

Bank workers have the right to give good advice to customers

Around the world banking practices are adding real risk to consumers and the economy. By focusing on sales pressure rather than providing good service and advice, banks put their business – and the entire economy – at risk.

Focus on “hard sell” could lead to a new subprime mortgage disaster

As the world economic crisis worsens and many families struggle to meet their debt repayments, unions globally raise concerns about the impact of predatory lending and mis-selling of financial products. Banks' focus on short term profits has negative implications for customers, workers, communities and financial stability at large.

Bank worker unions and UNI Finance Global Union have developed key elements of a new business model that focuses on the sustainability of the finance industry. They demand that this model is adopted by regulators and the industry worldwide.

Incentive systems and sales pressure

Around the world, banks and other financial institutions have put in place incentive schemes which pay bonuses to staff who meet sales targets. Usually, sales of some types of products, including debt products such as credit cards or mortgages, earn bigger rewards.

This kind of approach has directly led to a shift from a service culture to a sales culture within banks and to conflicts of interests between what the customers really need and what the workers are incentivised to sell them in order to reach targets.

This issue is aggravated by the fact that information about conflicts of interests and remuneration structures are not consistently provided by firms when selling financial products. According to an industry survey by the Basel Committee on Banking Supervision, information about conflicts of interests is only provided in 63 per cent of cases. Information about the amount and

structure of remuneration received by the firm for the sale is given only in 51 per cent of cases¹.

In the current business environment, finance institutions are not reducing pressure on sales volumes. Instead, they often push for different products, such as credit cards instead of home mortgages. Sales targets are too high for this economy and bank workers across the industry feel pressure to sell products that will hurt customers and financial stability. In the United States, tellers, personal bankers and branch managers have reported on banks' reliance on dodgy practices to increase overdraft fees, late credit card payments, or interest rates. They describe these as the new norm and a chief source of earnings. In Brazil, because of high individual sales targets many bank workers end up conditioning the offer of bank services with buying other products, which is called "coupled sale".

Banks make it hard for workers not to take part in this sales culture. In Australia and New Zealand, for instance, finance workers report that banks pressure staff to "sell" products to family and friends outside of work hours through the production of things like "The Barbeque Guide" giving advice to workers about how to "sell" products at barbeques, and the "Summer Campaign" reminding staff not to miss opportunities to sell to friends and family whilst staff are on their annual leave.

At American bank SunTrust, workers report that the high-sell, high-pressure culture has become so intense and carefully micromanaged that they are reviewed on a daily basis through a point system. If they are falling behind sales targets after 24 hours, the branch manager holds a "coaching session" to discuss how they will change their sales strategy. If they are still off one week later, the area manager gets involved and directly sends threatening emails to the employee. There are also many cases of employees being fired.

Unions around the world are concerned that some of the growth in household debt also reflects banks' aggressive sales practices. The level of household debt is at historical peaks in many countries. In the United Kingdom, it has increased 73 per cent between 1996 and 2007.² It is now equivalent to 100.7 per cent of the country's Gross Domestic Product (GDP).³ In the United States, household liabilities have increased 48 per cent in the same period⁴

¹ Basel Committee on Banking Supervision, "Customer suitability in the retail sale of financial products and services", April 2008. At <http://www.bis.org/publ/joint20.pdf?noframes=1>

² OECD Economic Outlook: December No. 84, Volume 2008 Issue 2, "Annex Table 58. Household wealth and indebtedness".

³ Cynthia O'Murchu and Emma Saunders, "Are European banks too big to fail?", Financial Times, 7 October 2008. At http://www.ft.com/cms/s/0/61d7e148-8f15-11dd-946c-0000779fd18c,dwp_uuid=9c837fea-0087-11dd-a0c5-000077b07658.html

⁴ OECD, *op. cit.*

and now amount to 100 per cent of US GDP.⁵ In Denmark, household liabilities are even higher at 121 per cent of the country's GDP.⁶

In particular, unions are concerned that many financial institutions are selling financial products without adequate regard to clients' needs or understanding of the risks they are taking. A senior platform worker and teller at Sun Trust, Washington, D.C., says: "*The sales tactics and goals we must often meet sometimes force us to put the customers – young and old alike – into products that they really can't afford or are not suitable for their financial needs*".

In the United Kingdom a team leader in general insurance at Lloyds Banking Group says, "*front line workers in branches and call centres throughout the sector are under constant pressure to achieve tough targets on sales and referrals. If we don't achieve them we lose out on bonuses and increases in our already meagre basic pay. In the end, if we fail on our targets we will lose our jobs*". The problem is that many bank employees depend on bonuses to reach a living wage. Contrary to widespread beliefs, low pay is very common in the financial industry. In the United States, median hourly wage for bank tellers is \$11.02 per hour, \$23,629 annually.⁷ This is just above the federal poverty guidelines for a family of four.⁸

Another widespread problem reported by bank workers in several countries is that front-line staff selling financial products often lacks sufficient training to understand the risks of customers buying these products. The growing complexity of financial products makes continuous training of finance workers an increasingly important issue.

In Denmark, a former worker at Roskilde Bank, says "*the products I operate with on a day to day basis are complex to me. I have a degree in real estate and work as a mortgage consultant, but keeping up to date is hard work. In the field of investments I find it even harder to figure out what I am actually selling*".

This culture of short-term profit is what got us into the global financial crisis. Now with falling incomes, rising unemployment and lower housing prices in many countries, the continuation of sales pressure is unsustainable and will increasingly result in many individuals and working families experiencing severe financial problems. This could be the next subprime mess.

⁵ Martin Wolf, "Seeds of its own destruction", Financial Times, 8 March 2009. At <http://www.ft.com/cms/s/0/c6c5bd36-0c0c-11de-b87d-0000779fd2ac.html>.

⁶ Cynthia O'Murchu and Emma Saunders, *op. cit.*

⁷ Bureau of Labor Statistics, "May 2007 National Occupational Employment and Wage Estimates". At http://www.bls.gov/oes/2007/may/oes_nat.htm#b43-0000

⁸ United States Department of Health and Human Services, "The 2008 HHS Poverty Guidelines". At <http://aspe.hhs.gov/poverty/08Poverty.shtml>.



Unions globally demand a new business model

Finance workers want to be rewarded for providing good service and advice to customers, not selling inadequate financial products.

What is needed is a new customer-oriented and risk-conscious business model based on sustainable growth. To achieve this, unions demand that a bottom-up approach to supervision is developed and that finance institutions sign a charter on responsible sale of financial products.

A bottom-up approach to supervision

UNI Finance Global Union and its members call for a bottom-up approach to supervision and risk assessment. A bank's business model can only be assessed effectively if internal procedures and operational practices are taken into account. Incentive schemes, remuneration structures and training of staff can all have an impact on the long-term sustainability of financial institutions and of the finance industry as a whole.

Who else could better provide this type of information to regulators than front-line finance workers? They are those operating on the ground and they know how regulation is applied in practice. They can provide checks and balances, which could improve understanding and assist in risk management among national and international regulators. Finance workers must be involved in supervisory and risk management processes through unions and other workers' representative structures.

UNI Finance, as the *only* worldwide organisation representing workers in the finance industry, can gather extensive information on the operational practices of finance companies and provide an inside view of what is happening in the industry.

Charter of responsible sale of financial products

In addition to the bottom-up approach to supervision, UNI Finance and its members are calling for the signing of charters on responsible sale of financial products by financial institutions worldwide. The objective of such a charter is to promote fair sales practices and encourage a risk-conscious business model.

The charter must include practices on the marketing and sale of financial products, remuneration and incentives structures, training of staff and financial education.

The charter should be developed jointly by each company's top management, trade unions and workers' representatives. Other stakeholders, such as consumers associations, may be involved as well.