Committee Secretary
Senate Economics Committee
Department of the Senate
Parliament House
ACT 2600
economics.sen@aph.gov.au

Inquiry into Aspects of Bank Mergers

The Finance Sector Union of Australia (FSU) welcomes the opportunity to contribute to the inquiry into aspects of bank mergers and off-shoring in the finance sector. FSU members have first hand experience of the impacts of these issues and consequently the FSU has been an active participant in the debates on both of these subjects. We appreciate the extension of time granted to lodge our submission and would also welcome the opportunity to appear before the Committee.

The finance sector provides essential services such as banking, insurance and superannuation to the Australian community and employment for approximately 400,000 people. In addition it underpins many other business activities. For these reasons we do not believe the sector should simply be shaped by so called 'market forces' that appear to result in the relentless pursuit of spiralling executive remuneration, fees and charges, and increased shareholder returns through activities such as large scale mergers and off-shoring.

Unfortunately a large amount of these cost cutting activities seem to be based more on short term rivalry for growth or market share rather than sustainable practices to meet genuine consumer need. This is particularly troubling when it applies to an essential service such as banking where some consumers and areas may not be 'profitable' and therefore not attractive to companies primarily focussed on the economic bottom line.

A basic (and presumably uncontroversial) definition of competition is "the rivalry between two or more business enterprises to secure the patronage of prospective buyers"[1], however there is then a complex set of policy and regulatory settings that define the detail of how competition actually operates.

Rivalry in the banking sector has undoubtedly delivered benefits to consumers; however the FSU doesn't accept that the mere presence of competing firms in a marketplace is automatically good or an end in itself. The enhancement of the welfare of Australians is the over arching objective of competition – if this is not being delivered in areas such as banking then adjustments need to be made to the regulatory structures that define and implement competition.

Market theory suggests that mergers and off-shoring should provide benefits through lower costs and improved services for consumers; however the FSU does not believe this has necessarily been the case and shares the deep cynicism that many Australians feel towards banks who continue to make record profits yet claim they must keep cutting costs to survive.

[1] Macquarie Dictionary, 2006.

Finance Sector Union Of Australia - National Office
GPO Box 9893, Melbourne VIC 3001 Tel: (03) 9261 5300 Fax: 1300 307 943 Email: fsuinfo@fsunion.org.au ABN 27 843 406 938

There is no doubt that the major banks are profitable and their CEO's extremely well paid; however they have also been the main proponents of mergers and off-shoring which are essentially cost cutting mechanisms.

The FSU argues that mergers and off-shoring in the finance sector are generally not in the public interest and have often had detrimental outcomes such as:

- Employment losses;
- Negative impacts on communities;
- Reduced consumer choice and service; and
- Loss of skills and investment in Australia.

The FSU recommends that:

- **a wider range of penalties be made available under the *Financial Sector (Shareholdings) Act 1998* for non-compliance with merger conditions;**
- **principles be developed for monitoring merger conditions imposed under the *Financial Sector (Shareholdings) Act 1998.* These should include:**
    - **mandatory consultation with stakeholders;**
    - **independent auditing of compliance with conditions; and**
    - **public reporting of compliance levels.**
- **the ACCC and the RBA to prepare an annual report on the state of competition and service in the banking sector.**
- **the *Trade Practices Act (1974)* be amended to allow for consideration of 'creeping acquisitions'; and to give the ACCC appropriate powers if it finds insufficient competition in the banking market.**
- **Section 63 of the *Banking Act 1959* or section 50 of the *Trade Practices Act 1974* should be amended to include a public benefit assessment to determine the merits of a proposed merger or acquisition that includes:**
    - **A social audit to determine the impact of the merger/acquisition in relation to the concentration of economic power, employment levels, communities and access to services;**
    - **A period for public consultation;**
    - **The capacity to require of the merger/acquisition parties binding undertakings to mitigate negative social impacts of the merger/acquisition.**
- **the ACCC should publish all information associated with merger reviews unless there are compelling reasons otherwise;**
- **the Government facilitate and support the development of a finance industry plan that focuses on investment in employment and skills development.**
- **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.**

- **legislation be introduced that requires service providers to disclose the country where their employees are located at the time of transaction;**
- **any financial or personal information shall not be sent off-shore without the express permission of the consumer.**

Our comments against the terms of reference appear below.

1. the economic, social and employment impacts of the recent mergers among Australian banks;

It is still too early to ascertain the full impacts of the Westpac/St George merger; however the FSU and other groups are not optimistic that the overall impact will be positive.

FSU's experience from previous mergers such as Westpac/Bank of Melbourne and Commonwealth/Colonial suggests that mergers are often oriented towards short to medium term profit outcomes that have long term detrimental impacts on the interests of consumers, employees and communities.

A national poll of 1,000 people conducted by McNair Ingenuity[2] in relation to the Westpac/St George merger confirms that Australians are not satisfied with the current state of the banking market and sceptical about the merger delivering better outcomes for consumers:

- 87% believe that the big banks make too much profit;
- 75% believe that the merger would mean less competition;
- 72% are already of the view that there is not enough competition between banks;
- 89% do not believe that the merger would result in lower fees; and
- 69% believe that this merger would mean less pressure on banks to reduce fees and charges.

The FSU strongly believes that mergers between any of the four major banks and other medium size banks has flow on effects, namely increased pressure for the other big banks to also acquire 'second tier' banks. To a certain extent this was demonstrated by the Commonwealth Bank's acquisition of Bank West late last year, This merger was characterised as a "distressed sale" or "failing firm" scenario due to the global financial crisis; however we note and endorse the comments of former ACCC chairman Allan Fels who said the larger banks should not be able to acquire their smaller competitors despite the global financial crisis and that he would be "concerned for competition" if the Commonwealth Bank was allowed to takeover Bank West given that the Government's guarantee on deposits had resolved concerns about smaller bank stability.[3]

---

[2] *Westpac & St George Merger*, McNair Ingenuity Research, June 2008

[3] *Fels backs bank competition amid crisis*, www.thewest.com.au, 18 October 2008.

The existence of these second tier or medium size banks has long been recognised as having an important role in stimulating competition in all Australian banking markets. In their paper on competition analysis of Australian bank mergers, Garry Goddard and Greg Walker outlined that such banks:

> ". . were considered to be efficient, innovative, geographically focused, close to their customers and sufficiently differentiated from the 'look-a-like; majors to provide an incentive for the major banks to remain competitive' by the TPC and later reiterated by the ACCC."[4]

The affect of a significant acquisition of second tiered banks on domestic competition is a deep concern for innovation, consumer choice (in particular, the effect on bank fees), and customer satisfaction, particularly when smaller banks poll significantly better than their larger counterparts.[5]

There are a number of significant barriers to entry for companies wishing to establish themselves as a bank – prudential requirements, licensing, training, infrastructure and the rising cost of credit flowing from the 'sub-prime' crisis. Most of these barriers are entirely appropriate and reflect the important role that banking plays in society.

Banking is an essential service and customers will often want a higher degree of trust in their relationship with their bank as opposed to other service providers. This element of trust is perhaps the most difficult for any new bank to obtain and arguably the most valuable commodity once it is acquired. This trust is usually earned over long periods of time as consumers and the market observe and form a view about a new institution.

Market theory suggests two things that can or should happen as a result of large scale mergers.

Firstly, consumers should benefit from better products, services and reduced costs as a result of increased scale and efficiency gains – we submit this has not been the case, especially in relation to fees and charges which have continued to provide increasing revenue for banks. RBA figures over the last 10 years show that fee income from households has often increased by over 10% each year.[6] This increase may well be a result of higher transaction volumes rather than higher individual fees; however the FSU notes that cost to income ratios for all the majors have generally been decreasing each year[7] which suggests that there is also an increasing amount of profit to each transaction. If this is true then there is an opportunity to pass on at least some of these cost savings to consumers. Unfortunately the banks approach seems to be maximise profit at every opportunity which prompts the rhetorical question of 'how much profit is enough?'

Secondly, if consumers are unhappy with the merged entity then new entrants will emerge to exploit these opportunities. We submit that this is unlikely given that brand recognition and the level of trust consumers feel towards a particular bank are usually developed over several years or even decades. This is a large qualitative type barrier to entry combined with the more quantitative hurdles noted earlier. In addition the banking market has traditionally been characterised by a low degree of 'switching'

---

[4] Goddard, K and Walker, G, "Competition Analysis of Bank Mergers in Australia", *Journal of Law and Financial Management*, 1,1,2002
[5] "Not so satisfied with NAB", *the Sheet* (retrieved 30/05/08)
[6] *Banking Fees in Australia*, RBA Bulletin, May 2008.
[7] *Major Australian Banks Survey*, KPMG, various years.

due to the difficulties in moving between institutions. The introduction of the Government's bank switching package will hopefully begin to address some of these difficulties.

In cases where a new bank does begin to emerge as an effective competitor then it will probably become a takeover target for the other big banks in the wake of the Westpac/St George and the Commonwealth/Bank West mergers.

In addition, it is unlikely that foreign banks will enter the Australian retail banking market to fill any void. National market share data based on APRA statistics[8] show that individually (and even collectively) foreign banks are very small players in the retail market and "have a larger presence in the business banking market, reflecting the focus of foreign bank branches on wholesale operations."[9]

A primary concern for the FSU is employment losses as a consequence of bank mergers and the FSU's experience of several mergers is that the employment impacts will always be negative. Based on this experience we believe it is reasonable to anticipate that a significant number of jobs will be lost as the Westpac/St George and Commonwealth/BankWest mergers are bedded down.

At present mergers assessed under section 50 of the *Trade Practices Act 1974* do not consider job losses; however FSU believes that they are a significant consequence of any merger and should be included when considering any merger for regulatory approval.

Across Westpac and St George several thousand staff are employed in the two head offices, administrative divisions including back office processing and in call centres. The FSU believes the duplication of functions in the merged entity is likely to result in significant job losses in the administrative and shared services areas of one or both of the entities.

FSU estimates that at least 5,000 jobs will be lost purely as a result of amalgamating the support functions of the banks should the merger proceed.

FSU estimates of job losses in previous mergers are as follows:

- Commonwealth/State Bank of Victoria – 8,000
- Westpac/ Bank of Melbourne – 1,400
- Commonwealth/ Colonial – 4,500

In relation to branches past experience suggests that rationalisation of those locations with duplicated branches across the merged entity is inevitable. FSU believes the combined effect of the change in management structure and philosophy and the cuts in employment levels resulting from the merger will have detrimental effects on the service that customers will receive from the network of merged branches and agencies.

We note that in 1997 Westpac had 212 branches in Victoria, in 1998 immediately following the acquisition of Bank of Melbourne there were 325 branches in Victoria; however this declined to 218 branches in 1998 and 176 branches in 2000[10] – almost half the combined number when the merger took place.

[8] *Monthly Banking Statistics*, APRA, various editions.
[9] *Foreign-owned Banks in Australia*, Financial Stability Review, *RBA*, March 2007
[10] *Reserve Bank of Australia Bulletin*, (various editions, 1993 - 2000).

Where branch closures do occur they can have severe impacts on the affected communities, especially in rural areas. These impacts are well documented in a 1999 House of Representatives inquiry[11] and include the impact on individuals, business and the community. These impacts further underline the nature of banking as an essential service that underpins many other activities.

FSU is also concerned that market expectations and predictions regarding increased profits and lower cost-to-income ratios following mergers will result in more roles being transferred to low cost centres off-shore as has been witnessed in most of the major banks in recent years. We note that Westpac and St George have been two consistent adopters of aggressive off-shoring strategies (this is documented in more detail later in the submission).

Forecasts indicate that the Westpac/St George merger will not deliver positive earnings until 2011, some three years after the two companies come together,[12] and Westpac hopes to drive its cost-to-income ratio below 40%.[13] In this environment, FSU's experience suggests that those employees who remain in employment following a merger can expect a long period of uncertainty.

(See ***attachment 1*** for FSU members' experiences following various mergers).

2. the measures available to enforce the conditions on the Westpac Banking Corporation/St George Bank Limited merger and any conditions placed on future bank mergers;

The FSU welcomed the 'strict conditions' imposed on the merger by the Treasurer; however the *Financial Sector (Shareholdings) Act 1998* appears to have a limited range of tools to enforce these conditions. The ultimate sanction is for the Treasurer to revoke the approval for the merger which would (presumably) only be used in the most extreme circumstances. In addition the Federal Court is empowered to grant injunctions restraining a company from types of conduct that might contravene a section 14 approval. Unfortunately there do not appear to be any other regulatory options such as penalties for breaches that do not warrant revoking the approval or seeking an injunction.

The other concern held by the FSU is the approach that Treasury appears to be taking in relation to monitoring and compliance with the merger conditions. The FSU recently asked Treasury what steps it would be taking to check that Westpac was complying with the conditions. The response received on 28 January 2009 ***(attachment 2)*** seems to suggest that Treasury would simply rely on information provided by Westpac every 6 months. No mention is made of proactive monitoring by Treasury or independent auditors and no reference is made to seeking information from stakeholders (such as FSU) who are specifically named in the merger conditions.

This would appear to be well below any standard of regulatory best practice and (FSU believes) underlines Treasury's lack of experience with this type of role. The FSU wrote back to Treasury on 29 January requesting more information regarding how Treasury will monitor compliance and requesting clarification regarding the timelines for some of the conditions; however as of 6 February no reply has been received.

---

[11] *Regional Banking Services: Money too far away*, Report from the House of Representatives Standing Committee on Economics, Finance and Public Administration, 1999.
[12] St George and Westpac Merger Implementation Agreement, 26th May 2008.
[13] St George and Westpac Merger Implementation Agreement Slides, 26th May 2008.

Unfortunately the limited range of sanctions available under the *Financial Sector (Shareholdings) Act 1998* and the apparent approach being taken by Treasury do not give the FSU confidence that any breaches will be detected or appropriately penalised.

***Recommendation*: A wider range of penalties be made available under the *Financial Sector (Shareholdings) Act 1998* for non-compliance with merger conditions.**

***Recommendation*: Principles be developed for monitoring merger conditions imposed under the *Financial Sector (Shareholdings) Act 1998.* These should include:**

- **mandatory consultation with stakeholders;**
- **independent auditing of compliance with conditions; and**
- **public reporting of compliance levels.**

3. the capacity for the Australian Competition and Consumer Commission to enforce divestiture in the banking sector if it finds insufficient competition;

The FSU does not have detailed knowledge of the powers available to the ACCC to enforce divestiture in the banking sector. However, the ACCC stated in its evidence to the House of Representatives Standing Committee on Economics Inquiry into Competition in the Banking and Non Banking Sectors that generally it only looked at competition in the banking sector when there was a proposed transaction[14] which suggests there is no automatic mechanism that would detect insufficient competition – this is unfortunate, particularly given the importance of the banking market. The FSU believes there would be benefits to having some form of systematic monitoring of competition in the banking sector. This could be conducted by the ACCC and the RBA on an annual basis to ensure ongoing monitoring of the banking sector.

In addition the FSU supports the *Trade Practices Act (1974)* being amended to give the ACCC powers to force divestiture or changes if it finds a substantial lessening of competition has occurred due to ‘creeping acquisitions’ or insufficient competition exists in the banking market. We note that the issue of creeping acquisitions is currently being considered by Treasury and the Assistant Treasurer.[15]

In 2004 three of the major banks entered into a joint venture or ‘co-sourcing’ arrangements to handle voucher/cheque processing. This venture was not opposed by the ACCC[16] at the time but represents the type of activities that should be monitored in an ongoing fashion to ensure the cumulative effect is not detrimental.

***Recommendation*: The ACCC and the RBA to prepare an annual report on the state of competition and service in the banking sector.**

***Recommendation*: The *Trade Practices Act (1974)* be amended to allow for consideration of ‘creeping acquisitions’; and to give the ACCC appropriate powers if it finds insufficient competition in the banking market.**

4. the adequacy of section 50 of the Trade Practices Act 1974 in preventing further concentration of the Australian banking sector, with specific reference to the merits of a ‘public benefit’ assessment for mergers;

---

[14] House of Representatives Standing Committee on Economics: *Competition in the Banking and Non-Banking Sectors*, Transcript Friday, 19 September 2008, page 20.
[15] *Creeping Acquisitions – Discussion Paper*, Department of Treasury, September 2008.
[16] *ACCC not to intervene in banks joint venture of voucher processing facilities*, ACCC media release, 20 August 2004

The FSU is concerned that while there are existing mechanisms to identify competition and prudential issues with bank mergers, there is currently no mechanism that necessarily evaluates the impact of mergers on employment, communities (particularly rural and regional communities) and society.

We agree wholeheartedly with the Consumer Action Law Centre who observed that:

> ". . the consideration of social issues in bank mergers is an issue that tends to fall between the regulatory cracks in Australia."[17]

Under section 50 of the *Trade Practices Act 1974* a merger can still proceed if it lessens competition – the prohibition only occurs if it *substantially* lessens competition. In simplistic terms this means if a merger isn't particularly bad then it can proceed. The FSU believes there should be an onus on merger parties to demonstrate that a positive outcome will occur rather than simply the absence of a major negative. The FSU strongly supports the adoption of a public benefit test for all bank mergers with the concept of 'public benefit' defined as widely as possible to include employment levels, access to services and impacts on low income and disadvantaged consumers. A 'social audit' with mandatory public consultation should be undertaken to determine whether a public benefit will occur before the merger can proceed.

If undertakings are required to mitigate any negative social impacts of a merger then these measures should be subject to another period of public consultation before they expire. This is necessary to ensure that market conditions have sufficiently developed to mitigate any negative consequences that would occur without the undertakings.

We note that the Commonwealth takeover of Colonial was subject to no fewer than three separate sets of undertakings in an attempt to mitigate the negative consequences that would occur otherwise.[18] We submit that the need for so many conditions is evidence that a net 'public benefit' was unlikely and that consumers, employees and communities would have been better off if the merger had not proceeded.

Recommendation: Section 63 of the *Banking Act 1959* or section 50 of the *Trade Practices Act 1974* should be amended to include a public benefit assessment to determine the merits of a proposed merger or acquisition that includes:

- **A social audit to determine the impact of the merger/acquisition in relation to the concentration of economic power, employment levels, communities and access to services;**
- **A period for public consultation;**
- **The capacity to require of the merger/acquisition parties binding undertakings to mitigate negative social impacts of the merger/acquisition**

In addition to a public benefit test the FSU believes there should be more transparency in the way the ACCC conducts its merger review process. The ACCC does not currently publish any merger submissions received during a merger assessment. We

---

[17] *Defining 'public benefit' - Social and Environmental Considerations in Part VII of the Trade Practices Act 1974 (Cth)"* Consumer Action Law Centre, August 2007

[18] *Commonwealth Bank - Assurances for Tasmania,* CBA Press Release, 19 April 2000*; ACCC not to oppose Commonwealth Bank/Colonial Merger*, 30 May 2000; *Proposed Acquisition of Colonial Limited by the Commonwealth Bank of Australia,* Peter Costello Treasurer, Media Release 30/05/2000.

understand and appreciate that merger submissions to the ACCC will sometimes involve commercially sensitive information that consequently cannot be made public; however the FSU believes that keeping submissions and related information confidential should be the exception rather than the rule.

We believe that public debate and consultation would be enhanced if submissions were released by the ACCC wherever possible. The FSU (and other groups) often publish their own submissions and we believe that many other groups and individuals would happily consent to this if the option were available.

The ACCC also conducted a survey of household and business consumers during its assessment of the Westpac/St George merger. The FSU welcomed this initiative and believes it would have provided valuable information to inform the ACCC's merger assessment process. Unfortunately the ACCC refused to release any results from the survey despite using them to inform its analysis of the merger.

Recommendation: The ACCC should publish all information associated with merger reviews unless there are compelling reasons otherwise.

5. the impact of mergers on consumer choice;

Each time two banks merge there is one less choice for consumers. The question is whether the reduction in choice is then offset by superior service, products or pricing. As discussed previously, FSU's experience is the answer is no, particularly given that smaller banks tend to rank higher on numerous measures and most mergers result in one of the majors acquiring one of the smaller banks with no corresponding increase in consumer satisfaction.

6. the extent to which Australian banks have 'off-shored' services such as credit card and loan processing, information technology, finance and payroll functions;

7. the impact 'off-shoring' has on employment for Australians;

The finance sector has experienced a strong trend towards off-shoring of services over the last decade. The full extent of this trend has been difficult to quantify given the reluctance of many financial institutions to provide transparent information regarding services that have been moved off-shore. In most cases when work is transferred off-shore there are consequent loss of employment opportunities and redundancies in Australia.

The FSU has compiled a table of jobs and services off-shored in the finance sector – this has been developed using public information, estimates and information provided to the FSU directly from employers. Estimates have only been used where no public information was available and no information was forthcoming from the employer. As of January 2009 there were almost 5,000 jobs that had been transferred off-shore – the full version of the table appears at ***attachment 3*** and details the type of functions that have been involved.

The FSU in conjunction with other service sector unions commissioned the National Institute of Economic and Industry Research[19] (NIEIR) to provide advice on:

- the impact off-shoring may have on the services sector in Australia;
- how these impacts will be distributed through the Australian economy and workforce, and

[19] http://www.nieir.com.au/

- policy options that could be proposed to governments and industry to ensure Australian workers are not disadvantaged by these global trends.

The NIEIR report was released in May 2008 and predicted that a staggering 850,000 service sector jobs could go off-shore in the next two decades if current policy settings remained unchanged.

The executive summary of the report sets out the main employment modelling impacts and policy recommendations ***(attachment 4).*** The full report is available from the FSU website.[20]

Job losses are the obvious and most serious potential impact of off-shoring for workers (***attachment 5***). The impact for those directly in the firing line is morale sapping with management bogged down in delivering costs savings often overlooking the impact on the dignity of employees.

Often the reviews of the functions to determine whether they are capable of being sent offshore are conducted by teams of people employed by the potential receiving company, making the outcome of the reviews inevitable.

The staff who are to be displaced are often required to train their replacements who are flown in from overseas. In some instances, staff are unaware that once they have trained these people they will lose their jobs.

FSU members have had to fight to secure the right to decline training their replacements. They have also 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.

There are also flow-on effects for people who remain working for companies where some functions have been moved off-shore. Where processes have been transferred to off-shore locations there is often increased coordination difficulties due to the remote locations of these staff. In addition the remaining staff in the original country are likely to have much better knowledge of the companies' procedures and may be required to deal with an increasing number of problems and complaints that arise due to off-shoring. (See ***attachment 6*** for FSU members experience following off-shoring case study and forum). Studies conducted in the UK have also shown that the practice of off-shoring has created problems for morale and caused increased insecurity among such workers.[21]

Job losses will obviously cause extreme difficulties for those individuals who are made redundant; however there are also wider implications for those working in industries affected by off-shoring. The main motivation behind off-shoring is to cut costs which (inherently) does not promote the long term development of skills and careers within Australian industry which is already experiencing skill shortages. This trend is likely to continue unless the off-shoring issue is properly addressed.

Information Technology roles and skills across the finance sector are an example in point. All the major banks have outsourced part or all of their IT work either domestically or off-shore. It is increasingly difficult for workers with IT skills to find

[20] http://www.fsunion.org.au/

[21] *The Offshoring of Call Centre and Back Office Operations – the Challenge for Trade Unions,* Taylor, Phil and Bain, Peter, 2004.

permanent work within the finance sector. The longer term outlook is that these critical skills will be completely lost to the industry and potentially the country leaving us reliant on importing them in the future.

Training and skill development are critical to Australia's social and economic well-being. They enable employees to deal with change, build on existing capabilities and help to provide a more flexible and productive workforce, making the country more globally competitive.

It is worth noting that countries such as Ireland and India have planned and invested in skill formation and in attracting jobs. It is not accidental that they have established themselves at the forefront of financial services and business processing outsourcing (BPO). India's BPO planning is not just to attract low end processing skills, but to export high skill, high level functions to developed nations as witnessed by the attached business plan from Genpact, a major provider of 'off-shore' services (see ***attachment 7***).

Australia's finance industry has failed to engage in industry planning predominantly on the grounds that this may undermine individual company's competitive advantages. Longer term planning around skills for the future to meet aspiration goals, such as developing Australia as a global financial hub, has also been absent from the industry.

FSU is calling for the establishment of a skills fund for our industry, funded by employers and held in an independent trust that will pay for retraining, re-skilling and further education for finance workers, equipping them for future roles and equipping our nation to meet our goals.

Filling the void of the missing plan is short-term cost cutting measures such as off-shoring and growth through local acquisition. Short term contracts and incentives for executives continue to drive these unimaginative and myopic strategies.

Australian consumers, like those across the globe are deeply fearful for the security of their personal and their financial details. Recent research conducted by Unisys

> "found that bank card fraud and identity theft remain the top concerns by the majority of consumers worldwide."[22]

Australian finance consumers enter into a relationship of trust when they take up a financial product. This trust is premised on the understanding that personal details and finances are entrusted to the company responsible for the financial product. It does not automatically transfer to unknown third parties.

The FSU has been actively involved in the debate about off-shoring. In 2006 the FSU and other unions released a comprehensive joint policy on off-shoring ***(attachment 8)*** that called for a number of policy responses including – 'right to know' legislation that would require service providers to disclose the country where services are being provided from and requirements for informed consent before personal data is transferred off-shore. Both of these were adopted as ALP policy at the 2007 National Conference.[23]

In Australia there is currently no requirement for companies to disclose whether services are being provided off-shore or to seek consent if personal data is going to be

---

[22] *Unisys Research Shows Majority of Consumers Worldwide Trust Biometrics for Data Protection*, December 10, 2008

[23] *ALP National Platform 2007* (Chap 12, page 205).

transferred off-shore. Indeed, many consumers may not be aware that services are being provided from a different country given that some call centres actually go out of their way not to inform consumers if work or data is being handled 'off-shore' (see ***attachment 9*** for an internal call centre memo). Surveys in the UK and Australia found that the majority of customers felt that companies should tell them if they are providing services from off-shore locations or storing data off-shore.[24] A logical comparison is labelling laws for various products where companies must state the 'country of origin' so that consumers can make an informed decision.

The principle of relevant disclosure to ensure consumers can make informed choices is also fundamental to the concept of effective and efficient markets. In addition, consumers are increasingly making choices based not only on price and quality, but also on how companies are conducting their business in relation to ethical, environmental and labour market standards. The increasing use of triple bottom line reporting and ethical investment ratings is tangible evidence that consumers are not simply interested in the cheapest price.

The principle of 'right to know' has been adopted in France[25] and legislation has been introduced into several State legislatures in the USA[26].

National polling commissioned by the FSU and other unions clearly demonstrated strong community concern about the trend toward off-shoring.

Some of the findings include:

- 89 per cent believe the Australian Government should act to protect Australian workers from losing jobs because work is sent offshore
- 85 per cent believe the Government should require all financial institutions to disclose whether they store customer information overseas; and
- 90 per cent said they would choose a business that stored their information in Australia rather than overseas.

***Recommendation*: That the Government facilitate and support the development of a finance industry plan that focuses on investment in employment and skills development.**

***Recommendation:* 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.[27]**

***Recommendation:* That legislation be introduced that requires service providers to disclose the country where their employees are located at the time of transaction.**

***Recommendation:* That any financial or personal information shall not be sent off-shore without the express permission of the consumer.**

---

[24] *Attitudes to Offshore Labour*; McNair Ingenuity Research, May 2006; *Finding the balance: The Effect of Offshore Customer Contact on Profit and Brand*. Contactbabel, 2004.
[25] "*Outsourcing Victory in France*" Press release 18 October 2004 - http://www.union-network.org
[26] For more information see http://www.nfap.net/researchactivities/globalsourcing
[27] See also *Taxpayers need protection under bank bailouts*, Finance Sector Union, 29 January 2009.

Conclusion

Some bank mergers may be necessary to ensure that financial institutions survive; however most major mergers appear to be motivated by profit with no guarantee of any public benefits.

Off-shoring is cost cutting and driven by one sided market forces: it does not promote skill development or employment in Australia and it is often conducted ‘under the radar’ of the consumer. Consumers have the right to know where their services are being provided from and the right to exercise their own market forces based on this disclosure.

Australian licensed finance companies, that derive, in the main, their profit from the Australia community, have an obligation to invest in Australian jobs and skills. We cannot reach our goal of being a global hub for financial services[28] with short term strategies of off-shoring and refusal to build and invest in an industry plan for our future.

The FSU wants a sustainable and professional banking sector that invests in Australia’s long term future and reflects its role as a provider of essential services. We submit that activities such as major mergers and off-shoring are anathema to this vision.

If you have any questions in relation to this submission please contact Rod Masson, National Communication and Policy Manager, on (03) 9261 5330 or James Bennett, Senior Policy and Research Officer on (03) 9261 5405.

Yours sincerely

Leon Carter
National Secretary
6 February 2009

[28] *Government and Industry Set the Agenda for Australia to Become a Financial Services Hub*, Joint Media Release, Kevin Rudd and Chris Bowen, 31 July 2008

Mergers **Attachment 1**

Carol Gordon, FSU National President

I commenced work in 1981 for the then Launceston Bank for Savings (LBS). In 1987 we merged with a local Building Society to form Tasmanian Bank. In 1991 we were sold to the Savings Bank of Tasmania to form Trust Bank. In 1999, Trust Bank was taken over by Colonial State Bank, then within 12 months, the Commonwealth Bank acquired Colonial.

I have witnessed the Tasmanian community lose all of its local banks, seeing them eventually and seemingly inevitably swallowed by a predatory big four bank.

The mergers I have witnessed and worked through have been, by their nature, different. When LBS first merged, staff had been well consulted for a long period of time as to the rationale. That merger also made sense from a local presence and cultural fit.

The merger between Tasmanian Bank and the Savings Bank of Tasmania was a rude shock to most staff, with the then Tasmanian Government briefing stakeholders the day before staff were to be informed only for the story to leaked by the media that evening. Shocked and ashen faced staff greeted each other the following day, unsure of what the repercussions of the decision would be.

When Trust Bank was taken over by Colonial, we again entered a period of uncertainty, which culminated in many local jobs being lost as soon as the computer system was migrated. As soon as they converted the system to Colonial's, back office functions and departments were centralised to Sydney and over 20% of staff were displaced.

Within a year, even before the migration to Colonial occurred, the Commonwealth Bank bought the lot. In order to stem community concern, the ACCC imposed conditions to ensure Tasmanians were not disadvantaged by the CBA's dominance in the market. The Federal Treasurer and the Tasmanian Government also sought an undertaking from CBA not to close points of representation nor involuntarily reduce employment in Tasmania for a period of 5 years. They kept to that undertaking, instigating a programme of involuntary retrenchments within a month of the deadline expiring.

More generally, my observations of mergers and their impact are:

Staff are often the last to know and last to be considered in a merger. A merger tends to reward Executives enormously but leaves staff unsure of their future and rarely any better off in terms of their conditions.

Customers are not big fans of change and react accordingly to merger announcements with concerns about what it will mean for their branch, their branch manager and their accounts. And as their contact is with staff who have no control or *input over the process, that is whom they vent their frustrations on, not the decision makers.*

Customers find it difficult to switch banks. While many of them do not want to bank with the predator company they find they have little choice either because local competitors have disappeared or because the hassle of switching is too great. Either way they are not happy about the process.

Talk about the smaller partner's culture or practices remaining in a merger is simply not true. It is my experience that everything from brand, pricing and products to local administration, community affiliation and internal management culture are completely overtaken by the predators'.

Thankfully, other employers in our communities value bank workers for their honesty, commitment and work ethic. Therefore the vast majority of the bank staff that I have worked with who are displaced by mergers have found alternative employment, many outside the finance industry. It is my view that the only employers who don't value bank workers tend to be banks.

Mergers pose a massive dislocation and disruption to bank staff, customers and communities and should be assessed on the impact that they will have on all of these areas, not just on market competition matters. The criteria for judging success in a healthy society shouldn't be purely financial.

FSU member Bank SA Group Support Centre Adelaide

I have worked in the banking industry for many years, commencing in the State Bank of SA. I have witnessed 3 mergers/takeovers during my career. These include the State Bank takeover by the then Advance Bank, the Advance bank takeover by St.George Bank and now the current takeover of St.George/Bank SA by Westpac.

Each merger I have lived through has been accompanied by the positive 'spin' of management about all the benefits that will be derived – for customers its better service and for staff its better opportunities.

The reality is a bit different though. The only outcome for staff that I have witnessed is uncertainty followed retrenchment of many experienced colleagues. This also means the staff that are left have to do more with less and face higher sales targets and now the potential threat of losing their job to offshoring.

Morale amongst staff during mergers and in the period after is low. Often we do not know whether we will have a job in 12 months. The worst part is hearing the rumours before management officially announce who will be leaving. Morale here right now is very low as we wait for an outcome.

In 2000, the St.George takeover saw my department in Adelaide merged and centralised with another department based in Sydney. Our role was to provide support to branches and we would always go the extra mile for them. The *centralisation resulted in the loss of many experienced staff and the staff in the branches we supported were very unhappy with the loss. Once in Sydney, processes were streamlined and strict guidelines and rules were put in place, so branches found they weren't as helpful as what we had been.*

This is the real outcome of mergers. Experienced people lose their jobs, new streamlined systems are put in place to extract maximum value from the merger and those servicing customers find the support is often not as good.

[Name and address withheld]

Merger impact branches and customers

FSU member – St.George Bank Branch Erina NSW

We service a relatively small community with a lot of older customers. When the merger was announced and each time another announcement was made about it in the media, we would have to deal with concerns from our customers.

They would come in and be concerned about the branch closing or about us losing our jobs. Many of the comments would be about closing their accounts because they used to bank with Westpac but left because they weren't happy. They would say they don't want to go back to Westpac.

For us staff, well you can't help but be cynical about the promise not to close branches. Nothing's ever in concrete. So we just wait and see what will happen.

The General Manager of Retail came around a couple of months ago and said "don't worry about the three year thing, this arrangement is permanent. We have learnt from other mergers and we are taking a different approach. Tell your customers to forget about the three years, it's permanent."

We hope that's true, but when you've got banks involved you know it will be about cost reduction sooner or later.

Attachment 2

Bennett, James

From: Tran, Nhon [Nhon.Tran@treasury.gov.au]
Sent: Wednesday, 28 January 2009 10:09 PM
To: Bennett, James
Cc: Silva Withmory, Daniel; Wijeyewardene, Kerstin
Subject: RE: Westpac/St George [SEC=UNCLASSIFIED]

Dear James
My apologies to you because I have not been able to call.
My answers to your questions:

(a) Westpac will provide Treasury with a letter, sometime next week, on what Westpac has already done to comply with the conditions and what will be done going forward. We have also asked Westpac to provide update on progress every 6 months.

(b) Should Westpac contravene or propose to contravene the conditions, there is scope for the Treasurer to apply to the Federal Court to seek an injunction restraining Westpac from engaging in that conduct or requiring some form of action on its part. While this avenue of redress is available, it would be desirable to avoid such an action.

Please call me for clarification or for further information.
Again, my apologies for the delay in getting back to you James.
Regards
Nhon

From: Bennett, James [mailto:James.Bennett@fsunion.org.au]
Sent: Tuesday, 27 January 2009 9:03 AM
To: Tran, Nhon
Subject: Re: Westpac/St George [SEC=UNCLASSIFIED]

Thanks Nhon,
James

From: Tran, Nhon
To: Bennett, James
Sent: Tue Jan 27 09:00:05 2009
Subject: Westpac/St George [SEC=UNCLASSIFIED]

Dear Mr Bennett
My apologies for the delay, but I will call you later this morning about your question re: compliance. I'll need to speak with the analyst who will be back from leave today.
Thank you.
Regards

Nhon Tran
Senior Adviser
Banking Unit
Financial System Division
Tel: (02) 6263 [redacted]

****

Please Note: The information contained in this e-mail message

Finance Industry – Jobs Offshored – current at 2 February 2009 Attachment 3

Company	Business Unit	Jobs sent offshore	From where	Destination location	Destination company	Job functions	Date announced
ANZ	IT	1100	Melbourne	Bangalore	ANZ	Software Development; IT Maintenance; Help desk etc	
ANZ	Back Office	700	Melbourne	Bangalore	ANZ	*See attached ANZ table for detail on 399 roles.*	
ANZ	Commercial Cards Assessment Team	7	Dorcas Street, Melbourne	Bangalore	ANZ	Commercial Cards Assessment	January 31 2008
ANZ	TradeCentrix (Melbourne)	35	Melbourne	Bangalore		Trade Operations	Announce 7th April 08 - Completed by Sep 08
ANZ	Small Business Operations	Approx 20	Melbourne	Bangalore		Credit Assessment and Loan Support	Announced 24th April - Completed by 19th Sept
ANZ	Consumer Finance	5	Melbourne	Bangalore		Personal Loans Operations Support & Assessment teams	Announced 20th May – Completed 28th Sept

Company	Business Unit	Jobs sent offshore	From where	Destination location	Destination company	Job functions	Date announced
							08
ANZ	Mortgages Credit Assessment WA	33.84FTE	WA	Bangalore		Mortgage Credit Assessment and ANZ Lenders Mortgage Insurance (LMI)	Announced on 21st May 08 – Completed 26th Sept 08
ANZ	HR Services	3	Melbourne	Bangalore		Learning Services, Remuneration Services, and Diversity & Flexibility teams	Announced 20th May 08 completed by 28th Sept 08
ANZ	Consumer Finance	5	Melbourne	Bangalore		Card Support team	Announced 26th May – Completed by 28th Nov 08
ANZ	Trade Services	37	Melbourne	Bangalore		Trade Services	Announced 6th June 08 to be completed by late 08 early 09
ANZ	Group Finance	2	Melbourne	Bangalore		Group Finance	Announced 19th June 08 – Completed by Mar 09

Company	Business Unit	Jobs sent offshore	From where	Destination location	Destination company	Job functions	Date announced
ANZ	Group Finance	3	Melbourne	Bangalore		Group Finance	Announced 2nd June 08 – Completed by 18th Dec 08
ANZ	OTSS Finance	3	Melbourne	Bangalore		Finance	Announced 25 July 08 – completed 2nd April 09
ANZ	EFT Dispute team within Consumer Finance	4	Melbourne	Bangalore		EFT Dispute team within Consumer Finance	Announced 16th Sept 08 - Completed by 20 Feb 09
ANZ	Personal Technology	38	Melbourne	Bangalore		Personal Technology	Announced 2nd Dec 08 – Completed by Sept 09
AXA	IT and BPO	400	Melbourne and Brisbane	Bangalore	AXA Asia Pacific	Software development and maintenance; super call centre administration	
Westpac	Financial	60	Kent St,	India	Genpact	Reconciliations,	14 August

Company	Business Unit	Jobs sent offshore	From where	Destination location	Destination company	Job functions	Date announced
	Business Services (FBS)		Sydney			Journals, Accounts Payable, Simple Reporting	2008 30 offshored in Feb 09, and 30 in June 09
Westpac	TULO (Transactions & Unsecured Lending Operations)	55	Concord, NSW	India	Genpact	Cash Balancing. Destinations, Electronic and Paper. EFT/Card Disputes. Branch Enquiry Line	6 August 2008 – jobs going March 2009
Westpac	TULO (Transactions & Unsecured Lending Operations)	80	Concord, NSW	India	Genpact	AAT Business Account Signups (loading to internet), TNA Establishments, Fees, Destination Electronic (Bpay)- payments to other banks, CNI (3rd Party), Voucher Retrieval – Archive Enquiries, Destinations Westpac (recall	13 March 2008

Company	**Business Unit**	**Jobs sent offshore**	**From where**	**Destination location**	**Destination company**	**Job functions**	**Date announced**
						only), Interest, Account maintenance, CAS, Audits	
Westpac	People and Performance	10	Kent St, Sydney NSW	India	Genpact	Arrange Staff Training	15 January 2008
Westpac	TULO	25	Concord, Sydney	India	Genpact	Load Utility, Special Answers, Campaign Completion Unit	12 Sept 2007
BT/Westpac	Wrap and SuperWrap	68	Adelaide	India	Genpact	Applications, Amendments, Deposits and redemptions.	Sept 2007

BT/Westpac	Super and retail admin	77	Adelaide	Bangalore, India	Genpact	Personal Superannuation, Superannuation and Retirement Services, Retail Redemptions, Amendments, Applications, Rework, Reconciliations and Key Events	August 2006
BT/Westpac	IT	40	Sydney	(India)	HCL	Software development and maintenance	August 2006
Citigroup	Citibank Call Centre	150	Brisbane	Manila	Citigroup	Call Centre	
Diners Club International	Call Centre	82	Melbourne	Manila	Citigroup	Call centre	
Macquarie Bank	HR	100		India	Accenture		March 2007
NAB	Accounts Payable	20	Melbourne	Bangalore	Accenture	Accounts	
NAB	CBS & CS&D	70 (includes 9 from personal loans)	Melbourne	Jaipur	Genpact	Acct maintenance, Acct Origination, Personal loans verification, document preparation. *Credit card disputes undecided.*	
NAB	Operations and Finance Information Management	80	Melbourne	TBD	TBD	Financial forecasting and reporting, etc.	
NAB	NAB International	84	Melbourne	TBD	Genpact		Oct 07

	Trade and Payments Operations						
NAB	Payroll and PAC (people and Advisory Centre	Approx 93	Melbourne	Bangalore	Infosys	Email and call advice to Nab employees. Production of employee documentation. Payroll	7 Febraury 2008 Should be fully operational M arch 2008
NAB	Technology • Core systems (payments & payment support) • Core systems – account services • Siebel (banking) • Main frame develop’t and support	92 FTE 87 (contract) = 179 jobs	Victoria and MLC 555 Collins St – 37 800 Bourke St – 35 MLC – Syd - 20	India	Satyum-Jaipur	Ledger System. Data Warehouse, Testing Mainframe	After Feb 09
NAB	Finance (BPO)	Approx 30	Docklands, Melbourne	Bangalore (India)	Accenture	Financial Governance, Reporting	20 February 2008

						Information Delivery, Tax and Accounting services	(Transitioning September 2008)
NAB	Lending Services (LS)	79	Queensland NSW Victoria	Jaipur (India)	Genpact	Sales Fulfilment, document preparation Post Production	29/04/08 (Transitioning in 2009)
NAB	LSA	100 impacted (63 perm, 37 temp)some will stay onshore – further details to be provided	East Coast Australia	India	Genpact	Document Preparation-Business lending	Announced 4.9.08
NAB	Custodian Services – Processing Svces	270 in-scope for first review of CS (Nov 08). (650 people all up in CS)	500 Bourke St Melb	India	Genpact	Assessing services in Nov 08	Don’t expect decisions until Sept 09. (announced Nov 08)
NAB	NABCapital – Enabling Finance	80 jobs in scope – 32 likely to be offshored (from UK and Aust)	500 Bourke St (1-2 in Syd)	India	Accenture	Assessing Feb 09+	Offshored from Aug 09+
NAB	NAB Capital – Finance	80 in scope – UK and Aust (up to 32 roles will go)	500 Bourke St Melb. 1-2 in Syd	India	Accenture	Process mapping Feb – April 09 (next briefing April 09)..	Jobs will go Aug 09

St. George	Collections	60	Sydney	Bangalore	IBM	Debt collections	Mid-March ’07 & ongoing
St. George	Credit Card Services & Marketing	16	Adelaide	Bangalore	IBM	Marketing credit cards	
St George	Personal Lending	15	Sydney	Bangalore	IBM	Credit card and loan administration	May 2007
St George	Broker Mortgage Services	18	Sydney	Bangalore	IBM	Support services for brokers	May 2007
St George	Mortgage processing	22	Sydney	Bangalore	IBM	Discharges, Securitisation, Imaging and Loans Administration.	Dec 2007 – Jan 2008
St George	ASGARD.	11	Perth	Bangalore	IBM	Managed Funds, Administration/Settlements	June 19 2008
St George	Customer Mortgage Services	31	NSW = 11 QLD = 3 VIC = 3 ACT = 8 SA = 6		IBM	Document Preparation	June 12 2008
St George	Banking Services Support	22	NSW		IBM	Estate management, Securities variations	June 12 2008
St George	Loans Admin	17	Kogarah, NSW	Bangalore	IBM	Loans administration, Banking Services and support	June 30 2008
St George	Banking Services and	16	Kogarah NSW	Bangalore	IBM	Reconciliations	21 July 2008

	Support						
St George	Shared Services	9	Kogarah, NSW	Bangalore	IBM	Progress Payments	21 July 2008
St George	Shared Services	4	Adelaide SA	Bangalore	IBM	Progress Payments	21 July 2008
St George	Customer Admin	19	Kogarah. NSW	Bangalore	IBM	Customer Administration	Announced 24 Sept 2008, going offshore January 2009
St George	Banking Services and Support	11	Kogarah. NSW	Bangalore	IBM	Disputed Transactions	Announced 24 Sept 2008, going offshore January 2009
	Total	***Approx. 4910.84***					

<u>Attachment 1</u> **- ANZ – Jobs off-shored current as at January 2008**

Business unit	***No of people displaced***	***Date of advice***	***Proposed end date(s)***
Three Campus - GSDS -	?	Predated agreement on advice	
Stat Compliance	13	5.4.06 (verbal response to enquiry)	
Access Control	9	5.4.06 (verbal	

		response to enquiry)	
Esanda Tech	34	5.4.06 (verbal response to enquiry)	
Trade & Transaction Services - Maint. & Value services - New Accts & Registrations	 13 25	 26.4.06 26.4.06	 1.11.06, 1.8.07
Shared Services - PSSP - PCPAS	 14 12	 26.4.06 26.4.06	 27.11.06 30.10.06
Consumer & Business Tech	2	3.10.05	
Markets tech (C&IT)	6	28.11.05	
Enterprise & Staff Tech	1 – not offshore; automation	28.11.05	Previously retrenched
Banking Products (OTSS)	28	1.12.05	1.11.07
Esanda	5	9.2.06	
TPC – Payments	1	9.2.06	
Corporate & Instit. Technol.	1	8.3.06	
Commercial Cards Maint. Consumer Cards Maint.	24	8.5.06	
Enterpr. & Staff Tech	2	9.5.06	12.10.06, 10.11.06
Consumer & Business Tech	1	30.5.06	
TPC – Payments	19	9.6.06	12.1.07
Settlements & Control	10	9.6.06	15.12.06
Small Business Operations	6	20.9.06	6.4.07
Regional Business services	11	20.9.06	6.4.07
TPC – Payments	8	17.10.06	11.5.07
Outwards Payments (IHVS)	18	17.11.06	25.5.07, 12.6.07

Shared services - operations	51	9.2.07	15.6.07, 17.8.07
TPC	11	26.2.07	
IHVS	15	5.3.07	
New Acct & Authorities (Cash Management)	10	13.3.07	16.7.07
Bank to bank	13	17.4.07	8.8.07
Customer Payment	13	17.4.07	8.8.07
Mortgages Servicing team	45		
Outstanding Transaction Processing (OTP) & Remittance Suspense	40		
Customer Relations	11		
Total	**399**		

Attachment 4

OFF-SHORE AND OFF WORK

The future of Australian service industries in a global economy

A call to action

A report for the
Services Unions of Australia

Prepared by the
National Institute of Economic and Industry Research
ABN: 72 006 234 626
416 Queens Parade, Clifton Hill, Victoria, 3068
Telephone: (03) 9488 8444; Facsimile: (03) 9482 3262
Email: Julie.barker@nieir.com.au

May 2008

While the National Institute endeavours to provide reliable forecasts and believes the material is accurate it will not be liable for any claim by any party acting on such information.

Contents

Contents

Contents

Contents

List of tables

Project objectives

Off-shoring of service sector jobs has been emerging as an important issue impacting employees for a number of years. Banks and other service sector employers have been interested in Off-shoring as a way of benefiting from lower wage rates in less developed countries. However, they have been constrained by concerns about the potential impact on their brand and customer loyalty. As Off-shoring gathers pace internationally, it can be expected that these efforts will continue and competitive pressure will be cited as justification. The Services Unions of Australia have mounted successful campaigns to date around issues such as local employment and privacy concerns of customers. They are now looking to develop a deeper and more sophisticated understanding of the potential impact of Off-shoring and policy options that could be put forward in order to benefit Australian employees.

NIEIR has been asked by Service Unions of Australia to:

- provide advice on the likely impact of Off-shoring based on at least three different scenarios; base case, high and low scenarios;
- provide advice on how the impact of those scenarios will be distributed through the Australian economy and workforce, and;
- develop policy options that could be proposed to governments and industry to ensure Australian workers are not disadvantaged by these global trends.

Executive summary

Australia's services industries are often seen as the back-up to Plan A. If China's hunger for resources abates there will always be services as a fall back. Manufacturing is in a downward spiral and agriculture has not only declined, it faces an uncertain future due to global warming. But the sector that employs more Australians than any other is in poor shape. It is not holding its own in international markets for traded services. In fact it is losing market share. More jobs than ever are being moved off-shore. Without Plan B - a strong services sector - what is Australia's future should China stumble?

This report is not the first to draw attention to the poor state of Australia's services sector. Last year, the Business Council of Australia[1] formed a similarly pessimistic view of the state of sector. This report builds on what is known about the state of the services sector and asks how bad can it get? It estimates that Australia could lose up to one in ten service sector jobs over the next 20 years. About 850,000 jobs are at risk. Australia stands at the cusp of a vicious cycle of off-shoring jobs, losing skills and competencies from the domestic economy and as a result, losing more jobs off-shore.

The clock is ticking for concerted action to address this vicious cycle of job loss, skills loss and loss of competencies. A worst case scenario could see Australia losing 1,000 jobs a week off-shore over the next 20 years. Unlike the experience of Australia's manufacturing sector, these would not be the lower skilled jobs. Almost all would be high skill or intermediate skill jobs. The low skill jobs requiring face to face communication would remain. The sector would effectively be de-skilled. By highlighting the threat to the sector and the jobs at risk, this report is both a wake-up call and a call to action.

E.1 Off-shoring jobs and the global economy in services

The evolution of a global economy in services has its origins in the communications revolution that started with the fall in international telephony costs from the 1980s and continued with the introduction of broadband in the 1990s. This revolution has eliminated or reduced natural barriers of protection for selected service industries and, more importantly, occupations. Lower communication costs create the possibility for many services to be performed or delivered from virtually anywhere in the world. This trend will over time create international centres of expertise for service development, production and delivery. A number of countries have been actively pursuing opportunities to develop globally focused service economies. Australia does not have such a strategy. It is losing ground and jobs.

Off-shoring is the continuation of the outsourcing phenomenon of the 1980s and 1990s. The difference is that in the past outsourcing, in the service sector at least, involved transfers of employment within the national economy. Off-shoring involves the transfer of employment from one country to another. This report identifies two types of off-shoring:

- industry off-shoring occurs when a whole service division or firm that previously developed or delivered services in Australia is transferred off-shore. This may mean that a firm loses all or part of its business to an off-shore competitor;
- on the other hand, if some of the functions of the firm, such as telemarketing or statistical analysis, are moved off-shore with the remaining functions carried out in Australia, then this is referred to as occupational off-shoring.

[1] *Unserviced: Why Australia's Services Economy Deserves More Attention*, Business Council of Australia, Discussion Paper July 2007.

E.2 An expanding range of jobs being performed internationally

In the short-term, the following seven characteristics identify the types of service jobs more likely than others to be off-shored:

1. heavy reliance on information technology and routine or rule-based work;
2. lack of need for personal contact with customers;
3. wage cost savings in low-wage countries that outweigh productivity losses;
4. tradability;
5. availability of skills abroad;
6. labour intensiveness, ease of physical relocation and separability of jobs tasks from other parts of the production process; and
7. absence of cultural, institutional and legal barriers.

In the longer term, the potential for off-shoring will increase because the speed, capability and coverage of broadband infrastructure will steadily improve and international service centres will continue to develop scale and skills that provide global competitive advantage.

At some point in the future, the virtual office will become a reality. Only services that require face to face contact (nursing, wait staff) will be tied to a particular location. Services industries will be based on a global workforce with firms seeking to maximise efficiency and competitive advantage based on global availability of skills, scale, quality, innovation and cost competitiveness. At this point, employment in many parts of the sector will be premised on globally contestable remuneration and costs.

E.3 How this study identified jobs at risk in Australia

This study takes a rigorous quantitative approach based on the following simple concept: Existing patterns of service delivery (within a country) are an indicator of services and occupations that can be outsourced to foreign countries. If an industry or occupation is not strongly concentrated by region, then it is an indication that proximity to clients and markets is a competitive advantage. If, on the other hand, after adjustment for industry structure, it is found that industries or occupations are concentrated by region then it is an indication that within a national economy these industries and occupations are capable of a high level of inter-regional trade. If services of industries and occupations can be internally traded in an economy, it is a good indication that they could be traded internationally. There has to be adjustments to the results because for some services, even if they are technically capable of being traded, for example a Government service, the reality is that they will not be traded. However, all adjustments made to the outcomes of the application of the methodology in the study are transparent.

E.4 Key findings

One in ten service sector jobs at risk

This study finds that (for the base case) 850,000 Australian jobs are at risk of being lost off-shore over the next two decades (Table E.1). This represents just under 10 per cent of total service sector employment and 8.2 per cent of total employment. As the population grows, the absolute number of jobs at risk will increase to about 1.1 million even if the percentage remains unchanged. These estimates are at the low end of the range of estimates, both for the United States and Australia. The main reason is the more realistic assessment criteria for employment at risk that have been used.

The study also found that the majority of employment losses will be concentrated in the professional and managerial skill occupations. From Table E.1, 60 per cent of the employment losses will be in this skill category. Just under a third of the potential employment losses will be in the intermediate occupation skill categories, while 7 per cent will be in the low skill categories.

Table E.1 Number of employment by broad skill occupations lost from Off-shoring over next two decades – based on occupational employment levels 2006 (thousands)

	Base scenario	High scenario	Low scenario
High skilled	511.6	606.0	412.7
Intermediate skilled	272.1	315.1	228.6
Low skilled	65.9	76.4	55.2
Total	**849.6**	**997.6**	**696.4**
Per cent			
High skilled	60.2	60.7	59.3
Intermediate skilled	32.0	31.6	32.8
Low skilled	7.8	7.7	7.9
Total	100.0	100.0	100.0
Total (of service sector employment)	9.7	11.4	8.0
Per cent of total employment	8.2	9.7	6.8

Largest declines in information technology and related occupations

Table E.2 profiles the largest assessed potential employment losses by occupation. The largest absolute potential declines are for the information technology related occupations. It should be noted that the presence of occupations in the list that would not, a priori, be expected to be influenced by off-shoring can come about from industry off-shoring. Industry off-shoring (as defined above) will eliminate all occupations employed in the industry, not just those occupations which can be directly off-shored.

Flow on effects increase employment losses by a further 30 per cent

One flow-on effect from off-shoring jobs is the reduction in consumption expenditure from those displaced. The study estimates that the traditional multiplier mechanism will increase the employment losses by 30 per cent from the estimates shown in Table E.1. However, there will be positive offsets. By allowing a reduction in costs to Australian based enterprises off-shoring will:

(i) increase profitability;

(ii) allow output prices to be reduced; thereby

(iii) increasing investment, exports, and real demand as well as tending to reduce import penetration.

These factors will be an offset to the direct employment losses from off-shoring. The question is by how much?

Benefits from off-shoring lost through transfer of income to other countries

If employment loss is caused by an increase in labour productivity or by domestic outsourcing, then all the income gains and losses would be contained within Australia. In the base case scenario the effect of this would be a net increase in household consumption of the order of $9 billion and employment loss (as well as flow-on impacts from employment loss) would be neutralised. However, off-shoring, unlike domestic outsourcing, involves a significant income transfer to foreign jurisdictions. In this report, the standard assumption adopted is that on average 40 per cent of cost savings are retained in foreign jurisdictions. The impact of this loss to foreign jurisdictions is that the benefits identified from off-shoring are offset. In other words, while there are benefits to the Australian economy from off-shoring these benefits are neutralised because a proportion of these benefits are retained off-shore. So the employment impact is not substantially different after these issues have been taken into account.

Increase in inequality of income distribution

Off-shoring will impact income distribution in Australia. Job losses in the high income managerial and professional occupations will increase the equality of the distribution of income. However, this will be more than offset by job losses in the intermediate clerical, sales and services occupations. The net effect will be an increase in the inequality of income distribution from employment.

Cities and regional centres face the greatest threat

The potential loss of jobs off-shore will not be even geographically but felt most in cities and regional centres. This is because cities and regional centres are effectively hubs for service delivery and therefore concentrate the sorts of jobs that could potentially be moved off-shore. Appendix 1 illustrates the geographic distribution of jobs that could potentially be off- shored.

Table E.2 Number of employment by four digit ASCO occupations lost from Off-shoring over next two decades – based on occupational employment levels 2006 – total impact (thousands)

	Base scenario	High scenario	Low scenario
1112 General managers	11.4	12.5	10.2
1192 Importers, exporters and wholesalers	6.1	7.1	5.2
1211 Finance managers	10.7	12.6	8.7
1213 Human resource managers	6.9	8.2	5.6
1223 Supply and distribution managers	5.6	6.8	4.4
1224 Information technology managers	15.2	18.9	11.2
1231 Sales and marketing managers	25.9	30.6	21.1
1299 Other specialist managers	4.8	5.4	4.3
2115 Medical scientists	5.3	6.5	4.1
2125 Electrical and electronics engineers	4.3	5.1	3.5
2211 Accountants	34.3	40.1	28.4
2221 Marketing and advertising professionals	13.3	15.7	10.9
2222 Technical sales representatives	8.5	10.1	6.8
2231 Computing professionals	81.2	102.1	58.4
2291 Human resource professionals	12.1	13.5	10.6
2294 Business and organisation analysts	7.6	8.5	6.7
2299 Other business and information professionals	12.1	15.9	8.2
2421 University lecturers and tutors	8.8	10.3	7.2
2521 Legal professionals	14.7	17.2	12.1
2533 Designers and illustrators	16.8	21.3	12.1
2541 Air transport professionals	5.8	7.7	3.9
3211 Branch accountants and managers (financial institution)	5.6	6.2	4.9
3212 Financial dealers and brokers	18.2	21.9	14.5
3213 Financial investment advisers	8.8	10.5	7.0
3291 Office managers	11.0	9.2	12.8
3292 Project and program administrators	25.2	30.9	19.4
3293 Real estate associate professionals	9.5	10.3	8.8
3294 Computing support technicians	22.4	28.5	15.7
3392 Customer service managers	5.9	6.7	5.1
4315 Electronic and office equipment tradespersons	9.6	11.6	7.5
4316 Communications tradespersons	6.2	8.7	3.7
5111 Secretaries and personal assistants	24.5	26.4	22.5
5911 Bookkeepers	6.1	7.5	4.7
5912 Credit and loans officers	7.7	8.7	6.7
5991 Advanced legal and related clerks	5.1	6.1	4.1
6111 General clerks	31.9	37.2	26.6
6121 Keyboard operators	26.5	32.9	19.8
6131 Receptionists	4.6	5.7	3.5
6141 Accounting clerks	28.0	34.2	21.7
6142 Payroll clerks	7.5	9.2	5.8
6143 Bank workers	23.1	27.3	18.7

Table E.2 Number of employment by four digit ASCO occupations lost from Off-shoring over next two decades – based on occupational employment levels 2006 – total impact (thousands) – continued

	Base scenario	High scenario	Low scenario
6152 Transport and despatching clerks	4.6	5.0	4.2
6153 Stock and purchasing clerks	14.2	16.8	11.6
6191 Inquiry and admissions clerks	10.3	10.3	10.5
6211 Sales representatives	10.7	9.7	11.8
6397 Travel and tourism agents	6.7	8.1	5.3
7993 Storepersons	5.3	5.8	4.7
8211 Sales assistants	7.3	8.8	5.8
8294 Telemarketers	8.0	10.2	5.7
8319 Other elementary service workers	12.9	15.4	10.3
Total	**849.6**	**997.6**	**696.4**

E.5 The way forward

Australia needs a service industries strategy. This must be led and developed by a Task Force that includes all the relevant players. The Service Industries Task Force should report directly to a Cabinet sub-committee with the capacity to implement recommendations across the whole of government. The strategy needs to focus on identifying capabilities that exist in the Australian economy that can provide the basis for a globally competitive services sector. The objective must be for Australia to establish itself in the global traded services economy. Implementation of the strategy will need to focus on:

- developing stronger linkages between universities, industry bodies, training institutions, business, unions, state and federal governments;
- improving skills through training and other targeted skills development initiatives;
- scaling up parts of the Australian services sector through clusters, networks and mergers;
- encouraging leaders in the services sector capable of building a globally competitive sector;
- development of infrastructure with internationally competitive costs;
- building market linkages into the global services sector;
- investment attraction for companies who can build an international presence for Australia; and
- marketing and branding Australia's key capabilities in the services sector.

The longer-term solution is to grow service sector exports. The direct contribution service sector exports makes to direct employment creation is low, being of the order of 320,000 to 350,000. Over the last half a decade the service sector's exports growth performance has been poor. In order to neutralise the likely loss in employment from off-shoring over the next two decades, service sector exports would have to grow by 8 per cent per annum, with the growth led by business services exports and finance services exports. This is not a big ask in the context of services sector export growth in Asia-Pacific. It is a big ask in the context of recent performance. Policy intervention will be needed.

Short-term strategies should include:

1. review of the tax system to remove any incentives or other benefits to off-shore and create an incentive for companies to develop target competencies in Australia;
2. review Free Trade Agreements to ensure Australian business operates on a level playing field; and
3. introduction of ‘Right to Know’ legislation (similar to ‘Country of Origin’) so domestic customers wanting to support businesses that source services locally will have the ability to do so.

These recommendations are discussed in the final section of this report.

Off-shoring Attachment 5

Case study - FSU member ANZ

I was employed by the ANZ in their Technology area as a tester.

In Nov 2005 I was advised of new structure due to off-shoring of Technology roles at ANZ. I was advised that a 'spill + fill' was going to occur for roles under the new structure.

Some of 2006 was dedicated to interviews, re-training, looking for other jobs etc, and continuing work.

My role meant I didn't deal with external customers, only internal.

I understand that the redundancies occurring in late 2008 and early 2009 have been handled vastly different to mine. When it happened to me, ANZ was incredibly generous with time, training funding etc … even if it was all great PR for them and being seen to be doing something.

This time around they probably have the global financial crisis as an excuse and not just for off-shoring. And no I don't care what they say off-shoring is a cost cutting agenda.

- Were staff consulted about the off-shoring before it occurred?

Yes we were ADVISED way before it occurred, not consulted, because it was going to happen regardless of our opinions.

In fact, a group of staff wrote to the then CEO john McFarlane to advise him that moving the support of live systems overseas so quickly was not a good idea.

Needless to say these people were absolutely hammered for writing to the chief without advising the many layers of managers first.

- How well was the off-shoring decision communicated to staff? (Question and Answer sessions? Email? Individually?);

Communication to staff of the off-shoring decision was done reasonably well.

There were presentations, Q+As, emails.

HOWEVER, everything was incredibly 'stage managed', lots of spin + weasel words, generalities. They had a script.

Any email sent by me to management was either not answered or not answered in an individual sense. If emails were answered, they were general or did not answer the question. It was almost like they had legal training so that we could not pin anything on them.

- What effect did off-shoring have on morale?

There was a negative impact on morale.

Apart from our jobs going off-shore, staff were fed up with training the o/s people; having to re-do their work; the fact that in some instances they had no idea; the fact that peer review of their work was ignored and that the Melbourne based peer reviewer was told not to find so many holes in their work.

There were Cultural info sessions and the warning that we had to be patient and sensitive but we were not given the same respect by management.

Furthermore, in the months leading up to interviews, the management team who was brought in to slash & burn, conducted these one on one sessions to 'suss' you out; they also conducted an all expenses paid breakfast with teams to do the same.

If only I could have taped some of my one on one conversations with the so called leadership!

There was intimidation if one disagreed with their agenda or if one spoke up in meetings. These staff members all of a sudden were given poor performance reviews.

During performance reviews some people were told they had poor team work; that other team members had complained about them; that they were negative, but management were not able to cite specific examples of when this behaviour took place.

And funny that staff were not advised of this behaviour when it actually occurred.

And all this in the lead up to the restructure and interviews – how convenient!

And once the interviews were completed and applicants advised, those who missed out were dumped on to a care taker team lead who could not give a toss.

- Were staff expected to train their 'off-shore' replacements?

Yes – see above.

Massive effort in writing manuals for them regarding processes, how the systems work; lots of travel (+ expense) by Melbourne staff over to India to 'train' them; many Indians came to Melbourne for months to 'train' etc.

However, the in joke was that there would need to be perpetual training because the turnover over there was high – they had no interest in staying or loyalty as it was just an interim step to banks in London or New York. Status + management were all important to them and testing or programming was for the little folk!!!

The Melbourne based executives just don't get it – they are a bunch of bean counters that just look at the data they receive on a daily basis.

- How were redundancies handled?

See above – handled reasonably well with respect to re-training funding, given ample time before actually departing, lots of info + workshops regarding CVs + interviews.

However, times are different now and back then it was good PR for the bank. Now they are not so generous, and their Indian model is more 'mature' so it's easy to put on a few more testers / programmers over there without too much drama.

Also towards the end you had to triple check your payout and a few of us had problems. I guess this is part of the greater malaise in corporations these days where some people / depts. don't know what they are doing … or the function has been o/s.

- Was there a proper process for filling contested positions?

Proper in as far as the new structure + roles were made visible.

The application process was pretty good.

Part of the application process required staff to fill in a skills (soft + technical) matrix where you rated yourself on various skills. Then your manager filled in exactly the same matrix where they rated YOU. Given that I had a total of 9 managers / team leads over 18 months I found this part incredibly rigged. Needless to say I was not able to get a copy of what they wrote about me.

Also my team lead often did not forward pertinent emails, and we knew this because we spoke with other teams who received them.

So after the submission of applications + matrices, and after the interview process, what went on behind closed doors is any ones guess but rest assured it was not objective – see above comments on Performance Reviews.

- What was the impact on customer service/data security?

With respect to my particular dept + systems, impact to external customers probably little / none.

Impact to internal customers – lots of frustrations; lots of hours; communications becoming more complex due to a range of factors including distance, time differences, culture; language + comprehension issues; system design doco poorly written; errors being noticed with some actually going into the live production systems and so may have impacted the external customer.

So instead of being able to do your job, you were becoming a micro manager because all of the above had to be managed otherwise no work would get done and risk would increase.

It became a job where there was more of the hand holding + managing and less of the real stuff.

Impact on data security – not being a technical person/programmer, I have no idea on how they are set up over in India.

However, I know that they have access to the Retail Customer database so in theory if they were able to strip this database without detection then they could get some juicy customer details.

GENERAL OBSERVATIONS

- Extent to which the IT function has been off-shored

Across the whole bank, definitely in the 100s, possibly over 1000.

- Impact off-shoring has on employment for Australians

Macro level –

- Loss of skill
- Loss of product knowledge
- Loss of Australian banking culture, meaning the loss of those people who are career bankers and understand, inside out, the idiosyncrasies in Australian banking
- Little / no permanent jobs available in IT sector.
- Perception by decision makers / captains of industry / banking execs that if you are not in IT management / in a strategy role / in a project management role etc then you cant be adding any value and that your tester or programmer role is a low value role … hence get rid of it because you cost too much!!!
- What they don't get is not everyone wants to aspire to these so called 'high value' roles but that doesn't mean we are not dedicated.

Personal level –

- Out of the banking sector when one doesn't want to be
- To suggest one can change careers at the drop of a hat is absurd
- Some people do not have the financial and non financial support to enable them to change careers and/or do further education
- Even in Melbourne one is playing in an un-level field when competing for IT contracting roles
- Mixed messages between contracting Agents and Employers
- Employers are not clear on what they want and so one thinks twice about embarking on further education (risk v. return)
- The employment market in general has become a directionless, casualised meat market.

Off-shoring Attachment 6

Impact on frontline staff – branches

FSU member St.George Bank branch Erina NSW

We have customers coming into the branch, sometimes quite upset, saying they received a phone call about their credit card and they couldn't understand what the problem was. Often when we check the problem it seems it was not explained properly to the customer – usually we fix it which means we deal with India and this can cause delays for customers.

The language difficulties make it hard for some customers, but it is also about the lack of understanding of systems and processes.

I had a direct debit that normally goes through my credit card and I noticed that it hadn't one time. I called India to see what the problem was. I was told that my PIN was wrong, I had to explain to them that my PIN is not required for a direct debit. They then went away and came back and said the expiry date on the card was wrong, I again had to correct them, the expiry date was fine and had nothing to do with the transaction.

I couldn't help thinking how confusing this would be for customers who don't work in a bank like I do. Offshoring has not resulted in better customer service.

Impact on back office staff

FSU member Bank SA Adelaide

We face the real threat of offshoring. A number of departments have gone, some are under review, it's hard to know when or where it will happen. I believe that offshoring is now the biggest threat to job security in the bank industry.

Not only does offshoring affect staff morale but the impact on customer service is enormous. Maintenance on customer's accounts that the branch staff send off electronically to be actioned once upon a time took a couple of days, now it takes longer due to it being done overseas.

Many departments are now based overseas, so quite often we get branches calling our department for clarification as they cannot understand what the department overseas has advised due to language differences or the wrong information being given due to lack of banking knowledge and processes. Meanwhile many of these branches have customers waiting.

In the area that I work in we deal direct with overseas departments also. What should be a 5 minute phone call quite often turns into 20 minutes.

Through all of this, staff are told to remain loyal to the organisation whilst we wait for our jobs to be offshored so the bank can make a larger profit. It is really disappointing that Australian staff are not recognised as making a huge contribution to Australian companies.

FSU conducted a member forum on our website during 2008, asking members:

Is off-shoring causing you headaches at work?

The following are a sample of the responses received:

Service standards have dropped dramatically. Staff are spending more time chasing up documents/correcting errors etc. Customers are complaining about speaking to "foreigners who they can not understand" so they then call their local branch for minor matters to be attended to. Errors are being made on our customers accounts and we are spending hours and hours to get them fixed. They do not understand our systems and we are having to try to explain to them how to do their jobs. I worry about what is happening to our customers accounts. The public should know what is going on

Posted by 401660 at 6/03/2008 12:08:53 PM

Member comment submitted via email:

Credit Card approvals used to be done in 24 hours, now since Cards was sent overseas approvals take 5 days. How's that better for customers?

Posted by lshingles at 6/03/2008 1:10:34 PM

I spent 40 mins to Bangalore about a collections matter, to have them remove a code so a deposit could be made. They could not delete the code properly and our help desk eventually solved my problem. I rang back to their supervisor to advise him the correct procedure. He promised to pass it on to his staff. Time will tell.

Posted by 8527 at 6/03/2008 4:16:44 PM

There have been some nightmare stories regarding the loading of applications which are submitted via the broker channel. An administration team has been set up offshore which handles the loading of clients' applications. Prior to this we were advised that the team (offshore) would receive extensive training even more so than our current staff within the unit would. Many resources were allocated to them to ensure a smooth process. Our own staff do not receive any formal training to complete this role yet an offshore team had a multitude of trainers and formal training.

Unfortunately it has not been successful. The loading of applications have been pitiful to say the least. They are unable to identify with the customer or with the items that are listed on applications. Nor are they able to grasp specific loan structures that clients request . They cannot comprehend broker notes that are submitted on file.

These faults are then filtered thru to our unit in with many of our hours spent in trying to rectify the problems incurred. All problems are not always fixed and loans end up being approved and sometimes even settle with these errors. When the errors are discovered it can all be traced back to the initial loading on the file which has been done offshore. Customers are unaware of the poor service they receive.

We have also been advised that we are not to tell our core customer group (brokers) that we have an offshore admin site. If there is an error with the loading of a broker's file we are to advise them that our "admin team" has made the error. Little do they know that the admin team cannot relate with the brokers request nor can the broker contact them to discuss why the file was messed up. The blame game begins and many innocent staff are blamed.

When these issues are discussed with higher management we are advised that according to the sampling they have an approx 90% accuracy rating on these files. I believe that he sampling process is flawed as it it is not a true random test. The offshore staff are aware of the files being requested and extra time is spent on these particular files in order to have them pass the accuracy test . hence a 90% rating on files.

What is even more disturbing is that our unit management has requested us to vet the files as they come in and highlight any errors. Our own managers have no faith in the sampling process. They would like for us to print out the errors in order to build a case to contradict they figures coming from head office.

This now adds a lot of extra time on each file as we need to check every little item that is loaded. Some of these can have up to 50 items that need to be double checked on every file. This is even prior to us starting to assess the loan No allowance has been given to our current KPI's etc for this added process.

What I find hard to understand is that if the offshore training was so extensive then why would we need a whole dept to "double check" the work being completed.

This was a rushed process, it was rolled out in under two weeks into our unit.

I believe that the offshore process is merely a streamlining of process and a cost cutting exercise. If the same resources were allocated to admin teams within the individual broker units it would improve the process considerably. If the same formal training was offered to our admin staff we could instil more customer focus, broker satisfaction and interaction which would lead to a growing business.

Unfortunately the powers that be do not share the same sentiment. A dark day has approached us when management truly believes that an offshore dept can offer the same level of service as that of a localised unit. This is a slippery slope that they are trying to climb and could result in loss of a grave deal of business if our customers were to be told of the facts.

Posted by 1090514 at 6/03/2008 4:25:06 PM

The truth of the matter is that I believe many of the large financial organizations are seeking alternatives like off-shoring to save money on unplanned costs that existing workers here in Australia are creating themselves!

Not to say that I disagree with some of the comments made in previous comments regarding the impact that off-shoring has had on our customers experiences in language barrier for both parties and what appears to be lengthy delays on processes that used to take half the time or less.

Still, in defence of my first comment, some of the training provided in Australia for those of us that reside in Australia is more than likely (this is speculation of course) superior and more than likely costs more. The large portion of money that is spent on training alone is lost within the first three weeks due to lazy Australian residents that purposefully take sick days when not sick, leave after paid for training is completed, fail to take the training seriously once entering into full time employment resulting in job dissatisfaction.

In conclusion rather than complain about the present situation where off-shoring has become a reality how about looking at present conditions and failings in Australia that are enticing our superiors to look into that very option. What are we doing to improve the way we do our jobs proving that we are better equipped to do that job efficiently and with Australian pride!

Look in the mirror first and propose to those implementing off-shoring that it isn't better for Australia and isn't better for the Australian public but get some proof first!

Posted by 1090659 at 7/03/2008 9:24:51 AM

Member submission via email:

As a staff member and loyal customer of the St.George Bank, I am in constant contact with my fellow employees and customers who are both disillusioned and disappointed with the bank which prides itself on (and boasts of) its people focused culture. The decision to offshore has sent a ripple effect of low morale right across the bank, which is also being felt and expressed by our customers. In addition, the unacceptable delays being experienced are putting my colleagues and I under immense pressure, with customers expressing their dissatisfaction (and often disbelief) upon hearing why their requests are still not actioned.

Nathan, St.George

Posted by lshingles at 10/03/2008 10:23:24 PM

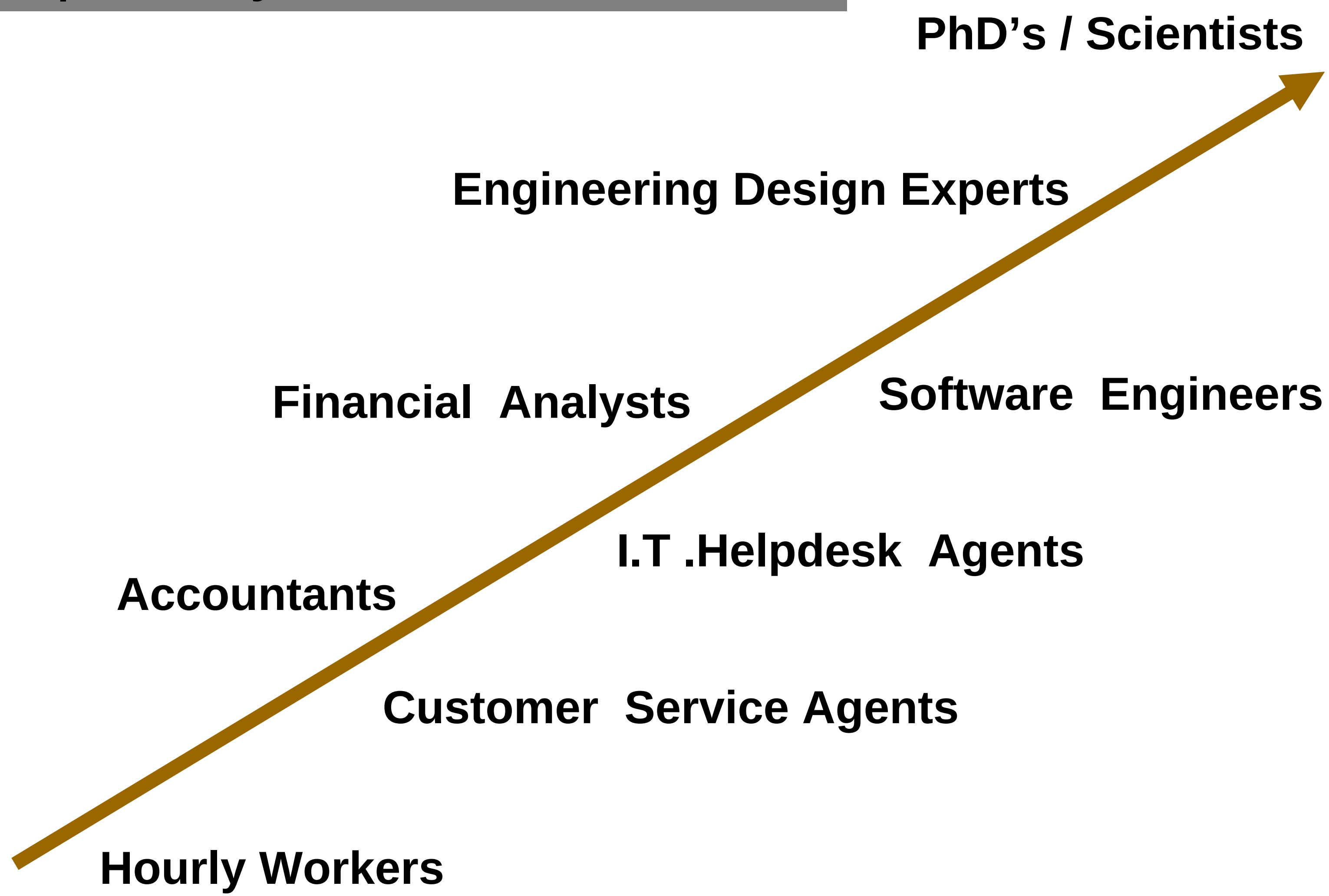
Member submission via email:

The constant headaches and abuse we are getting from customers and conveyancers is getting beyond the joke. I currently work in a call centre for home loan discharges/ variations where almost all processing is in India, and we are the ones coping all the abuse as things are out of service levels, we are often asked what's is going on with your bank???? what are we supposed to say to that? . Every day I hear comments that customers will be writing to the banking ombudsman ....

Posted by 1030157 at 10/10/2008 3:14:24 PM

Attachment 7

Competency Framework in GE



Wide Spectrum of Competencies

* Roles & Industries targeted by Genpact – Offshore provider

Attachment 8

Off-shoring

A joint policy paper by:

- **Finance Sector Union of Australia**
- **Australian Services Union**
- **Communications, Electrical and Plumbing Union (Communications Division)**
- **Community and Public Sector Union**

June 2006

Introduction

There has been an increasing global trend for companies to relocate various parts of their operations to locations outside the country where the service is being delivered. This practice is often referred to as 'off-shoring'. The terms 'off-shoring' and 'outsourcing' are sometimes used interchangeably, however it should be noted that they are two separate and distinct concepts.

'Outsourcing' refers to the practice of contracting out certain functions of a business to an external provider (which may be located domestically or overseas). 'Off-shoring' refers to jobs/processes being moved overseas. In many cases the jobs/processes may remain within the same global company – this is sometimes referred to as 'captive off-shoring'.

Financial services, communications, IT and other service industries have been those most affected by off-shoring and it is widely expected and predicted that the off-shoring trend will continue to accelerate (UNCTAD 2004).

Indeed, off-shoring is a big business. It is estimated that the global market for outsourced IT and business process services was over US$322 billion in 2003 and US $45 billion for off-shoring in the same industries (WTO 2005).

The OECD recently predicted that close to 20% of all work performed in Australia could potentially be off-shored (OECD 2005). **This would equate to almost 2 million jobs**.

The table in ***Attachment A*** shows the effect that OECD projections could have on specific Australian industries. ***Attachment B*** shows the number of jobs that have already been off-shored in some in some areas.

The issue is of significant concern for the unions involved in this paper[1] in terms of jobs, industry development and consumer protection. The trend also raises issues around basic standards for workers in developing countries.

- [1] The Australian Services Union represents the interests of around 140,000 members who work in local government, energy, water, public transport, rail, airlines, shipping, travel, ports, social and community services, information technology, call centres and private sector clerical and administrative employment. See http://www.asu.asn.au/ for more information.
- The Communications, Electrical and Plumbing Union has a diverse membership and spans several industries. It is the largest union in the communications industry, with members in both private and public telecommunications and postal sectors. See http://www.cepu.asn.au for more information. This paper has been endorsed by the Communications Division of the CEPU.
- The Community and Public Sector Union (PSU Group) represents over 60,000 members in the Commonwealth public sector, telecommunications, IT, call centres, employment services, commercial broadcasting, the aviation industry and science. See www.cpsu.org.au for more information.
- The FSU represents the interests of 60,000 members employed across all areas of the finance sector, including the banking sector, insurance and superannuation. See http://www.fsunion.org.au/ for more information.

This paper consists of the following sections:

- Why is off-shoring happening?
- What does off-shoring mean for consumers?
- What does off-shoring mean for affected workers?
- What does off-shoring mean for countries that receive the jobs?
- Where to from here?
- Summary of recommendations

1. Why is off-shoring happening?

The recent OECD paper used the following criteria to identify the types of functions and activities that could potentially be carried out anywhere in the world and consequently could be 'off-shored'.

1. Jobs that make intensive use of Information Communication Technologies (ICT) in order to produce their output;
2. Jobs whose output can be traded/transmitted with the help of ICTs;
3. Work which has a high explicit information or "codified knowledge" content (and no or little tacit or implicit knowledge).
4. Work which does not necessarily require face-to-face contact. (OECD 2005).

Not surprisingly some of the main types of work that are being 'off-shored' are call centre operations and back office processes for a wide range of industries.

The main drivers for 'off-shoring' are generally cost reduction and labour availability with estimates that labour costs in countries such as India can be as much as 70-80% cheaper than in the US or UK (Taylor & Bain 2004; UNCTAD 2004). Often the 'destination' countries for off-shore jobs have high unemployment (Ofreneo 2004), and do not have unionised workforces which may be linked to the extremely low labour costs that exist in those countries.

Arguments for off-shoring are almost always presented in economic terms, however there may be hidden costs and qualitative issues that are not always considered (these are discussed in the following sections).

The unions involved in this paper are all members of Union Network International (UNI)[2] and strongly support the UNI *Charter on Offshore Outsourcing*.[3] The charter calls for early consultation and negotiation with unions on off-shoring projects, the introduction of appropriate consumer protection measures and the development of global agreements to ensure decent employment standards in the receiving countries.

[2] Union Network International (UNI) represents 15 million members in 150 countries in more than 900 unions worldwide. An overwhelming number of UNI members are in IT and services jobs.
[3] See http://www.union-network.org for more information and copies of the charter.

2. What does off-shoring mean for consumers?

The ‘right to know’ and data security are two major issues that may arise for consumers.

‘Right to know’

In Australia there is currently no requirement for companies to disclose whether services are being provided or if personal data is being held off-shore. Indeed, many consumers may not be aware they are speaking to an operator in a different country. Surveys in the UK found that the majority of customers felt that companies should tell them if they are providing customer service from an off-shore location (Contactbabel 2004). A logical comparison is labelling laws for various products where companies must state the ‘country of origin’ so that consumers can make an informed decision.

The principle of relevant disclosure to ensure consumers can make informed choices is also fundamental to the concept of effective and efficient markets. In addition, consumers are increasingly making choices based not only on price and quality, but also on how companies are conducting their business in relation to ethical, environmental and labour market standards. The increasing use of triple bottom line reporting and ethical investment ratings is tangible evidence that consumers are not simply interested in the cheapest price.

Surveys conducted about off-shoring in the UK and the USA revealed that negative attitudes to off-shoring were often based on domestic job losses and perceptions of company greed rather than poor customer service. In addition over a quarter of the UK customers who were surveyed intend to change supplier in the next 12 months due to off-shoring (Contactbabel 2004), while 65% of US consumers indicated they would decrease or discontinue purchasing from a company that had off-shored its call centre operations (Kelly 2005)

The principle of ‘right to know’ has been adopted in France[4] and legislation has been introduced into several State legislatures in the USA[5]. The ‘right to know’ was also ALP policy for financial services in the lead up to the 2004 Federal election (ALP 2004).

Recommendation 1: *Introduce legislation that requires service providers to disclose the country where their employees are located at the time of transaction.*

Data security

The level of data security may be inferior in the countries where jobs and/or processes are being located. For example, in 2004 there was no data protection legislation in India, Malaysia, South Africa, Singapore or the Philippines (FDIC 2004). This lack of protection may expose consumers to an increased (and unknown) risk when dealing with companies that have call centres or other processes located in those countries.

Even in countries with strong data protection legislation there have been massive security breaches. During the first half of 2005 cyber criminals hacked into a credit card processing company in Arizona, USA; as a result the private financial details of approximately 40 million people were compromised, including an estimated 130,000

---

[4] “*Outsourcing Victory in France*” Press release 18 October 2004 - http://www.union-network.org

[5] For more information see http://www.nfap.net/researchactivities/globalsourcing

Australians. Interestingly the fraud was actually detected by the National Australia Bank's credit card fraud unit located in Melbourne, Australia.

A recent edition of the ABC's program 4-Corners highlighted the risks of cyber-fraud and gave examples of personal details being offered for sale by people described as 'data harvesting brokers' who have started to emerge in places such as India where large amounts of call centres and back office processes are being located through off-shoring (ABC 2005).

Consumers have undoubtedly benefited from advances in technology; however these benefits also carry risks. Vast amounts of personal and financial data are processed and stored every day. Given the increase in 'identity theft' and computer hacking the importance of data security cannot be overstated.

Recommendation 2: *Ensure that any financial or personal information shall not be sent off-shore without the express permission of the consumer.*

3. What does off-shoring mean for affected workers?

The obvious and most serious potential impact of off-shoring for workers is job losses. However, there may also be flow-on effects for people who remain working in companies where some functions have been moved off-shore.

Where processes have been transferred to off-shore locations there may be increased coordination difficulties due to the remote locations of these staff. In addition the remaining staff in the original country are likely to have much better knowledge of the companies' procedures and may be required to deal with an increasing number of problems and complaints that arise due to off-shoring. (There are already first hand reports that this is occurring in some major companies).

Job losses will obviously cause extreme difficulties for those individuals who are made redundant; however there are also wider implications for those working in industries affected by off-shoring. Studies conducted in the UK have shown that the practice of off-shoring has created problems for morale and caused increased insecurity among such workers (Taylor & Bain 2004).

In the USA the practice of off-shoring has already resulted in a lack of skill development and increased unemployment (*Newsweek* 1 March 2004). The main motivation behind off-shoring is to cut costs which (inherently) does not promote the long term development of skills and careers within Australian industry which is already experiencing skill shortages. This trend is likely to continue unless the off-shoring issue is properly addressed.

Training and skill development are critical to Australia's social and economic well-being. They enable employees to deal with change, build on existing capabilities and help to provide a more flexible and productive workforce, making the country more globally competitive.

Recommendation 3: *Develop and promote an integrated plan that promotes and builds Australian skills and capacity.*

All levels of government in Australia should set an example by ensuring that government outsourcing contracts include a provision that work will not be moved off-shore. Over 30 US States have introduced draft legislation that would ban or discourage government contracts being awarded to companies that would perform the work off-shore.[6]

Recommendation 4: *Require that contracts to perform work for Australian government agencies include a condition that the work cannot be sent 'off-shore'.*

4. What does off-shoring mean for countries that receive the jobs?

Off-shoring also raises issues for those countries that receive the jobs. Generally the creation of employment opportunities will be a positive thing for these countries; however there may be various drawbacks associated with the nature of the work being acquired.

Loss of cultural identity and control

In many cases call centre workers are forced to adopt western names and accents to give the impression that they are located in the same country. Some workers find this requirement offensive and akin to 'lying' (Ofreneo 2004). It has also been suggested that this practice is an example of neo-colonialism and racism (Taylor & Bain 2004). In addition, local management may not have much control over any key decisions due to the nature of the company arrangements (Bibby 2003).

Workload and salaries

Many 'off-shored' call centre workers have quotas of 400 calls a day (Ofreneo 2004), compared to an average of 80 for Australian workers. Due to the time difference between the location of the call centre and the country of the customer, a lot of call centre work will also take place during the night (Taylor & Bain 2004). In addition, people working in call centres in relatively low wage countries such as India are often paid around one tenth of what a US or UK call centre worker would be paid for the same job (Ofreneo 2004; DTI 2004).

Lack of bargaining power

In many cases countries receiving off-shore jobs will have very high unemployment (Ofreneo 2004) and low levels of union representation (Taylor & Bain 2004) and consequently have little capacity to bargain for better working conditions. Many of those employed in business process outsourcing in India have never worked anywhere else and consequently are more likely to accept lower pay and conditions as the 'norm' (UNI 2005).

High staff turnover

Given the above factors, it is not surprising that many call centres in India and the Philippines experience turnover rates of around between 30% and 50% (Taylor & Bain 2004; UNCTAD 2004); however some estimates for Indian call centres are even as high as 90% (AFR 2005).

[6] For more information see http://www.nfap.net/researchactivities/globalsourcing

Recommendation 5: *Encourage Australian and international companies to adopt the Union Network International 'Charter on Offshore Outsourcing' that requires minimum global employment conditions consistent with ILO conventions for any work performed off-shore.*

Unions generally support the creation of employment in developing countries; however, it must be decent and sustainable work that conforms to International Labour Organization (ILO) conventions. The factors outlined above suggest that many off-shoring exercises may be creating 'sweatshops' for the developing countries while increasing profits for the international corporations involved.

Where to from here?

Several international companies have now signed off-shoring agreements with unions that are modelled on the UNI charter.[7] These types of agreements can provide a tangible first step in addressing some of the issues associated with off-shoring and Australian companies are urged to enter into such agreements with their relevant union.

The unions involved in this paper believe the issue demands immediate and serious attention given the implications for Australian workers, Australian consumers and those countries at the other end of the off-shoring equation.

There must be an appropriate response, including active support for the consumers' right to know, data security protection and requirements to provide minimum global employment conditions for any work that is moved off-shore.

Rather than looking for short term cost reductions, industry should help to develop Australian skills and experience to provide a more flexible and productive workforce making Australian industry more globally competitive.

Summary of recommendations

1. *Introduce legislation that requires service providers to disclose the country where their employees are located at the time of transaction*.
2. *Ensure that any financial or personal information shall not be sent off-shore without the express permission of the consumer.*
3. *Develop and promote an integrated plan that promotes and builds Australian skills and capacity.*
4. *Require that contracts to perform work for Australian government agencies include a condition that the work cannot be sent 'off-shore'.*
5. *Encourage Australian and international companies to adopt the Union Network International 'Charter on Offshore Outsourcing' that requires minimum global employment conditions consistent with ILO conventions for any work performed off-shore.*

[7] These companies include Barclays, British Telecom (BT), HSBC and Lloyds. Copies of these agreements can be found at http://www.fsunion.org.au/campaigns/jobs_and_personal_infomation_going_offshore.html

Attachment A

'Off-shoring': Jobs at risk

Industry	*Number employed ('000) - May 2004*[1]	*OECD estimates*[2] *of potential jobs 'off-shore' (%)*	*Number of jobs that could be moved 'off-shore' ('000)*
Total Australian Industry	**9,969.7**	**19.4%**	**1,934.1**
***Selected Australian Industries*[3]**			
73 Finance	193.6	86.2%	**166.9**
75 Insurance	59.2	71.4%	**42.3**
74 Services to Finance and Insurance	89.2	79.4%	**70.8**
78 Business Services	941.6	51.7%	**486.8**
82 Defence	22.7	39.2%	**8.9**
81 Government Administration	438.1	32.0%	**140.2**
36 Electricity and Gas Supply	53.3	30.0%	**16.0**
91 Motion Picture, Radio and Television Services	48.7	29.4%	**14.3**
24 Printing, Publishing and Recorded Media	111.1	29.2%	**32.4**
71 Communication Services	177.5	26.3%	**46.7**
92 Libraries, Museums and the Arts	58.5	25.0%	**14.6**

1 - ABS, 2004. *Australian Labour Market Statistics* (Table 2.2) ***2*** - OECD, 2005. *Potential Offshoring of ICT-Intensive using occupations* (pages 13 & 20) ***3*** - Classifications according to the *Australian and New Zealand Standard Industrial Classification (ANZSIC)* - ABS 1292.0

Attachment B

‘Off-shoring’ – Service jobs gone

Company	*Work Area/State*	*Jobs performed 'off-shore'*	*Off-shore location*	*Info source*	*Date*
AXA	IT and business processes	400	Bangalore	FSU Organisers	2005
ANZ	Software development/IT	1,400	Bangalore	ANZ	2006
Coles Myer	Credit card processing	150	India	Parliamentary Library	March 2005
Citigroup	Call Centre - Brisbane	150	Manila		
Diners Club	Call Centre - Victoria	82	Manila	Correspondence	February 2005
Hewlett Packard	Call Centre support	128	Bangalore	Parliamentary Library	March 2005
Hutchison	Customer retention and business support	200	Mumbai	Parliamentary Library	March 2005
NAB	Accounts processing Credit cards/finance/IT	20 202	Bangalore	SMH The Age	May 2005 August 2006
Optus	Call Centre Operations	150	India	The Australian	November 2004
Telstra/EDS		400	India	The Age	October 2004
Telstra/IBM	IT	450	India	Parliamentary Library	March 2005
Qantas	Data processing/Flight attendants IT support & maintenance	500 340	India	Parliamentary Library Qantas	March 2005 October 2006
Telstra/EDS		180	India	Parliamentary Library	March 2005
St George	Collections & credit cards	76	India	The Australian	September 2006
Westpac/BT	Retail administration	77	India	ABC	September 2006
	Total so far . . .	**4,905**			

References

Australian Broadcasting Corporation (ABC) 2005. "*Your Money and Your Life",* 4-Corners (15/08/2005).

Australian Financial Review (AFR) 2005. *Subcontinent is a victim of its success* (02/9/2005).

Australian Labor Party (ALP) 2004. *Labor's approach to corporate governance and financial services: Creating a culture of accountability*. Senator Stephen Conroy, Shadow Minister for Trade, Corporate Governance and Financial Services.

Bibby, Andrew, 2003. *The Global Mobility Revolution*, Union Network International.

Contactbabel, 2004. *Finding the balance: The Effect of Offshore Customer Contact on Profit and Brand.*

Department of Trade and Industry (DTI), 2004. *The UK Contact Centre Industry: A Study*, UK

Federal Deposit Insurance Corporation (FDIC), 2004. *Offshore Outsourcing of data services by insured institutions and associated consumer privacy risks*, USA.

Kelly Services, 2004. *The American Consumer Reacts to the Call Center Experience and the Offshoring of Service Calls.*

OECD, 2005. *Potential Offshoring of ICT-Intensive using occupations*

Ofreneo, Rene, 2004. *Global outsourcing of IT jobs in Asia: Issues and challenges for the trade union movement*, Union Network International.

Parliamentary Library, 2005. *Offshoring jobs: US and Australian debates.*

Taylor, Phil and Bain, Peter, 2004. *The Offshoring of Call Centre and Back Office Operations – the Challenge for Trade Unions,* UK.

Union Network International (UNI) 2005. *UNI Apro Survey on CBPOP Professionals, India 2005.*

United Nations Conference on Trade and Development (UNCTAD), 2004. '*The shift towards services. Chapter IV, 'The offshoring of corporate service functions: The next global shift*.', World Investment Report 2004, Geneva..

World Trade Organization (WTO), 2005. *Offshoring Services: Recent Developments And Prospects* World Trade Report.

Attachment 9

Directing enquiries:

If a call is received by the Call Centre for the Fulfilment Drawdown team and it can be determined that the application is being processed in Pune, please refer to the table below for the appropriate actions if you are unable to help your caller in the first instance

Request Type	1st Referral Point	2nd Referral Point
Escalations from Sales Channel	Priority Partners	Team Leader
Escalations from Customer	Team Leader	Workflow Facilitator
Issue Resolution	Workflow Facilitator	Team Leader
Request for Further Action or Follow Up	Workflow Facilitator	Team Hunt Group
Handoff Escalation (e.g. limit red'n in LMI)	Team where activity has been forwarded	Team Hunt Group

Contact Details:

Position	Name	Phone Number
Hunt Group Drawdowns		[redacted]
Team Leader	[redacted]	[redacted]
Workflow Facilitator	[redacted]	[redacted]
Workflow Facilitator	[redacted]	[redacted]
Workflow Facilitator	[redacted]	[redacted]

If a call is received for a Pune originated file, the Call Centre operator must not mention that the file is being processed in Pune. From a customer or client perspective, the process should be identical regardless of where the application is processed.

When a file is identified as being processed in Pune, the call centre operator should advise the caller that the file owner is unavailable to discuss the application, however they will endeavour to assist, or put the call through to their team leader, or one of their colleagues.

When transferring the call (prior to conferencing the call), the call centre operator should advise the Lockleys based team leader/member that the file is being processed in Pune.

The client or customer must not be advised that the file is being processed in Pune under any circumstances.