

Chapter 6

Employment and 'offshoring'

Employment in banking

6.1 The Australian Bankers' Association report their members employed 138 000 Australians at end-2007, an increase of 10 000 from end-2005 which they attribute to opening of new branches in fast-growing areas.

6.2 This represents a reversal after the 1990s, when banks were generally reducing their staffing. The Australian Bankers' Association described the experience as follows:

Banks had not had competition from non-deposit taking institutions before in housing lending. They used to pay for their branch networks by charging the customer where it was in the interest margin. In a sense, those who had a home loan were paying a higher interest rate to cover the costs of these extensive branch networks. When Aussie Home Loans and other non-bank lenders came into the market, they did not have massive branch networks that they had to support so they could offer lower interest rates. The banks found themselves in a situation where they had extremely large and costly branch networks, but they were now facing competition in the lending portfolio from these new players who could offer much lower rates.

We saw a dynamic situation in the 1990s which took a lot of adjustment in the community. The banks started reducing some of those costs, closing some of the branches, and introducing fees to compete, if you like, against the non-bank lenders. That process worked its way out. If you look at the statistics over the past three or four years you will find that branch numbers are starting to increase again, in some banks at reasonably fast rates. We have, if you like, a heightened recognition in the banks now that the branches are providing good services. That is also helped by the fact that there is more of an acceptance in the community that they can charge fees for those services. You can start paying for branches through the imposition of fees.¹

6.3 The ABS report a broader category of 'finance', which employed 210 000 Australians in November 2008, unchanged from a year earlier and about the same as two decades ago.

6.4 The global financial crisis might have been expected to have affected banking more than other industries. The ABS' seasonally adjusted data on employment in 'financial and insurance services' showed an almost 5 per cent drop in late 2008, but has since steadied.

1 Mr Nicholas Hossack, Australian Bankers' Association, *Committee Hansard*, 12 March 2009, p 17.

6.5 Mergers almost invariably lead to a loss of jobs. However, the Australian Bankers' Association argue:

In banking, two features of the employment market have historically assisted in reducing the difficulties caused by redundancies. Firstly, banks pay above average redundancy benefits which – all other things being equal - afford redundant staff a longer period to find alternative employment. Secondly, unemployment in financial services is low compared to other industries...²

6.6 A concern for banking workers, particularly in call centres, is that job security is being eroded by increasing use of part-time and casual workers, and mergers raise further doubts:

At the contact centre where I work in Parramatta, probably for the last six months or so we have no longer been employing full-time staff. Everybody that is coming through now is a temp, which leaves us a bit out in the air as to the future of our jobs and what is going to happen.³

6.7 Currently, about 96 per cent of men in finance work full-time and 74 per cent of women. Twenty years ago, the proportions were 98 and 77 per cent.

6.8 An FSU official told of her own disruptive experiences of multiple takeovers:

The first one is that when the announcement was made that Tasmania Bank was going to be taken over by the SBT...most of our staff found out that we were being sold to someone else in a newsflash about nine o'clock that night. I turned up to work the next morning to a branch that was full of people who looked shell-shocked. They looked ashen-faced. They looked like they had been kicked in the guts and, I can tell you, that is exactly what it felt like. Another merger on, we had been sold off to Colonial. Before we even knew what jobs we had under the Colonial structure, we found out that Colonial was being bought out by CBA, so no matter what people were feeling not knowing what jobs they had under Colonial, it was doubled when they realised that they were going to get maybe a job in the Colonial structure and then have to go through the same thing again in six months time with the CBA... There is a human cost to this. We are not just collateral damage.⁴

Employment impact of mergers

6.9 Westpac told the Committee:

2 ABA, *Submission 14*, p 8.

3 Ms Linda Blackmore, Member, Finance Sector Union, *Committee Hansard*, 13 March 2009, p 4.

4 Ms Carol Gordon, National President, Finance Sector Union, *Committee Hansard*, 13 March 2009, p 6.

...no customer-facing jobs have been lost through the merger process...⁵

6.10 The qualification is necessary as the merger will lead to losses of back office jobs. Westpac elaborated:

It is true, though, that we have during the early period of the merger looked to consolidate some of our group functions, most notably around our financial, human resources and risk functions. People affected by those consolidations have been offered alternative employment. Where that has been able to be satisfied, we have been able to move those people into the roles; where not, then those people have been offered and received redundancy packages.⁶

6.11 The St George chairman commented:

Unfortunately there may well be some job losses, mainly in the back office and head office functions, which are inevitable with any merger but Westpac have given a commitment to minimise job losses through natural attrition and redeployment wherever possible.⁷

6.12 The Finance Sector Union expects the merger to lead to a loss of 5 000 jobs.⁸ Press reports suggest about 2 000 jobs will go.⁹

'Offshoring' of jobs by banks

6.13 'Offshoring' refers to firms moving jobs to their overseas posts. (It is therefore distinguished from 'outsourcing'; contracting out the work to a specialist company which may operate domestically or overseas.) The main areas of 'offshoring' in banking are call centres and 'back office' processing. India, where educated English-speakers are common and wages only around a quarter those in Australia, is a popular destination for offshoring by Australian banks.

6.14 Consumers often prefer dealing with local call centre operators, but the offshore centres make efforts to disguise their location.¹⁰ The FSU believe they should

5 Mr Brad Cooper, Westpac, *Proof Committee Hansard*, 10 August 2009, p 30.

6 Mr Brad Cooper, Westpac, *Proof Committee Hansard*, 10 August 2009, pp 31-2.

7 Mr John Curtis, quoted in *Business Spectator*, 13 November 2008.

8 FSU *Submission 12*, p 5. They estimate that 8,000 jobs were lost when the Commonwealth Bank merged with the State Bank of Victoria; 1,400 when Westpac took over Bank of Melbourne and 4,500 when Commonwealth took over Colonial.

9 For example, *The Australian*, 18 December 2008.

10 FSU, *Submission 12*, Attachment 9, gives an example of bank employees being instructed not to tell customers that files are being processed in Pune (western India).

be forced to disclose their location, as has been legislated in France, and they report polling suggesting that 85 per cent of bank customers agree.¹¹

6.15 Offshore call centres may not be subject to as stringent data security procedures as domestic centres. Some unions suggest that information should not be sent offshore without customers' consent:

...before any personal or banking data is sent overseas, that should require the express written permission of the consumer.¹²

6.16 The FSU also questions whether offshoring is good for the Indian workers, who are often required to affect western accents and work night shifts (due to the time zone difference with Australia) in what may amount to 'white-collar sweatshops'.¹³ But presumably they regard these jobs as better than the alternatives available in India or they would not be working there.

The extent of offshoring

6.17 The Finance Sector Union suggests over 160 000 jobs in the finance industry could potentially be shifted offshore, along with 110 000 in the related areas of insurance and 'services to banking and insurance'.¹⁴ An OECD (2005) study suggested that over 70 per cent of jobs in these areas could be 'potentially affected by offshoring'. Of course, this is *not* a forecast that this number of jobs *will be* offshored.

6.18 APRA does not collect data on offshoring.¹⁵ There have been reports of significant offshoring by banks in recent years. Examples include ANZ shifting 1,100 software development and IT positions to Bangalore in November 2005; Citigroup replacing the 150 jobs in its Brisbane call centre with positions in Manila; NAB shifting 220 IT and accounts processing positions to Bangalore in 2005 and 2006 and a further 500 jobs to India in 2008; St George shifting 100 jobs involving credit cards to India in September 2006 and a further 30 in May 2007 and Westpac moving over 500 back office processing and retail administration jobs to India in September 2006.¹⁶

11 Finance Sector Union, *Submission 12*, p 12. Similarly, the Hon Dr Bob Such MP has suggested 'bank customers should be advised in simple terms of the extent to which services have been 'off-shored' so that they can decide whether to do business with the bank or not'; *Submission 21*, p 2.

12 Mr Leon Carter, National Secretary, Finance Sector Union, *Committee Hansard*, 13 March 2009, p 4; Finance Sector Union et al 2006, p 4, reproduced as Appendix 8 in FSU, *Submission 12*.

13 Finance Sector Union et al 2006, p 6, reproduced as Appendix 8 in FSU, *Submission 12*.

14 Finance Sector Union et al 2006, p 8, reproduced as Appendix 8 in FSU, *Submission 12*.

15 APRA, *Submission 16*, p 5.

16 Finance Sector Union et al 2006, p 9, reproduced as Appendix 8 in FSU, *Submission 12*; *Brisbane Times*, 24 June 2008; Finance Sector Union media release, 16 May 2007,

6.19 The Finance Sector Union told the Committee:

So far, by our count—and we believe it is a conservative estimate—over 4,900 jobs have been offshored out of the Australian finance industry.¹⁷

6.20 According to media reports, the ANZ is considering replacing 620 Australian back office positions with places in Bangalore during 2009, although it claims it will be retaining its call centres in Australia.¹⁸

6.21 The ABA estimates that:

...around 3,200 full-time employment positions have been impacted by services being sourced offshore over the past few years, equivalent to about 2.4% of the total workforce of ABA member banks.¹⁹

6.22 Moreover it argues that by increasing bank profits offshoring creates more jobs in Australia. The ABA also argued:

...there is an insufficient supply of suitably qualified Australian-based workers to fill the demand by banks.²⁰

6.23 The Australian Bankers' Association told the Committee:

...I do not think any of the Australian-owned banks have call centres located outside Australia and New Zealand. The offshoring we have seen has mainly been in back office, IT, computer software development, and essentially in Bangalore, India.²¹

6.24 A number of submissions by individual bank employees referred to their concerns about past or pending offshoring:

...the loss of jobs will have the effect of increasing unemployment levels within Australia which is particularly worrying in the current economic climate...The current financial crisis may mean that the employees made redundant find it difficult to obtain new positions. There is also a large emotional cost involved which doesn't seem to concern the decision makers. A large number of these employees were long standing and loyal workers who feel that their services have not been appreciated...The level of customer service provided will never be the same when roles are completed overseas so the general Australian public also suffer due to offshoring.²²

17 Mr Leon Carter, National Secretary, Finance Sector Union, *Committee Hansard*, 13 March 2009, p 7.

18 *The Age*, 17 December 2008.

19 ABA, *Submission 14*, p 13.

20 ABA, *Submission 14*, p 13.

21 Mr Nicholas Hossack, ABA, *Committee Hansard*, p 8.

22 Ms Elizabeth Harvey, *Submission 1*, p 1.

...it appears that slashing employee and premises costs was the main driver behind the decision to centralise/outsouse/offshore practically all of [Lending Services Queensland, a regional back office loan processing centre]...service and quality levels are already suffering or will suffer, which could ultimately result in the bank losing market share/profitability as a result...[as] we're also wiping out a great deal of our corporate "memory" or "knowledge", as experienced and dedicated staff are forced out of these lending centres and can no longer be a "point of reference" for less experienced branch staff.²³

NAB is now in the process of off-shoring another 1500 Lending Services positions for what they say is to improve efficiency. I believe efficiency will not improve and further more, customer service to our bankers will deteriorate. I also believe the only reason NAB is off-shoring any jobs they can is primarily to cut costs...that is the bottom line!²⁴

This is not a move made to increase customer service levels but a short-sighted attempt to cut costs at the expense of hard-working and decent people. The fact is that our jobs are being moved to a country where industry working standards and wage levels are significantly less than what they are in Australia.²⁵

6.25 Some bank workers told their story to the Committee at a public hearing:

I have been employed on a full-time basis by the National Australia Bank for the last 15 years...My duties include pre-processing of loan applications to ensure bankers' submissions are adherent to policy and procedure; preparing documentation such as loan contracts, mortgages and releases; and providing breakthrough customer service to bankers to ensure delivery of documentation is both timely and efficient...last year, I was advised that my position was to be outsourced to India... By June this year, Lending Services Queensland will dramatically shrink from 300 employees to 60, and there are further reviews taking place at the moment... In recent weeks I have seen firsthand the problems the bank is already having with lending services in Jaipur in India. There is a lack of customer service in comparison to our centre and there are also language and communication barriers that have become apparent.²⁶

My role was cash balancing, which is balancing all the cash that comes into and goes out of the branches every day...Our jobs were offshored...The way that I have seen it, it certainly has not been working. We have had a lot of complaints. We have a language barrier. We have all sorts of problems. Westpac are not interested in doing anything to alleviate that problem. The

23 A bank employee, *Confidential Submission 7*, pp 1-2.

23 A bank employee, *Confidential Submission 7*, pp 1-2.

24 Mr Mark Wilkins, *Submission 9*, p 1.

25 Mr John Minuti, *Submission 10*, p 1.

26 Mr Mark Wilkins, Member, Finance Sector Union, *Committee Hansard*, 13 March 2009, p 4.

staff morale is very bad. More people are going to be retrenched at the end of this month.²⁷

6.26 The Commonwealth Bank assured the Committee that it makes little use of off-shoring:

...the Group retains all customer information onshore and has a strict privacy code in place to protect the integrity of that information. The Group does not off-shore any of its Australian processing or call centre operations, maintaining a dedicated and efficient workforce in Australia to undertake these duties.²⁸

6.27 The Finance Sector Union reports that it has:

...won commitments from the major banks that no customer call centre jobs will be off-shored. In some companies, they have also won undertakings that anyone affected by off-shoring can remain in the employ of the company – however, there are no guarantees about the nature of the role or whether it matches their skill set and abilities.²⁹

6.28 With the global financial crisis, this argument is a weaker one, at least in the short term.

6.29 The ABA claim:

Looking ahead, and even factoring in the global financial crisis, Australian education institutions are not likely to be able to produce the deep pool of highly skilled labour, and in the numbers and specialties required, in order to run bank operations in the decades ahead.³⁰

The impact of offshoring

6.30 A study by the OECD of offshoring in general (covering manufacturing and services, not just banking) concluded its overall net effects were benign, as it lowered prices for consumers and improved productivity for firms, allowing them to expand domestic employment. However, the jobs lost were visible while those created diffuse and not perceived as related to offshoring. But while this may make offshoring unpopular, no country has taken coercive measures against it.³¹

6.31 To the Business Council of Australia (2004), offshoring is just another form of international trade and therefore a good thing for both Australia, where it will

27 Ms Carmel Bourke, Member, Finance Sector Union, *Committee Hansard*, 13 March 2009, p 5.

28 Commonwealth Bank, *Submission 2*, p 3.

29 Finance Sector Union, *Submission 12*, p 10.

30 ABA, *Submission 14*, p 14.

31 OECD (2007, p 8).

'enhance the competitiveness and ongoing viability of business operations', and the country providing the service. They refer to:

...net job creation that stems from shifting resources towards more productive areas where Australia has stronger competitive advantage.³²

6.32 They even give examples of banking jobs being offshored to Australia.³³ The only caveat they make is that businesses should implement it carefully:

...businesses must also have certainty regarding the reliability of delivery (in terms of quality and timeliness).. These are not insignificant factors, and comprehensive analysis is undertaken so these risks do not outweigh the potential benefits of offshoring. At the micro level, offshoring brings with it the potential for additional costs and challenges in the management of operations, and in terms of travel, training and communication. These additional costs can offset as much as 60 per cent of the initial savings associated with offshoring.³⁴

6.33 The ABA also argue:

...business continuity planning can be made more resilient in the event of major incidents by having operations activities in multiple locations.³⁵

6.34 They assured the Committee that:

...should a customer breach or complaint emerge then it will be managed by banks in the same way as if it had occurred in Australia giving the customer recourse to the independent Financial Ombudsman Service.³⁶

6.35 There have been criticisms that the banks have not been helpful towards employees whose jobs are offshored:

The NAB is not helping us into new roles, the NAB is not retraining us for other roles...³⁷

Policy responses to offshoring

6.36 Some individual submitters have called for a government policy response to limit or discourage offshoring:

It is time for the Federal Government to impose an off-shoring tax ...³⁸

32 Business Council of Australia (2004, p 11).

33 Deutsche Bank in 2004 made Sydney one of two global processing hubs for foreign exchange and UBS selected Sydney for its global IT support centre; Business Council of Australia (2004, p 11).

34 Business Council of Australia (2004, p 10).

35 ABA, *Submission 14*, p 15.

36 ABA, *Submission 14*, p 15.

37 A bank employee, *Submission 13*, p 1.

I strongly believe that the Federal and State Governments need to put a cutoff limit on all companies wanting to offshore our Australian jobs. I believe that a figure of something like no more than 10 per cent of jobs with each company should be allowed to be sent overseas for the good of our overall economic state of affairs.³⁹

6.37 The Finance Sector Union believes that:

In return for the considerable Government assistance received by the banking sector in recent months there should be conditions attached including an immediate cessation of off-shoring Australian jobs.⁴⁰

We cannot imagine the federal government giving that sort of money to Toyota and then saying, 'We don't mind if you take the assembly line over to China.'⁴¹

6.38 The Australian Prudential Regulatory Authority has a prudential standard (APS 231) which:

...requires that all risks arising from outsourcing material business activities be appropriately managed to ensure that the authorised deposit-taking institution is able to meet both its financial and service obligations to its depositors.⁴²

6.39 APRA requires ADIs to notify it in advance of any material offshoring. Reflecting APRA's responsibilities, their rules only seek to ensure that outsourcing and offshoring do not endanger the bank's solvency, not that levels of customer service are maintained. Not are APRA charged with the welfare of bank employees.

**Senator Alan Eggleston
Chair**

38 Mr Mark Wilkins, *Submission 9*, p 1.

39 Ms Julie Franks, *Submission 3*, p 1.

40 Finance Sector Union, *Submission 12*, p 12.

41 Mr Leon Carter, National Secretary, Finance Sector Union, *Committee Hansard*, 13 March 2009, p 9.

42 Cited in ABA, *Submission 14*, p 13. See also APRA, *Submission 16*, pp 4-5.

