors who believed that 'the business could be more effective if the trade unions better represented the employees', and who saw that the unions had a real interest in the success of the business, led to the change. This process was exceptionally facilitated by the bank informing new employees that it would pay their union subscriptions for the first six months, and 80 per cent of new recruits joined one or other of the two unions in 2008. HBOS even agreed to extend trade union recognition to first level managers, who had hitherto been entirely non-union and unrecognised, in order to encourage their structured involvement in consultation and negotiations. The unions would be given the opportunity to establish strong networks of union representatives, whose remit the agreement stated was 'to represent members' views in a balanced and constructive manner through active and early dialogue with managers and HR colleagues' (Jameson, 2010: 6). In 2008 the two HBOS unions received state support from the Union Modernisation Fund to run an extensive training programme for union representatives and managers. One immediate outcome described by a branch manager was that at the moment of the take-over by Lloyds TSB, 'It was almost like a match made in heaven; I was dealing with customers and their concerns, and she (the Accord representative) was dealing with the staff and their concerns' (quoted in Jameson, 2010: 10).

The impact of the Lloyds TSB take-over was felt very quickly. A manager stated: 'Lloyds had a different view of employee relations.' During 2008 HBOS had lost 4,800 posts in negotiation with the unions in ways that led to only 63 being made compulsorily redundant. The culture developed was one of thorough consultation and communication, with relocation and retraining being offered, and the engagement of the unions at every stage. But in 2009 with the new Lloyds Banking Group management in charge a great deal changed. 'There was a short term negative impact,' reported a senior manager, confirming two trade union assessments. While the HBOS partnership continued to operate, it was viewed sceptically by the LBG Board of Directors; the union membership scheme was dropped, and quite 'difficult proposals for the unions to accept' on harmonising terms and conditions between the two banks (Lloyds TSB and HBOS) were proposed initially. The unions reported a constant stream of redundancy announcements, and at first, very little opportunity to challenge them. Ultimately, continued disagreement on harmonisation took LBG and the unions to the arms-length, independent state-funded conciliation body, Acas, where Lloyds and two of the three unions reached agreement. In 2010, the assessments by both management and union interviewees is that the HBOS partnership approach proved its value, and is now even influencing management practice within parts of the former Lloyds TSB.

Union opposition to bank sector redundancies has on the whole been quite muted and even ambiguous. Often, one interviewee reported, the bank members themselves do not even understand that their jobs have been saved as a result of others in society bailing the banks out. Faced with the difficulty of trying to influence a whole politico-industrial culture of individualism and company identification, many activists and union organisations have simply not tried to do so. The headline job losses have been used to highlight the problem and to persuade non-union members that they should join in order to ensure the best possible representation if their jobs are directly threatened, rather than to develop arguments for an alternative way of running the banks – even though – as is the case in Unite, that case was researched and documented (FIC, 2009a). While union membership has fallen as site closures and attrition have shrunk bank workforces, the unions have often been able to make up these losses by recruiting new members who now, instrumentally, appreciate they could have a real the need for representation.

The unions and their members within finance, with a handful of exceptions, have more or less fully accepted that job losses would take place and to a greater or lesser extent have helped enable them to take place – through ensuring greater transparency and fairness in the redundancy-selection process, through negotiating improvements in voluntary redundancy terms, and in helping develop fairer relocation packages and outplacement packages are available. At RBS a trade union officer described their situation as ‘still fragile’, although the scale of redundancies involved has meant that the management has reluctantly been forced to recognise the value of having informed, professional employee representatives with whom to negotiate major change. The interviewee suggested that a very aggressive approach to the unions has been moderated, leading to a new recognition agreement reached in September 2010 that provides not only rights for the statutory workplace and health and safety representatives, but also for union learning and equality representatives. Thus in some banks ‘bumping’ schemes have been negotiated, whereby individuals whose posts are being removed and who wish to stay at work can swap with individuals in posts that are continuing but who wish to leave. Several interviewees commented that a big reason for the ease with which job losses have taken place was the relatively high levels of compensation being offered to those who left ‘voluntarily’.

Company responses

Company responses varied considerably between different financial organisations, and as one manager put it to us, ‘a lot depends on the attitudes of just a handful of individuals at the top’. Thus one interviewee suggested RBS had responded initially to the crisis by implementing job losses, off-shoring, cost-cutting and a much less person-friendly HR regime. In most cases the initial wave of job losses was largely voluntary but of the first 4,500 jobs losses announced in April 2009 in the business services division, 14 per cent were compulsory. This ‘hard-nosed’ approach to HR represented a continuation of the earlier rather hostile attitude of RBS to trade union ‘interference’ with management prerogatives. A senior manager at another bank assessed the RBS approach as one ‘that it would take a long time to recover from.’

At LBG, in contrast, compulsory redundancies during one of the largest corporate down-sizing in the UK in 2009 were well below 5 per cent. An agreement was reaching with the unions that all staff affected by reorganisations would be grouped into Selection Pools, within which they would ‘compete’ against each other for the restructured jobs. Lloyds set out 14 core selection factors of which five or more would be normally

assigned to each job, and against which each individual would be marked.¹⁸ Those not selected could be offered 'suitable alternative employment' if available, either within 25 miles or where travelling time on public transport is less than 1 hour 15 minutes. Where this was not available staff would be made redundant, and become entitled to 2 weeks pay for every year of service under age 22, and 4 weeks; pay for every year of service from 22 to 40, and 6 weeks pay for every year of service aged 41 and over. The offer was capped as a maximum of 104 weeks' pay covering the last 20 years of service.¹⁹

A second development has been a marked increase in off-shoring. One RBS interviewee noted that whereas prior to the crisis, only lower-skilled work with limited specifications was being relocated to India, today this was very different. Many development projects with high grade analytical content were now being off-shored with quite significant cost-savings resulting. The greater use of off-shoring of IT work was also reported by our Lloyds Banking Group interviewees, and the *Daily Mail* in June 2009 quoted internal Lloyds documents suggesting a strategy in certain areas to purchase 80 per cent of contracting work from India.²⁰

A third area of bank action identified– and an aspect that also motivated some off-shoring – was general cost-cutting. The RBS interviewee contrasted the experience today with seven years ago. 'Then, there were envelopes [for expenses] everywhere; now all of that has gone.... Xmas parties are now out.' She explained how her line manager had told her to pay a £1,000 lunch bill on her company credit card a few years back, and it had not been queried. Today, this was no longer possible. Another interviewee agreed: 'The City as a whole is now more conscious of the need not to appear excessive.' Yet both felt that what had changed was the form, not the content.²¹

The Lloyds Banking Group was criticised by LTU and initially by Unite for having cut bonuses for lower paid staff and/or increased the targets they had to reach to achieve them. Within the Lloyds Banking Group (43 per cent state owned), the part of the much-heralded HBOS partnership agreement that supported union recognition was ended by LBG within months of the take-over. In November 2009 Unite launched a 'Time for a better deal' campaign to fight against LBG staff being given unrealistic sales targets and pressured to 'sell customers products that they do not want or need' despite the financial crisis and the government bail out.

In some building societies and banks the combination of job losses and falling revenues in 2009 created a readiness to accept pay restraint. In the Britannia Building Society in January 2009, just prior to its merger with Cooperative Financial Services, an agreement between the BSU and the management on a 3.25 per cent 'pay pot' rise was reached

¹⁸ The 14 core knowledge and skill criteria are: Oral Communication, Written Communication, Interviewing, Presentation/Facilitation, Self/Work Organisation, Keyboard/Software Applications, Performance Review & Development, Budgeting, Analytical Skills, Project Management, Change Management, Organisational Awareness, Environmental Awareness and Procedural/Product/Specialist Knowledge.

¹⁹ *Ltu News*, 16 July 2009.

²⁰ Karl West, 'Indian IT staff taking British jobs at Lloyds Banking Group', dailymail.co.uk. 24 June 2009.

²¹ Thus in late 2010 RBS hired an extremely expensive expert from Bank of America to sort out a particularly complex form of dealing for them, and the new recruit still felt comfortable enough to turn up for work on his first day driving a Porsche.

after a higher claim that had been developed in September 2008 was watered down in response to the gathering crisis.

Finally, one RBS worker interviewee also reported a significant change in terms of human resource support. Whereas before the crisis HR personnel were readily available to talk to and to encourage personnel development and investment in people, now the HR function appeared much more remote. 'In the past you could talk personally to your line manager or someone from HR about problems. You can now only access HR through a kind of call centre where you can only start a conversation by inputting your employee number.' A summary of the industrial relations responses reported by our interviewees in three banks is reproduced in Table 6.

Table 6 Industrial relations developments in LBG, RBS and FCS, 2007-10

	Lloyds Banking Group		Royal Bank of Scotland	Britannia (Cooperative Financial Services)
	Lloyds-TSB	HBOS		
Respect for information and consultation requirements on redundancies	YES	YES	YES	No compulsory redundancy guarantee
Climate of industrial relations	Difficult	Deteriorated with merger	Improving recently with new HR Director	Good
European institutions	EWC in Lloyds TSB ineffective – not set up within HBOS		EWC was ineffective but new one being negotiated	None
Direct employee involvement	Discourse of 'employee engagement' but preference for trade unions - no attempt to create employee forums		Only in insurance division where Unite not recognised	
Centralisation of industrial relations	Harmonisation and centralisation proceeding; much consultation and negotiation at divisional and local (workplace) level		Strongly centralised in business divisions and nationally	Yes. Harmonisation a real prospect
Industrial relations actors	LTU and Unite recognised – very hostile relations	Accord and Unite recognised – good relations	Single union recognised covering 75% of staff	Move from one union to a pluralistic four union environment
Union membership	High competition – falling slightly	Falling slightly	Falling with job losses	Stable membership
Conflict	Over harmonisation	Over pension capping	Muted opposition to pension changes; little opposition to site closures	None reported
Concession bargaining	No trade-offs reported		No	No

5. Conclusions

The implications for employment relations in the banking sector of the financial crisis can be summarised in terms of their impacts on the three main actors, government, employers and trade unions.

As far as the UK government is concerned, the issue of employment relations is entirely one for the banks and their representative organisations. This was confirmed to us by several interviewees. However, the UK government both remains the main regulator of the finance environment, and has experienced a major shock as a result of its refinancing of the banking sector.

There is a big debate between major UK government figures about the future of bank regulation. The new head of the FSA and the current Governor of the Bank of England have argued strongly for a new approach to finance regulation, suggesting there would be much better chances of exercising control if 'broader' banking were ended, and bank roles clearly separated between 'utility' banks and 'investment' or 'risk-taking' banks. One senior manager interviewed from a retail bank background agreed with this assessment: 'There are massive issues to be raised to ensure that the corporate lending side doesn't put retail banking at any risk... It is not right to use retail portfolios for investment banking.' Yet these critical views do not appear to have influenced either the last Labour Government or the new Conservative-Liberal Democrat Coalition. Current proposals to encourage greater banking 'prudence' do not extend to restoring the structural separation that existed in the past, or to proposing new forms of functional dispersal. Regulatory authority is to be brought back to the Bank of England, but deeper or wider structural change is not being proposed.

Meanwhile, the UK public is being told to accept massive public sector cuts in order to finance the underwriting of the finance system. The result is that public sector employment relations are undergoing major pressures as job losses of an unprecedented level are being imposed. From this viewpoint the employment relations impact of the financial crisis is just about to unfold. Job losses of between half and one million public sector workers are being forecast.

The banks have responded to the crisis by renewing their senior managements, by developing more layers of in-house and mutual self-regulation, and by lobbying vigorously and successfully to maintain their 'broad' bank status. In the three years since the bank run on Northern Rock there has been a near 100 per cent turnover of all the chief executives in the finance sector. However, to the fury of the politicians and the public, this change in personnel has not been matched by an equally sharp cut in the remuneration, and especially in the bonus and pension entitlements that a few thousand bank staff enjoy. Thanks largely to the stability generated by state underwriting nearly half of the UK finance sector, the big banks have had little problem in meeting the Basel III requirements to hold greater equity behind the loans and investments they make. All the major banks have also initiated greater internal controls to identify toxic loans and in appropriate risk-taking. But behind the discourse of 'prudence' they remain organically attached to investment banking as a key source of their profitability, and of their bonuses.

Where they are selling 'non-core' activities, they are moving out of insurance, or out of the ownership of football stadia, rather than moving out of investment banking and the business of both buying and selling stocks and shares and other securities on their own behalf as well as for clients. Hence the moral confusion of market participants and market makers remains. They are rationalising staff and closing parts of the business that record 'low' profitability, and retaining those bits that are generally high profitability, classically those areas that are more risky. Hence although they are spending less ostentatiously, the culture of extremely high salaries and bonuses is as pervasive as ever.

The trade unions have experienced the financial crisis as victims. They have seen employment fall, and with it their memberships. The result of the public anger about top bankers' bonuses has been that many quite low paid bank staff have seen the performance element of their wages reduced, while thousands of the most senior bankers have barely been affected. Yet all has not been negative. One of the unexpected outcomes of the extremely high and continuing velocity of change now taking place is that in at least two of the major banks, RBS and LBG, senior management is more ready to dialogue than before. Effectively they need to have legitimate employee representatives in order to implement a coherent and rational down-sizing. Paradoxically, and it may not be a permanent gain, the crisis has increased the volume and deepened the content of social dialogue at company level.

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