

Nordic Financial Unions

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Register ID Number: 4129929362-47

NFU Response to Consultation by the High-level Expert Group on reforming the structure of the EU banking sector

Summary of main points

- Finance employees must be seen as stakeholders in all questions relating to regulating the finance sector including on reforming the structure of the EU banking sector.
- All financial market actors should be subject to the same duties and controls, and regulation should be continuously updated to keep up with developments in products and markets.
- High quality of advice and service is of utmost importance to retail customers. Excessive use of sales targets for sales of products and lack of continuous training to keep up with product development create great obstacles to this.
- Reforming banking regulation at a continuous basis is important to keep up with developments in the sector. However, the potential impact of regulation on employment should always be analysed when new legislative proposals are considered.

General remarks

NFU welcomes this opportunity to contribute to the consultation on reforming the structure of the EU banking sector. However, it is surprising that only banks, retail and corporate customers are the only stakeholders considered relevant for such a crucial issue which will impact on a broad range of other stakeholders within or around the sector and at society at large. Amongst these stakeholders are of course the employees in the sector, who not only have an interest in how the sector develops, but also have important insights in the sector which can contribute to improving the regulatory framework.

Employees can contribute in many ways to improve supervision and risk management in the sector if the right arrangements are in place. Also, employees are the face of financial

institutions to the world. They are the ones who will be implementing the regulation and make sure it works in practice, and they play a crucial role in re-establishing trust in the sector after some years of turmoil. Therefore, employees must be on board when reforming the sector.

Specific remarks

Questions to banks

To what extent are the current and ongoing regulatory reforms sufficient to ensure a stable and efficient banking system and avoid systemic crises?

NFU believes that the ongoing regulatory reforms are a step in the right direction in terms of ensuring a stable and efficient banking system. However, it is important that the regulatory landscape is properly and continuously updated and revised, in order to ensure that legislation is in line with developments in products and in the market.

At the same time, many measures that are designed to enhance the stability of the financial sectors will inevitably lead to heavier economic burdens on financial sector companies. This in turn might lead to reduced activities in the sectors and thus also reduced employment. Any measures foreseen must therefore be appropriate, well-balanced and based on an idea of long-term sustainability and financial stability. Also, it is of utmost importance that the rules do not create regulatory arbitrage between actors in the financial markets. All actors conducting the same activities should be covered by similar regulation. NFU therefore welcomes the Commission's intention to address shadow-banking.

NFU would like to stress that employees can play an important role in enhancing stability in the financial sectors. Regarding supervision, corporate governance, crisis management and other similar measures, NFU has continuously highlighted the importance of giving employees a role in supervision and risk management. This has been recognised with the proposal in a number of legislative acts (MiFID, MAR, CRD) to establish whistle-blowing structures in financial institutions. NFU welcomes this development and encourages the EU Commission and others to consider the role of employees in other aspects of risk management, corporate governance and supervision.

What are the main challenges of your financial institution as regards resolvability? Are you implementing structural changes to your institution in the framework of your recovery and resolution planning?

It must be made absolutely clear what a recovery or resolution will entail for the employees of the entity or group concerned, and that the framework must provide for a continuously sound and sustainable employment situation. This means that, regardless of the design of the

framework and the powers invested in the administrator, there must be no worsening of employee's rights in any aspect due to a bank being put under resolution.

Finance employees should not have to bear neither the burden nor the blame for bad management. When setting up the criteria for credit institutions' recovery or resolution plans, the social consequences must be taken into account. It should not be possible to put the blame of a material deterioration in an institution's financial situation on the employees, or push the cost burden of recovery onto the employees. The question of employees' prioritized right to salaries and other means of remuneration in cases of failing financial institutions must be addressed.

Finance employees must be seen as stakeholders in relation to recovery and resolution arrangements, which must take the employee dimension into account.

Questions to corporate customers

Do you observe and expect a shift away from bank finance to other sources of finance more generally in the EU? What are the main constraints to such a shift?

Alternative sources to finance might be likely to increase in future and from the NFUs point of view are welcome. However, all financial market players should be subject to the same duties and controls. Naturally, there needs to be nuances, since all products and actors cannot be treated exactly the same. However, the global financial crisis has made evident that all financial markets, products and actors need to be regulated in a fair and thorough fashion, thus ensuring a level playing field and sound competition. Unjustified differences regarding regulatory measures will provide for competitive advantages for some and disadvantages for others. The enforcement of competition law cannot be solely based on the economic interests of the customer; the interests of employees must also be taken into account. The strive to lower prices should not lead to the worsening of working conditions in any way. The sectors must invest in its employees to achieve long-term profit, and reduced profits for companies should not be balanced with reduced personnel costs.

All companies and products must be subject to the same criteria. International supervision standards and capital requirement measures must be regularly updated to keep up with new requirements and with the innovativeness of the industry. Separate rules for similar companies' increases market opacity and make it harder for investors to evaluate different investment choices, as well as for employees to give proper advice and information. This makes especially sense with respect to the existing and ever-expanding inter-linkage between different actors on the financial market.

Questions to retail customers

What impact do the current and ongoing financial regulatory reforms have on the availability and cost of financing and other retail customer services of banks (including access to basic payment systems)?

NFU considers that the current reform could very well have an impact on access to credit and financial services for retail customers. In this context, in particular less attractive customers are likely to be affected by this, and the current Commission initiative on access to basic payment services is therefore very important. The finance industry must be obliged to provide basic access to basic financial services for all groups of customers. NFU also believes that, as consumers who are new in the banking system become more participative in society, they will become potential customers for other financial services products, increasing the size of the overall market.

In this context it is also important to stress that in order to ensure that less attractive customers can be serviced in an attentive and accommodating way, the bank employees should be given adequate training, sufficient time and reasonably adapted sales targets when dealing with this group of customers. Employees in the finance industry must be given time and resources to deal with “low-return” customers. It is paramount that finance employees are given the right to give good advice – sales targets and merit rating systems must work in favour of this right. Any regulatory framework must promote finance employees’ right to provide qualified advice, and also encourage the financial industry employers to ensure that employees have the time and competence to provide understandable information to consumers.

In addition to the impact of regulation on the access to credit and financing, NFU would like to stress the impact on employment that is likely to be the result of this regulation. Companies in the finance sector already use forthcoming regulation, like the implementation of the Basel rules, as a reference when cutting jobs in the finance sector. This is a problem for employees in the sector but also to customers, who could very well experience a drop in the quality of service provided by financial institutions. Employees are already under a considerable time pressure, which is unfortunate in a context of giving advice to customers on important and difficult financial decisions. Furthermore, new requirements are under development to better ensure independent advice, requiring the advisor to consider a sufficiently large number of products in the market. NFU fully supports such requirements, but they will demand more time, which the employees currently do not have, and if more employees in the sector are made redundant, this could lead to a very difficult situation also for the customers.

NFU would like to stress the importance of assessing and analysing the potential impact on employment when new legislative proposals are considered.



What are the main concerns of retail customers in their relationship with their bank?

NFU believes that a paramount concern for retail customers in their relationship with their bank must be the quality of advice and service they receive. Customers should be able to always trust that the advice provided to them by employees of the finance institutions is in the best interest of the customer. This is provided for in current legislation like the MiFID, but current practices in financial institutions are an obstacle to this. In particular excessive use of sales targets is problematic as it can create incentive to sell certain products which are not suitable for the customer, but also creates a sales pressure and time pressure, which is detrimental to the quality of advice.

It is also of paramount importance to customers that finance employees receive continuous training on new products launched by the financial institution. Employees should never be required to do this training outside of working hours or to pay themselves for training, which is required to fulfill their job function. Certification of employees is in principle good, but must always be followed by offers of training paid by the employer and conducted in the working time.

To NFU there is a strong link between consumers and finance sector employees. Consumer objectives can only be achieved if and when employees and their organisations are on board. Needless to say, employees are a central factor in order to provide sustainable and long-term oriented financial services. Well-trained staff of sufficient number is imperative to promote empowered and well-informed consumers. The interests of consumers, employees and the financial industry need to be seen as integrated, not separated.

About NFU

Nordic Financial Unions (NFU) is the voice of the employees in the Nordic financial sectors. We are an organisation for co-operation between trade unions in the banking, finance and insurance sectors of the Nordic countries. Through our eight affiliated unions in Denmark, Sweden, Norway, Finland and Iceland we represent 160 000 members – a vast majority of the employees in the Nordic financial sectors.

Yours faithfully,

Nordic Financial Unions (NFU)

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