



Protecting New Zealand jobs through bank guarantee schemes

Background to guarantee schemes

In late 2008 the Government introduced two mechanisms to support the local banking and finance industry, a *retail deposit guarantee scheme* and a *wholesale funding guarantee facility*.

The purpose of these schemes is to provide confidence in the New Zealand finance system and to help facilitate access to credit markets.

Participant companies benefit from the removal of risk offered by the scheme and the guarantee of government support should failure occur.

The state is providing significant support to the finance sector via these schemes and is ensuring the ongoing profitability of their business.

Finance workers are calling on the Government to broaden the purpose of the schemes to include a social dimension and make the retention of current staffing levels a condition of entry onto the schemes.

Bank jobs are at risk

The government has stated that keeping people in work is a priority. To this end the government has held a jobs summit and announced various spending measures that have the intention of creating jobs.

Bank staff are currently working in an environment of high job insecurity, despite the continued and in some cases growing profitability of their employers, and the reduced risk to the businesses brought about by the public guarantees.

In recent years there have already been significant reductions in staffing numbers in the banks which places pressure on existing staff.

Key job security issues are:

Offshoring: In 2008 ANZ National bank announced around 500 jobs would be sent to Bangalore India. Despite promises to redeploy all affected staff, to the end of January 2009 only 58 staff have been redeployed into other work.

This could be the tip of the iceberg of ANZ National's offshoring plans - in April 2008, the Times of India cited ANZ saying that "in the long-term, local

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back-office operations could disappear in Australia.” This obviously suggests a similar fate for operational work in New Zealand.

All of the local banks parent companies in Australia are exploring offshoring options in India. The primary reason for offshoring jobs is to reduce costs and increase profit.

Downsizing/restructuring: Last year ANZ Nation cut around 200 jobs through removing a layer of management. The same bank also downsized staffing levels in the branch network by around 190 roles through a voluntary redundancy process.

This year has seen almost weekly announcements of job losses due to restructuring at the BNZ. BNZ spokesperson Diane Maxwell was recently quoted in the New Zealand Herald saying there will be job losses this year in that bank.

Our banks are highly profitable

ANZ National \$990 million after tax profit for the year to Sept 2008.

BNZ \$657 million after tax profit to September 2008.

Westpac \$484 million after tax profit to September 2008.

Cost to income ratio

Since 2004, ANZ National has dropped their costs in proportion to their income by 10.86%. BNZ by 22.46%. Westpac by 2.78%.

Senior bank executives are still earning very large incomes. All New Zealand bank CEO's earn at least \$2 million dollars Australian.

International conditions on taxpayer support for banks

Many countries who have introduced taxpayer support for financial institutions have imposed conditions on this support.

Many of the measures described below have been imposed after taxpayer support has been introduced.

USA

The Pay for Performance Act proposes controlling pay for all employees of companies receiving bailout money. Public funds will be attached to requirements for banks to increase lending to consumers and businesses.

Existing conditions of US bailout money include:

- No "golden parachutes" for executives who lose jobs at companies participating in the plan.

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- Limits CEO bonuses or other compensation that encourages unnecessary risk-taking, requiring shareholder votes on bonuses, a salary cap of \$500,000 for top executives at companies that received the largest amounts of public money
- Protection for homeowners facing foreclosure including putting off evictions
- Gives government the power to renegotiate terms of mortgages to ease pressure on homeowners facing foreclosure.
- Withdraw job offers to foreign citizens. The recently passed stimulus bill in effect prevents financial institutions that have received money from the government's troubled asset relief programme from applying for H1-B visas for highly skilled immigrants if they have recently made US workers redundant.

UK

Government bail-outs carry terms and conditions that reflect financial commitments made by the taxpayer, including in relation to lending policy, wider public policy issues. Participating banks must cut dividend payments and limit executive remuneration.

Any application for public money has to meet Treasury objectives on maintaining financial stability, safeguarding the interests of taxpayers, protecting depositors and consumers.

Germany

The German government set a number of strict conditions for banks that accept state funds, including:

- Government input into how the business is run including cutting risk-taking activities
- Requirement to set "appropriate" salaries for top managers (500,000 Euro cap but with some exceptions)
- Scrapping severance and bonus packages
- Dividends would have to go back to the state rescue fund

France

France has banned stock options and limits executive bonuses at companies that receive government bailout money

Intervention is a good idea

Lack of regulation of the international financial sector is one of the primary causes of the world wide recession.

Banks have resisted intervention, and argue that their primary objective is to continue to generate profits to return to shareholders. The banks also argue that the government should not intervene in their business practices.

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Allowing this situation to continue will lead to another bubble. We believe fair intervention is required to ensure a social dividend is achieved in exchange for ongoing taxpayer support.

Government frequently intervenes in the interests of bank staff and customers. The guarantee schemes themselves, the Banking Ombudsman, the active role of the Reserve Bank, are all examples of government intervention in the banking system.

A range of government measures also protect workers, from the minimum wage to parental leave. Most recently, the government has intervened to protect employment through the introduction of a subsidised nine day fortnight.

The guarantee scheme provides an opportunity to leverage the protection of New Zealand jobs. The banks themselves continue to be motivated only by reducing costs, and have aggressively cut jobs regardless of how high their profits grow and regardless of the current economic environment.

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