



**Unite response to the HMT, Bank of England
and FSA consultation on
Financial stability and depositor protection:
strengthening the framework**

This response is submitted by Unite the Union. Unite is the UK's largest trade union with 2 million members across the private and public sectors. The union's members work in a range of industries including manufacturing, financial services, print, media, construction, transport and local government, education, health and not for profit sectors.

Executive Summary

- **Double standards in remuneration permeate the industry and are unacceptable;**
- **Needs to be tighter regulation of the market, a strengthening of the framework which regulates the industry and increased powers of accountability;**
- **Advocate for improvements in risk management with more regular and demanding supervision by the FSA;**
- **Support proposed legislation to enable information to be exchanged more freely between tripartite authorities;**
- **Corporate governance issues must be reviewed to ensure regulation offers protection beyond the interests of shareholders;**
- **Trade unions must be involved in constructive dialogue at the earliest opportunity;**
- **Would not wish to see a reduced Court if that was to involve the loss of the trade union representative from Court.**

Introduction

1. Unite welcomes the opportunity to respond to this consultation and would wish to respond to those sections of the consultation paper which are of most relevance to finance sector workers.
2. Unite would specifically wish to comment on the proposals to reduce the likelihood of banks failing (Section 3) and on the proposals to reduce the impact of a failing bank (Section 4) – particularly in response to the events which contributed to the crisis at Northern Rock.
3. Unite is the largest trade union representing around 200,000 members in the finance sector and is well placed to give an insight into how financial instability affects those employed in the sector. Unite is the recognised trade union in Northern Rock.
4. As the consultation document states (paragraph 1.7) "*the primary responsibility for managing a bank's risk lies with its own management and directors*".
5. However, while the responsibility may lie with management, it is Unite members who have paid a heavy price for such risks – risks which reward those at the top, while having a detrimental impact on those at the bottom when it fails.
6. The former Chief Executive of Northern Rock, Adam Applegarth, will receive a £760,000 payoff and a reported £2.5 million pension after being forced to resign following the bank's near collapse. Mr Applegarth was given the opportunity to resign; 2,000 employees with Northern Rock will be sacked in the next few months - a decision not of their choosing.
7. This gives a mixed message. One which rewards failure for the few at the top, who appear to operate a win/win situation; rewarded with massive salaries, enhanced pensions and generous bonuses when risks succeed and rewarded again with huge payoffs when risks fail.
8. However Unite can cite examples of members who while subject to disciplinaries for failing to reach often unattainable targets, are then denied the bonus that they have earned.
9. What we have in Northern Rock is a situation where executives continue to benefit financially despite failings on a massive scale. These double standards permeate the industry and are unacceptable.
10. There needs to be tighter regulation of the market, a strengthening of the framework which regulates the industry and increased powers to

hold to account, including criminal proceedings, those who contribute to failings on a massive scale.

11. Unite would advocate for improvements in risk management with more regular and demanding supervision by the FSA. Early and effective intervention at Northern Rock could have prevented the near collapse of the bank in September 2007.
12. The recent report by the internal audit division of the FSA into the supervision of Northern Rock identified a number of systemic failures and in particular the failure of the FSA supervisory team to deal sufficiently rigorously with Northern Rock's management in questioning the vulnerability of the bank's business model, with its over reliance on wholesale funding to support its rapidly expanding mortgage book at a time when other banks were adopting a much more cautious approach.
13. Unite supports the proposal that there needs to be a process in place to require banks to provide evidence at short notice, that they are meeting threshold standards between supervision meetings (3.14) and supports the proposed legislation to enable information to be exchanged more freely between the tripartite authorities to enable a more prompt and co-ordinated response to any indications that a bank is potentially in difficulties (3.23).
14. In view of the alarm caused to Northern Rock savers and investors by the announcement of Bank of England assistance on September 14 2007, which led to a collapse of confidence and a run on the bank, Unite supports the proposal that a short period of non disclosure would be desirable to enable the authorities to provide initial support (3.41). This would have avoided the stress and abuse which many Northern Rock branch staff suffered in the days immediately following the announcement of the Bank of England intervention.
15. Unite would therefore support greater supervision and rigorous auditing, with warning signs triggered much earlier.
16. The impact of the near collapse of Northern Rock in September 2007 was prolonged by the inability of the tripartite authorities to act swiftly and decisively in response to the crisis. Consequently, Unite supports the proposal for a Special Resolution Regime which would enable the authorities to react in a timely and appropriate manner (paragraph 4.3). The paper also refers to the facility to provide for temporary public ownership of a bank (paragraph 4.15), which is what has now happened at Northern Rock. This situation may have been avoidable had the powers envisaged under the Special Resolution Regime been available to the authorities last September.

17. Paragraph 4.19 states that *'Views of shareholders of banks, commercial counterparties to banks and other stakeholders will form an important part of the policy development process in relation to these proposals.'* The most important stakeholders are the employees of the bank, who have much more at stake than the bank's shareholders. 2,000 employees of Northern Rock will pay the price for the bank's failure and the failure of the regulatory authorities, by losing their jobs, suffering reduced pensions and damaging their future career prospects.
18. Corporate governance issues must be reviewed to ensure regulation offers protection beyond the interests of shareholders in such circumstances.
19. Northern Rock employees have been seriously let down by the Bank's Board of Directors and Executive managers responsible for adopting a high risk lending policy and by the tripartite authorities for failing to have an effective regulatory regime in place, which could have prevented the crisis, the subsequent need to place the bank into public ownership and the forthcoming loss of so many jobs. As the largest trade union for finance sector workers, Unite must be fully consulted on all measures proposed to strengthen risk management, enhance supervision and extend regulatory intervention to avoid any repetition of the events which led to the near collapse of Northern Rock.
20. Unite would therefore advocate that where trade union representation exists, unions must be involved in constructive dialogue at the earliest opportunity in order to give greater consideration to the workforce.
21. At a time when the industry feels over-regulated it is ironic that it has brought about a situation on itself, where more regulation, supervision and demands for greater transparency, are the only answer.
22. One final point Unite would wish to raise concerns the proposals to amend the Court of Directors of the Bank of England, including a reduction in size, as outlined in section 6 of the document.
23. Unite would not wish to see a reduced Court if that was to involve the loss of the trade union representative from Court. It is imperative that a high level member of the trade union movement remains on the Board of such an important, independent public-policy making institution such as the Bank. This arrangement, which has long proved successful, must be maintained whether in a reduced sized court or not.