
Book 1

Issues paper for discussion at the Global Dialogue Forum on the Impact of the Financial Crisis on Finance Sector Workers

Acknowledgements

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Preface

This issues paper has been prepared by the International Labour Office as a basis for discussions at the Global Dialogue Forum on the Impact of the Financial Crisis on Finance Sector Workers (Geneva, 24–25 February 2009), but of necessity was produced only days before the Forum took place. The Committee on Sectoral and Technical Meetings and Related Issues of the Governing Body of the ILO decided at its 303rd Session (November 2008) that a two-day tripartite global dialogue forum on the impact of the financial crisis on financial sector workers would be held in the week of 23–27 February 2009. It was proposed that the Forum be composed of ten Employer and ten Worker participants; and be open to representatives of all interested governments. Other interested Employer and Worker participants and representatives of international, governmental and non-governmental organizations could also attend. It was later decided by the Officers of the Governing Body that the Forum be composed of 14 Employer and 14 Worker participants, selected after consultations with the respective groups of the Governing Body; and be open to representatives of all interested governments. The purpose of the Forum is to propose and assess ways of alleviating and mitigating the impact of the crisis on workers in the financial services sector. The Forum could adopt recommendations that would be the basis of subsequent action by the ILO and its constituents.

This Forum is part of the ILO's Sectoral Activities Programme, as defined by the ILO programme and budget, the aim of which is to assist governments, and employers' and workers' organizations to develop their capacities to deal equitably and effectively with the social and labour problems of particular economic sectors. The programme also offers a means of alerting the ILO to specific sectoral social and labour issues. In addition to sectoral action programmes (launched in 2004), technical cooperation, advisory and research activities, the programme of tripartite meetings and forums also contributes to ILO strategic objectives. Such meetings bring together a cross-section of Government, Employer and Worker representatives from countries that are prominent or have a strong interest in a given sector. In line with the ILO's strategic objectives, these meetings also aim to strengthen tripartism and promote social dialogue at the international level.

Introduction

The purpose of this paper is to briefly review the background, causes, characteristics and trajectory of the ongoing financial and economic crisis; to define the financial services sector, its occupations and their educational requirements, as well as recent important trends; to provide a preliminary assessment of the impact of the crisis on finance sector jobs; and to give suggestions on possible policy responses to address the effects of the crisis on finance sector workers.

How the crisis started

Today's disastrous financial and economic problems had their origins in a steep contraction in credit, the full effect of which started to be felt in August 2007. It has since metastasized into what is now arguably the direst financial and economic crisis the world has experienced since the 1930s.

However, the roots of the crisis can be traced further back, to the deflation of the high-tech bubble of a decade ago. When the stock markets began a steep decline in 2000 and the global economy started to slide into a recession, the United States Federal Reserve and other central banks sharply lowered interest rates to limit the economic damage. The sustained lower interest rates fuelled a mortgage-borrowing boom, while also encouraging millions of homeowners to refinance their existing mortgages. A financial innovation that separated mortgage origination from lending decisions added to the mix, with half a million independent American mortgage brokers being paid commissions to prospect for homebuyers on behalf of mortgage lenders, with those commissions based solely on the number of clients they brought to the lenders. The ability of the customer to repay the mortgage was of no concern, because of yet another innovation.

Traditionally, banks had financed housing loans mainly through customer deposits, which had a limiting effect on the amount they could lend. In recent years, however, the financial industry had developed new business models that greatly expanded the funds available to increase mortgage lending dramatically. Mortgage lenders could immediately sell on to investment banks the home loans they made to borrowers, and the investment banks, in turn, would bundle thousands of such mortgages together, dice and slice them, and then sell them as "investment-grade" mortgage-backed securities (MBS) on to investors who were eager for high-yielding investment products in a low-interest environment. These securities, many including sub-prime loans made to people with low credit scores, were often given "triple-A" rating by the major credit-rating agencies, in return for a fee from the issuers.

As the industry expanded rapidly, the quality of the mortgages it issued started to deteriorate, eventually turning sour when many homebuyers became over-leveraged. Not surprisingly, impairment rates exploded from 2006 without, however, a slowdown in the pace of lending. All the parties in the chain had become addicted to the high profits to be gained from churning out and selling these securities. Banks themselves had set up highly leveraged, off-balance-sheet, structured investment vehicles (SIVs) to buy and hold some of these securities on their own account in order to maximize returns. Once the era of low interest rates ended, and many of the adjustable rate mortgages – which were the bedrock of sub-prime mortgages – were reset higher, more and more borrowers started to default and the crisis began to snowball towards disaster.

In February 2007, one major European bank issued the first major warning, writing down tens of billions of dollars in losses from a 2002 acquisition of an American sub-prime lender. Four months later, two hedge funds belonging to a major investment bank/securities dealer closed, due to their exposure to the housing market. In August 2007, another major European bank froze withdrawals in three of its investment funds, setting off a panic by people worried that, if a bank with no obvious exposure to the American mortgage market could have this measure of difficulty, anyone could be hiding untold losses.

Thus the credit crisis began in earnest, as mutual distrust amongst major financial institutions in the global market for inter-bank loans spread, and credit became harder and harder for any bank to obtain. By September 2007, liquidity in the inter-bank market had evaporated to the extent that rumours were rife about various institutions receiving most of their funding from the wholesale money markets. One of them, Northern Rock, a British home loan provider, became the first target of a bank run in the United Kingdom for about 150 years, requiring the Bank of England to bail out the company, and to subsequently nationalize it altogether.

Meanwhile United States housing prices continued an inexorable decline, resulting in massive losses tied to different kinds of mortgage-related derivative assets held by large global banks. The first wave of such losses was concentrated in instruments and investment vehicles with such exotic names as: RMBSs (residential MBS), CDOs (collateralized debt obligations), SIVs and CDOs of CDOs. Merrill Lynch was the first to report a large loss, at US\$5.5 billion on 5 October 2007, only to return less than three weeks later to report that the losses were now over US\$8 billion. During 2008, the cumulative loss in US home values – on which all these MBS were based – would total US\$3.3 trillion. Since the housing market's peak in 2006, home values had lost approximately a massive US\$6.1 trillion. This implies that a high proportion of the securities written on the underlying mortgages have become "toxic" and, were they to be "marked to market", shareholders' equity of a large swath of the United States financial industry would be wiped out, as would counterparts in a wide range of financial contracts in the wider global industry.

Box 1

Understanding the role of financial leverage or gearing in the crisis

A key contributory factor to the extensive financial meltdown was the widespread use of leverage by financial institutions to pump up profits during the boom period; the reverse – deleveraging – is likewise accentuating the effects of the deflation. To understand the process, let us take an example: a bank that borrows money at 2 per cent to invest in a MBS portfolio, using the portfolio as collateral. The bank then uses the funds to expand its MBS portfolio, which pays a 5 per cent interest rate (possible because of the higher risk mortgages comprising the MBS). The 3 per cent difference between the amounts is the "spread". For every US\$100 invested, the bank's profit margin is US\$3. This provides an incentive to borrow and invest as much as possible, an investment strategy known as "leveraging". Such leverage is generally safe in rising markets and was considered safe while the housing market was booming (until early 2007), especially as MBS portfolios typically received high credit ratings and defaults were minimal. Investment banks, which do not have the same capital reserve requirements as depository banks, were particularly active, borrowing and lending amounts exceeding 30 times their net worth. In contrast, depository banks rarely lend more than 15 times their net worth. The US Government-sponsored mortgage giants Fannie Mae and Freddie Mac were each leveraged nearly 80 times their respective net worth. However, even depository banks could get around the regulatory restriction against excessive lending by setting up off-balance-sheet SIVs for this purpose.

Leverage was extremely profitable for the financial institutions engaged in it, as long as there were no problems with the underlying MBS portfolios. However, these portfolios started to experience increasing delinquencies and foreclosures from early 2007 and their values declined precipitously. Investors then became concerned, and started demanding their money back, resulting in margin calls (immediate need to sell/liquidate the MBS portfolios at fire-sale prices) to pay them. At such a high leverage, many banks and mortgage companies suffered huge losses, bankruptcy, or were forced to merge with other institutions to survive.

With banks and investors unable to sell their portfolios of MBS securities readily, these are now considered "toxic" (i.e. they have become "illiquid"), and their values have plummeted. The ability of financial institutions to raise funds via MBS has therefore all but evaporated. The crisis has now spread to other types of credit markets including all asset-backed securities, high-yield corporate bonds, the inter-bank market, commercial paper, money-market funds, the auction-rate market, hedge funds and the real economy. Banks and other financial institutions around the world are writing down billions of dollars of losses, and housing markets beyond the United States are falling including in Ireland, Spain and the United Kingdom, making the crisis truly global.

Many economists and other finance experts now predict that the growing losses could very easily overwhelm American financial institutions' assets, and their country's banking system.¹ They therefore urged the Government to weed out the weakest banks, inject capital into the surviving banks, and sell off the bad assets. These are similar measures to those the Government of Japan had to adopt from 2001 to 2003 to overcome its decade of economic stagnation in the 1990s. The Government of Sweden had to take similarly tough steps in 1992 and the US Government did the same in 1987–89 to overcome the savings and loan crisis. One prominent economist estimates that total losses on loans by American financial firms and the fall in the market value of the assets they hold will reach US\$3.6 trillion, and that nationalization, recapitalization and eventual resale may be the only option.²

Defining the financial services sector

For the purposes of this paper, the financial services sector includes the following main subsectors:

- banking industry (retail banking and wholesale banking acting on national, regional or global financial markets);
- insurance industry (life insurance, non-life – including motor and property, etc.) and reinsurance; and
- insurance and financial intermediaries (e.g. hedge funds, mutual funds, wealth management firms, insurance agents and financial advisers, etc.).

Wall Street in New York is the pre-eminent centre of global finance, while London is the European financial hub. The financial markets have experienced explosive growth over the past two decades, and banks and other financial firms have become global players. In Europe, for instance, banks' total assets and total loans expanded by 18 per cent and 6 per cent, respectively, over the two years 2006–07, just before the onset of the current crisis. Similarly, from 1996 to 2005, the United States and European insurance markets doubled in size; the corresponding growth in Asia was only 8 per cent, mainly as a result of Japan's financial stagnation over the period. The Chinese and Indian insurance sectors were also beginning to expand significantly, while Australia's large financial groups were expected to improve their share of the region's market.

¹ S. Lohr, www.nytimes.com/2009/02/13/business/economy/13insolvent.html?_r=1&hp: Ailing banks may require more aid to keep solvent.

² N. Roubini, Professor of Economics at the Stern School of Business at New York University, recognized as one of the most prescient about the gathering credit problems.

The EU27 financial services sector employed 5.6 million people in 2006, with banking and insurance accounting for 75 per cent and 20 per cent, respectively. Five per cent of financial services workers are employed with other financial intermediaries. The sector represented 2.7 per cent of total employment in the EU27, a much smaller employment share than that of the United States, where the share was 4.7 per cent of total employment, representing 4.1 million workers, 44 per cent of whom were in banking and the rest in insurance and associated services.

Financial services employment expansion has been slow, with overall EU27 growth at only 0.5 per cent between 1996 and 2006. To put this into perspective, the increase of total employment of other services sectors during the period was 3 per cent. The reason for this disparity in growth is explained in large measure by extensive mergers and acquisitions leading to consolidation and restructuring of the financial services sector as firms sought economies of scale and scope to increase their productivity and ability to compete on regional and global markets. Notwithstanding the low average rate of Europe-wide growth, financial services employment did increase substantially in several countries including Denmark, France, Greece, Ireland, Luxembourg, Slovenia, Spain, Sweden and the United Kingdom. Conversely, employment declined in Finland, Germany and Portugal, and remained stable in Austria, Belgium and Italy.

The share of financial services in overall employment varies among countries. In the United Kingdom the sector enjoys a pre-eminent status, with 4.8 per cent of national employment. The Netherlands is second with 3.9 per cent, while Germany's and France's finance sectors each have a 3.4 per cent share. Luxembourg is a special case, with a very large financial services sector relative to national employment (11.9 per cent). Together the financial services jobs of France, Germany, Italy, Netherlands, Spain and the United Kingdom account for about 75 per cent of the EU27 financial services workforce.

The United States financial services sector comprises banking, insurance, and securities, commodities and other investments. In 2006 the sector employed approximately 8.363 million workers, distributed as follows: about 1.825 million in banking; roughly 2.3 million in insurance; and 0.816 million in securities, commodities and other investments; and the balance in real-estate-related activities. Its growth trajectory before the crisis indicated the sector would be employing 9.57 million workers by 2016; an increase of 14.4 per cent over 2006.

Office and administrative support workers constitute two out of three banking jobs, while tellers account for about three in ten. Opportunities were expected to continue to be available for tellers and other office and administrative support workers, given the number of workers in these occupations and the high rate of staff turnover. Tables 1–4, from the US Bureau of Labor Statistics (BLS) provide employment figures by occupation, the share of the occupation in total branch employment and projected percentage change between 2006 and 2016 for banking, insurance, and securities, commodities, and other investments.

Table 1. Employment (in thousands) of wage and salary workers in banking by occupation, 2006, and projected change, 2006–16, United States

Occupation	Employment 2006		% change 2006–16
	No.	%	
All occupations	1 825	100.0	4.0
Management, business and financial occupations	449	24.6	5.4
General and operations managers	34	1.8	–8.4
Marketing and sales managers	11	0.6	1.9
Financial managers	73	4.0	1.9
Human resources, training and labour relations specialists	15	0.8	5.3
Management analysts	8	0.5	1.4
Accountants and auditors	27	1.5	1.7
Credit analysts	15	0.8	–8.3
Financial analysts	18	1.0	11.4
Personal financial advisors	24	1.3	22.3
Loan officers	133	7.3	12.1
Professional and related occupations	72	4.0	6.9
Computer specialists	56	3.0	8.8
Sales and related occupations	82	4.5	11.8
Securities, commodities and financial services sales agents	50	2.7	17.2
Office and administrative support occupations	1 202	65.9	2.9
First-line supervisors/managers of office and administrative support workers	111	6.1	–5.2
Bookkeeping, accounting and auditing clerks	63	3.5	1.7
Tellers	546	29.9	12.1
Brokerage clerks	9	0.5	–1.0
Customer service representatives	106	5.8	12.0
New accounts clerks	73	4.0	–18.4
Receptionists and information clerks	9	0.5	1.5
Couriers and messengers	6	0.3	–8.3
Executive secretaries and administrative assistants	36	2.0	1.9
Secretaries, except legal, medical and executive	15	0.8	–9.6
Data entry keyers	8	0.5	–18.6
Office clerks, general	40	2.2	0.2
Office machine operators, except computer	12	0.6	–14.9

Note: Columns may not add to totals due to omission of occupations with small employment.

Source: BLS.

Prior to the crisis, employment in the insurance branch was projected to rise by 7.4 per cent between 2006 and 2016, with growth constrained only by corporate downsizing, new technology, and an increase in direct mail, telephone and Internet sales. Job openings would mainly be to replace departing or retiring workers. Growth would also be driven by medical services and health insurance, and insurers' continuing expansion into other areas of financial services, such as securities and mutual funds.

Table 2. Employment (in thousands) of wage and salary workers in insurance by occupation, 2006, and projected change, 2006–16, United States

Occupation	Employment 2006		% change 2006–16
	No.	%	
All occupations	2 316	100.0	7.4
Management, business and financial occupations	661	28.6	8.3
General and operations managers	41	1.8	–1.9
Marketing and sales managers	20	0.9	7.2
Computer and information systems managers	14	0.6	5.9
Financial managers	24	1.0	6.6
Claims adjusters, examiners and investigators	218	9.4	10.8
Insurance appraisers, auto damage	12	0.5	12.0
Human resources, training and labour relations specialists	28	1.2	10.9
Management analysts	29	1.2	5.4
Accountants and auditors	40	1.7	7.8
Financial analysts	16	0.7	16.9
Insurance underwriters	91	3.9	5.6
Professional and related occupations	258	11.2	8.6
Computer programmers	21	0.9	–15.1
Computer software engineers	28	1.2	24.7
Computer support specialists	19	0.8	6.8
Computer systems analysts	33	1.4	15.5
Actuaries	11	0.5	5.4
Market research analysts	12	0.5	6.5
Lawyers	12	0.5	5.6
Title examiners, abstractors and searchers	23	1.0	–5.5
Sales and related occupations	367	15.8	14.4
First-line supervisors/managers of non-retail sales workers	18	0.8	3.8
Insurance sales agents	313	13.5	15.7
Office and administrative support occupations	1 009	43.6	4.0
First-line supervisors/managers of office and administrative support workers	62	2.7	–6.0
Billing and posting clerks and machine operators	18	0.8	–2.5
Bookkeeping, accounting and auditing clerks	47	2.0	8.9
Customer service representatives	266	11.5	19.2
File clerks	15	0.7	–45.3
Receptionists and information clerks	24	1.0	10.0
Executive secretaries and administrative assistants	57	2.4	8.2
Secretaries, except legal, medical and executive	62	2.7	–1.5

Occupation	Employment 2006		% change 2006–16
	No.	%	
Data entry keyers	22	0.9	–13.5
Insurance claims and policy-processing clerks	222	9.6	–2.6
Mail clerks and mail machine operators, except postal service	14	0.6	–21.0
Office clerks, general	106	4.6	7.8

Source: BLS.

Pre-crisis, the securities, commodities and other investments branches were predicted to generate the highest 2006–16 employment increase, of 46.1 per cent, mainly due to expectations of increasing investment in securities and commodities, along with a growing need for investment advice. Notwithstanding anticipated high job growth, it was projected that high earnings of successful securities sales agents and investment bankers would result in keen competition for such positions, which require degree qualifications.

Table 3. Employment (in thousands) of wage and salary workers in securities, commodities and other investments by occupation, 2006, and projected change, 2006–16, United States

Occupation	Employment 2006		% change 2006–16
	No.	%	
All occupations	816	100.0	46.1
Management, business and financial occupations	268	32.8	57.9
General and operations managers	15	1.8	30.2
Marketing and sales managers	10	1.2	45.6
Computer and information systems managers	8	1.0	45.5
Financial managers	33	4.1	45.6
Compliance officers, except agriculture, construction, health and safety, and transportation	6	0.7	43.6
Human resources, training and labour relations specialists	6	0.7	49.9
Management analysts	6	0.8	44.8
Accountants and auditors	21	2.6	52.2
Financial analysts	48	5.9	68.9
Personal financial advisors	72	8.8	78.8
Professional and related occupations	84	10.3	55.7
Computer programmers	6	0.8	15.8
Computer software engineers	21	2.6	72.4
Computer support specialists	8	1.0	42.8
Computer systems analysts	10	1.2	58.4
Network and computer systems administrators	6	0.8	58.2
Market research analysts	7	0.9	45.1
Lawyers	4	0.5	43.8
Sales and related occupations	184	22.5	35.6
Securities, commodities and financial services sales agents	166	20.4	35.2
Office and administrative support occupations	273	33.4	38.7
First-line supervisors/managers of office and administrative support workers	18	2.2	35.1

Occupation	Employment 2006		% change 2006–16
	No.	%	
Bookkeeping, accounting and auditing clerks	18	2.2	43.7
Brokerage clerks	55	6.8	25.7
Customer service representatives	34	4.1	68.9
Receptionists and information clerks	7	0.8	44.1
Executive secretaries and administrative assistants	43	5.3	44.5
Secretaries, except legal, medical and executive	20	2.5	28.0
Office clerks, general	44	5.4	44.1

Note: Columns may not add to totals due to omission of occupations with small employment.

Source: BLS.

Table 4. Percentage distribution of employment and establishments in securities, commodities and other investments by detailed industry sector, 2006, United States

Industry segment	Employment	Establishments
Total	100.0	100.0
Contracts intermediation and brokerage	61.0	41.0
Securities brokerage	36.4	25.0
Investment banking and securities dealing	21.6	12.2
Commodity contracts brokerage	1.6	2.0
Commodity contracts dealing	1.3	1.7
Security and commodity exchanges	1.1	0.3
Other financial investment activities	37.9	58.7
Investment advice	14.9	32.1
Portfolio management	14.7	15.7
All other financial investment activities	5.4	3.9
Miscellaneous intermediation	3.0	7.0

Source: BLS.

Occupations and education levels

The sector employs a large number of medium and high-skilled professional and technical staff with expertise in business and finance, technicians and IT specialists. However, because occupational classifications vary, depending on traditions and different training systems and structures, national comparisons can be difficult. For instance, because of its apprenticeship training system, German financial services employ a large number of clerks, while French financial services employ a high number of managerial staff. Generally, however, in all countries the sector has a significantly higher share of professionals and medium–high-skilled people and of IT jobs than the average for the labour force as a whole.

In addition, the knowledge base of the financial services sector has improved over recent years, with new jobs requiring higher level skills than previously. Many new functions and occupations also involve greater customer orientation, and superior levels of formal education. The distinction between back-office jobs (which previously did not involve much customer contact) and front-office/commercial jobs (which required such interaction) is blurring.

Further extensive changes can be expected in the traditional division of financial service work among front, middle and back-office functions. The number of back-office administrative jobs are expected to decline, with the proportion between middle-skilled and high-skilled staff changing in the latter's favour to reflect new requirements for staff to have strong financial and IT knowledge. It is expected that financial institutions will be required to reinforce the middle office, where such critical functions as financial accounting, reporting, accounting control, process control, risk management and management accounting are located. Jobs in this area demand high IT skills and a deep knowledge of financial processes, expertise in international commercial law and wide-ranging language skills, given the increasingly global nature of the operations of most firms. Commercial and front-office jobs require skills in marketing, direct sales and client advisory services, a deep knowledge of financial products, people skills, including interpersonal communications, and IT capabilities.

Call-centre staff are increasingly employed on temporary contracts and have very high levels of turnover. In addition, more and more financial institutions are using workers subcontracted for this area of operation.

Information technology (IT) is central to all financial institutions' operations, in both customer-relations management (CRM) as well as everyday administrative and operational processes. IT is critical in new product research and development, the design and management of databases, optimization of organizational networks, marketing, systems security, etc. Superior IT competence and intimate knowledge of financial processes have now become an essential combined qualification in many financial services jobs. The industry also employs many economists, mathematicians, actuaries, marketing and finance experts, industry research analysts and IT systems analysts and designers. The sector also requires management executives, mostly finance specialists, whose role is similar to that of other managers in the rest of the economy, to fill positions in headquarters, local branches and support services. Branch managers need to fulfil a commercial role and ensure close client communication.

Contrary to popular belief, many jobs in financial services are low paid. The median annual pay of bank tellers in May 2006 in the United States was about US\$22,000, according to the BLS. These and other support functions are likely to witness extensive reductions through sectoral consolidation and cutbacks in response to the crisis. High-paying jobs were mainly related to investment banking, corporate banking and trader-dealer firms. From January to October 2008, for instance, the average compensation expense adjusted for workforce size in Goldman Sachs was down 38 per cent to US\$351,000 from US\$555,000 a year earlier. For Morgan Stanley, average compensation was US\$231,000, down 17 per cent for the same period.³

³ http://news.efinancialcareers.com/Blogs_ITEM/newsItemId-15608.

Globalization and the financial crisis

The financial industry used to be highly regulated and compartmentalized even within countries. Following changes made possible by advances in IT and spectacular trade expansion resulting from commitments on market access and national treatment for non-national businesses under the World Trade Organization's General Agreement on Trade in Services (GATS), a large and rapidly growing proportion of financial companies now operate globally. Even those operating solely at the national level are confronted with international competition on a daily basis. Indeed, financial markets can now be defined as arrangements of closely interlinked subsystems in which a wide range of assets based on such things as loans, inter-bank credit, real estate, exchange rates, shares and commodities are created in one country but can be traded anywhere around the world. Such trading has experienced explosive growth and profits over recent years. The United Kingdom – and the City of London in particular – has benefited greatly from the growth.

However, the globalization of the financial services sector means that decisions made in distant headquarters of major financial institutions have substantial employment repercussions in their far-flung subsidiaries. Job reductions by Nomura of Japan, Deutsche Bank of Germany, UBS and Crédit Suisse of Switzerland will impact workers in their American and British operations, as decisions by American Express, Citigroup, Bank of America, Morgan Stanley and the United Kingdom's Lloyds TSB Group, RBS and Barclays will affect jobs not only in those countries but also in Europe, Asia, Africa, Latin America, Eastern Europe, etc. It is thus no longer possible to limit the examination of the employment impact of the crisis on financial sector workers at a single-country level, as the business and employment outcomes of managerial decisions extend well beyond the confines of a company's home countries.

Part A. The impact of the crisis on financial services employment

Not surprisingly, given that the sector has been at the epicentre of the financial and economic crisis, jobs in financial services around the world have been strongly affected, with announced lay-offs totalling 325,000 between August 2007 and 12 February 2009. These figures almost certainly understate the real situation, as announcements of job cuts are not always forthcoming. They are also unlikely to include lay-offs from independent mortgage brokers, other independent contractors who provide subcontracting services to financial institutions, or the multitude of small financial firms who would not have had the resources to weather the crisis and may have gone out of business entirely. Indeed, press reports indicate that, as of mid-2008, major British banks began to offer their top rates only to customers who approached them directly, restricting the number and type of mortgages on sale through brokers.⁴ In the United Kingdom, the banks' decision to deprive brokers of their best rates has dealt a serious blow to the mortgage broking industry, which lost 15 per cent of its members between the start of the credit crunch in August 2007 and mid-2008. The number of mortgage advisers had fallen about 30,000 to 26,000 during the same period. Almost three-quarters of the £15 billion in UK mortgages were previously sold through brokers, according to the United Kingdom Council of Mortgage Lenders.

There is a similar trend in the United States, where mortgage brokers are concerned at attempts by banks to marginalize them, as some of the country's largest lenders move to block them from offering loans. Brokers have long served as an important loan source, typically offering a wider range of mortgage products from a variety of lending institutions.

The banks argue that their action reflects a move toward more conservative business practices, but brokers complain that they are being made scapegoats for the credit crisis, and that consumers will suffer as a result. Some legislators and consumer advocates have criticized brokers specializing in sub-prime mortgages – loans typically offered to borrowers with poor credit ratings. They charge that some brokers persuaded borrowers to apply for loans that were beyond their ability to repay. But mortgage brokers say they have been unfairly blamed for the industry's failures in recent years. They point out that it is the lenders, not brokers, who ultimately approve a borrower's application.⁵

The following table lists some of the 325,000 announced job cuts by banks, asset managers and insurers around the world from August 2007 to 12 February 2009.

⁴ www.timesonline.co.uk/tol/money/property_and_mortgages/article4004332.ece.

⁵ www.nytimes.com/2009/02/01/realestate/01mort.html?ref=todayspaper.

Table 5. Number of job cuts from banks, insurers and funds from August 2007 until early February 2009

Company	Jobs cut	Headcount before August 2007 ¹	Latest headcount ²	Remarks
PNC Financial Services	5 800	28 054	59 595, 3 Feb.	Includes jobs from merger with National City Corp. on 31 Dec.; job cuts at the combined group due to be completed by 2011
Bank of America	45 500	195 675	243 075, 31 Dec.	Includes 30,000–35,000 jobs to be cut over three years after the purchase of Merrill Lynch and 7,500 jobs to be cut over two years after Countrywide Financial Corp acquisition
Barclays	9 050	127 700	150 000, 15 Jan.	Includes 3,000 cuts after the acquisition of Lehman Brothers businesses
Bear Stearns	1 500	N/A	N/A	Lay-offs Aug. 2007–Apr. 2008, before takeover by JP Morgan
Citigroup	75 000	361 000	323 000, 31 Dec.	
Commerzbank	9 000	35 384	42 983, 30 Sep.	All lay-offs announced after the acquisition of Dresdner Bank
Crédit suisse	7 320	45 600	50 300, 30 Sep.	
Deutsche Bank	1 380	75 140	81 308, 30 Sep.	
Fidelity Investments	4 000	Unavailable	44 400, 12 Nov.	
Fidelity National Financial Inc.	4 100	Unavailable	Unavailable	
	–	–	–	Includes 1,500 cuts after purchase of three title insurers in December 2008
First American	4 250	38 000	34 000, 30 Oct. ³	Estimate
Goldman Sachs	4 800	29 905	30 067, 28 Nov.	
HSBC	2 850	312 577	335 000, 4 Aug.	
ING	Over 7 000	119 097	130 000, 27 Jan.	
JP Morgan	16 900	179 664	224 961, 31 Dec.	Includes 7,600 cuts announced after purchase of Bear Stearns and 9,200 lay-offs at former Washington Mutual Inc., bought by JP Morgan
Lehman Brothers	12 570	N/A	N/A	Includes about 6,000 job cuts made before the bank collapsed in September and an estimated 10,500 left jobless after the bank collapsed – about 8,000 others were transferred to Nomura and 10,000 to Barclays
Merrill Lynch	3 300	61 900	N/A	Lay-offs before takeover by Bank of America closed on 1 Jan.
Morgan Stanley	8 680	45 845	46 964, 30 Nov.	
National City Corp.	7 400	32 445	N/A	Lay-offs before National City Corp.

Company	Jobs cut	Headcount before August 2007 ¹	Latest headcount ²	Remarks
Nomura	1 480	16 854	26 318, 31 Dec.	merged with PNC on 31 Dec. Includes 1,000 jobs cut after acquisition of Lehman Brothers units
Santander	2 600	135 922	170 961, 31 Dec.	
RBS	3 950	135 400	170 000, 14 Nov.	Includes employees from ABN-AMRO, acquired in October 2007
UBS	11 000	81 557	77 783, 31 Dec.	
UniCredit	9 000	135 880	177 393, 30 Sep.	Includes staff from Ukrsofsbank, acquired in January 2009

Source: www.reuters.com/article/fundsFundsNews/idUSFINJOBS20090212; sourced from company announcements and releases, Reuters reports.

¹ Estimate based on earnings reports and management statements, but excluding headcount of firms acquired subsequently.

² Headcount effective on the date provided between Aug. 2008 and Feb. 2009. ³ Estimate.

Close to 130,000 jobs, or 40 per cent of the above losses, were announced from October 2008 to 12 February 2009, indicating a rapid acceleration in financial services job cuts over recent months. As the global economy sinks further into recession, and financial institutions' assets experience even greater impairment, job losses can be expected to rise even faster. Indeed, other sources report that some financial firms are considering another round of job cuts. However, as many such firms have not confirmed these reports, they are excluded from this table, as are firms reporting job cuts below 1,000; another reason to consider that reported retrenchments substantially under-represent actual job losses.

Redundancies are expected in front-, middle- and back-office roles, and are likely to involve most occupations, including management, sales, human resources, office and administrative support, clerks and machine operators. Even IT specialists, exempted from previous major redundancy waves, such as those related to merger and acquisition rationalizations, expect to incur extensive job cuts. The investment banking industry, for example, is expected to see thousands of job cuts as mergers are completed and companies prepare for a slowdown in business. IT support is likely to be hit hard as firms scale down for lower business volumes and merging firms cut out overlapping roles. According to one analyst, as many as 50,000 IT professionals in banking may be laid off by the end of 2009. ⁶ IT expenditure for 2009 by European investment banks was projected to drop 9 per cent and 15 per cent for Europe and the United States, respectively.

While the world economy as a whole will feel the fallout from the crisis, financial centres like New York and London are projected to bear the brunt. Bankruptcies and consolidation resulting from the current crisis are expected to lead to significant financial job losses in these centres, as even stronger firms shed staff. The New York State Governor has suggested that Wall Street job losses alone would top 45,000, while other estimates put these losses as high as 80,000 or half the projected total private sector job losses in the State. The impact will be major, considering that jobs in New York City's finance, insurance and real estate sectors account for one third of personal income earned in the city. The combined New York metropolitan area alone is expected to lose up to 100,000 financial services jobs. Other regional markets, such as Boston, that are similarly

⁶ www.computerweekly.com/Articles/2008/12/05/233751/50000-it-jobs-could-go-in-global-banking-sector.htm.

heavily dependent on financial services, can also expect significant job losses.⁷ For January 2009 alone, US financial services shed 42,000 jobs.⁸ As might be expected, given the central role of the subsector in setting off the crisis, the US securities industry shed 17,600 jobs in the last three months of 2008, close to its fastest pace of decline in at least a decade.⁹ BLS statistics show that the net loss of securities jobs from September to November has only once been exceeded in a three-month period over the last ten years. The industry lost 18,800 jobs November 2001–February 2002, due to a recession and 11 September 2001. As a percentage of the industry workforce, employment in securities is shrinking at roughly twice the pace of US employment as a whole and twice as fast as the broad financial sector.

As the crisis spreads to all other credit categories, job reductions will almost certainly mount even faster. American Express, for instance, has announced that it is reducing its workforce by 7,000 (about 10 per cent) as part of cost reductions to save US\$1.8 billion in 2009. Management will bear the brunt of the job reductions and remaining executives could see pay frozen until conditions improve.

Given London's status as one of the leading global finance hubs, restructuring decisions by financial institutions, including those headquartered elsewhere, have significant job implications for the United Kingdom. The employment impact on the British finance sector is expected to be equally substantial as in the United States. The decision by Crédit Suisse to reduce its headcount by 5,300 (11 per cent of its worldwide staff) could mean 650 posts in London. Nomura Holdings will also cut 1,000 jobs in London, a fifth of its local workforce, three months after acquiring Lehman Brothers' European arm. Oxford Analytica, an economic consultancy, projected that London-based financial institutions would shed 30,000 jobs in 2008, with 2009 figures expected to be at least a third higher. The fallout across the wider London economy would be even more significant, with 194,000 jobs lost and total London jobs declining from 4.71 million in 2008 to just over 4.51 million in 2010. The knock-on fiscal impact of the credit crunch due to a shrinking real economy is expected to be considerable. As in the United States, loss of lucrative financial jobs and slashing of bonuses would have knock-on effects on employment in other sectors, leading to the loss of one to two other jobs for every financial sector redundancy.¹⁰ The sharp rise in corporate and individual bankruptcies, with a 51.6 per cent year-to-year increase in company liquidations in England and Wales, spells more trouble to come for the British financial industry and its employment. Integrating HBOS into the Lloyds Banking Group, following a Government-backed takeover of HBOS by Lloyds, also puts approximately 30,000 jobs at risk in the combined company, now 43 per cent government owned. Job reductions are expected through closure of overlapping branches, call centres and IT integration. According to media reports, Lloyds plans on making £790 million savings from cuts in the merged banks' retail operations and £235 million by folding together their insurance and investment businesses. Costs in wholesale and international banking will be reduced by £430 million. The recent loss of

⁷ www.oxan.com/worldnextweek/2008-11-06/TalkingPointTue_Financialcentresfiscalcrunch.aspx.

⁸ www.cepr.net/index.php/data-bytes/jobs-bytes/employment-free-fall-continues,-unemployment-rate-jumps-to-7.6-percent/.

⁹ http://news.efinancialcareers.com/News_ITEM/newsItemId-16416.

¹⁰ *ibid.*

over £11 billion due to the takeover is likely to increase the bank's determination to extract the maximum savings possible from rationalizing operations.¹¹

Other cities around the United States, the United Kingdom and other countries with major financial services centres can expect thousands of redundancies before the crisis is over. Dexia, the Franco-Belgian banking group, bailed out by the Belgian Government in September 2009, has, for instance, announced substantial job cuts across its global operations. The company intends to cut 700–800 positions, about half of them from its Belgian operations. Its reorganization plan, announced in November 2008, foresees 15 per cent cost savings over three years. However, Dexia indicated the reductions will avoid involuntary redundancies and promised to consult its European Works Council and works councils in subsidiaries in different European countries on the plan's modalities.

Ireland is among the European countries whose banking sector has been most affected by the crisis. The Government has nationalized Anglo Irish Bank and taken strategic shareholding positions in two other major lenders, Bank of Ireland and Allied Irish Banks. Ulster Bank, a subsidiary of the UK's Royal Bank of Scotland (RBS), now 70 per cent owned by the British Government, is closing its First Active subsidiary, folding that business into its own operations, enabling the group to reduce costs by shedding 750 jobs, up to 550 in the Republic and 200 in Northern Ireland. Forty-five First Active branches will be closed and the remaining 15 will be transferred to Ulster Bank. A voluntary severance package would be offered to staff. This development is considered to be just the start of what is expected to be a radical reshaping of Irish banking; despite deterioration in business conditions, banks had hitherto eschewed payroll cuts, opting instead for recruitment and pay freezes as well as cuts in bonuses. The Bank of Ireland also announced up to 600 job reductions in its 4,000-strong UK workforce, but not yet any among its Irish-based staff. Irish Life Permanent, the State's largest mortgage lender and life pensions company, has offered staff up to €35,000 to take career breaks. Activity in Irish banking has fallen dramatically, so a reduction across the sector is expected, especially given the increased risks to the taxpayer from the bank bailout plan. The Irish retail banking sector employs 41,000 people, with 94,000 for the overall financial services.

Japan has just experienced the steepest drop in economic output since the 1974 oil shock. In addition, given the fact that banks are faced with rising costs of bad loans and heavy losses on stock portfolios in client companies, the outlook for the sector is particularly grim. While redundancies in the Japanese financial industry have not yet matched those recorded in the United States or the United Kingdom, there has been downsizing in property-related areas and reductions in fixed-income headcounts as banks cut back their bond trading to reflect the fact that the current crisis was largely caused by a lack of risk and credit control in fixed-income products. For most of 2008, Japanese financial institutions continued to focus energy on improving their retail sales force, particularly in the insurance, investment management and private banking subsectors. Even as assets-under-management declined, most firms were interested in maintaining sufficient levels of competent front-line sales and client service professionals. Demand was similarly steady for financial controllers and internal auditors with capital-market product knowledge, given the continued focus on regulatory issues.¹² For 2009, industry analysts expect continued demand for expertise in risk management and compliance; financial control and internal audit; mergers and acquisitions; and an increase in professional contract and temporary recruitment, in view of continuing budget constraints and payroll restrictions. Conversely, given the ongoing focus on reducing costs, there will be few job

¹¹ www.bankingtimes.co.uk/03112008-formation-of-lloyds-banking-group-puts-30000-jobs-at-risk/.

¹² http://news.efinancialcareers.jp/newsandviews_item/newsItemId-16691.

opportunities for human resource professionals, cutbacks in demand for skills on derivatives and securitized financial products, prime brokers and hedge fund specialists.

Despite pressure on their funding and rising bad loans, Australian financial companies remain highly profitable, while their overseas competitors survive only on government support, are nationalized or allowed to collapse. Some Australian companies are nonetheless reducing staff. In September 2008, Macquarie slashed its global headcount by 1,047 to 12,851, following two write-downs totalling AU\$2 billion and a halving of its profitability. Babcock & Brown announced that, by 2010, it intends to have cut its workforce by two-thirds, or 850 jobs, leaving just 650 employees. Among Australia's Big Four, the Australian Finance Sector Union (FSU) reported that job losses for 2008 included 1,000 for the Australia and New Zealand Banking Group Limited (ANZ), 179 at the National Australia Bank (NAB) and 450 at Westpac. Other financial companies announcing redundancies in Australia in 2008 included Insurance Australia Group (600), UBS (50), Merrill Lynch (20) and Goldman Sachs (10). The FSU estimates that 2008 saw almost 5,000 job losses in the financial industry, though this seems an understatement, as an industry observer puts the losses at closer to 19,000 based on company briefings to analysts and media reports.¹³ For 2009, NAB has already announced plans to cut another 120 staff from MLC, its wealth management unit, with lay-offs mainly affecting back-office employees.¹⁴ Jobs in operations related to real estate and back-office functions are likely to remain at risk throughout 2009. Mergers and acquisitions will probably similarly continue to exert downward pressure on employment, especially in back-office and head office management roles. Some analysts believe that Westpac's takeover of St George may result in 2,000 such redundancies, although the numbers have not yet been confirmed. Merging in the middle of a global meltdown could make banks even more disposed to reduce payroll costs during a takeover.

Africa was initially believed to be one of the few regions that would survive almost unmarked by the global financial turmoil. The region's banks, focused on domestic markets, were relatively well regulated, had very little exposure to the toxic debts of the Western financial system as the market for derivatives was almost non-existent; and local secondary markets were very small. There was optimism that the continent might avoid the looming worldwide recession altogether by boosting commodity exports to China, whose appetite for Africa's oil and minerals had dramatically expanded in recent years. As the crisis has worsened, however, it became clear that African economies would suffer serious damage, hampering the continent's recent poverty-reduction advances. Although there is currently no information on financial services lay-offs in the region, some observers believe there will indeed be such effects and they will be manifold. First, there could be fallout within the banking system because of extensive foreign ownership; if a parent bank outside the region is suffering, it might affect its affiliate in Africa. The second effect will be a potential decline in private capital flows, including remittances from the African Diaspora, which have been rising faster in Africa than in any other part of the world over the last three years. The third will be the potential decline in commodity prices. A fourth is the macroeconomic imbalances, which are independent of the financial crisis, in some African countries; these may require adjustment efforts that the financial crisis may speed up. Another danger is that foreign aid will decline if, as a result of recession in donor countries, governments decide to cut back on foreign aid. All these factors will affect the African financial services sector and its employment capacity. It is, however, difficult to forecast their impact on the sector's jobs.

¹³ www.smh.com.au/news/opinion/bad-signs-as-the-cbd-empties/2008/12/09/1228584832867.html.

¹⁴ http://news.efinancialcareers.com.au/newsandviews_item/newsItemId-17093.

In the United States, women tend to be strongly represented in sectors that are still growing, such as health and education. However, because women are also over-represented in such occupations as receptionists and clerical workers in sectors that have suffered heavy reductions, many have faced above-average levels of job loss. In American financial services, for example, women held about 59 per cent of the jobs, but accounted for a disproportionately high 76 per cent (102,000 posts) of the 134,000 job losses. They may also see more job losses in future as redundancies spread in tandem with the crisis.¹⁵ No usable sectoral data to illustrate gender-differentiated employment impacts in the United Kingdom exists, but there is disagreement in Government over the extent to which women are losing jobs faster than men. Though the latest unemployment statistics showed the number of women full-time workers to have fallen by 53,000 in the fourth quarter 2008 compared with a drop of 36,000 for men, officials point to increasing part-time employment among women, and higher male redundancy and unemployment rates, thus it is impossible from the data to draw conclusions on the gender and employment-specific impacts of the recession. The social partners also insist that there is no evidence of a problem, with the Federation of Small Businesses cautioning the Government against premature measures. The Trades Union Congress also concedes that the increased female labour participation compared with previous recessions mean more women than previously would experience the effects of the recession.

¹⁵ www.reuters.com/article/domesticNews/idUSTRE50L12T20090122.

Part B. Possible policy responses

As documented in Part A, the crisis is leading to significant job losses in the financial sector. From the policy perspective, three different challenges can be identified: (i) a permanent decline in overall activity and employment after years of expansion; (ii) stagnation and even deceleration in income growth; and (iii) restructuring within the financial sector as many financial institutions, including whole sectors of the industry, have disappeared due to mergers and acquisitions, gone out of business, or changed their operating models.¹⁶ More fundamentally, the crisis has hit the sector unevenly, affecting employment in some activities more than in others. In particular, employment in investment banking has shrunk strongly, while traditional depository and credit bank activities' employment has slightly decreased and employment in funds and trusts has continued to grow. It is likely that further labour reallocation among financial subsectors will occur in the near future.

Two different scenarios are considered: one showing a more positive picture regarding employment in the sector for the next two years and the other a more worrying one. However, both scenarios coincide on a slump in employment expected to take place during the following years. How long these destructive effects will last is difficult to predict. But whether employment in the sector approaches the more positive or negative scenario will depend heavily on the timing and type of policies that governments put in place to mitigate the effects of the crisis. The following policy recommendations aim at preparing the ground for a faster recovery of the sector, and bringing it a positive scenario of employment growth.

1. Adopting a comprehensive strategy to respond to the crisis

To a large extent, the outlook for the financial sector depends on the overall policy strategy adopted to respond to the crisis. The current financial crisis has now become global and therefore requires a global policy approach. Bail-out plans of the financial sector, crucial as they are, are insufficient. The world economy is being affected by a vicious circle of rapidly declining confidence that leads to lower demand, output and employment, which in turn further depresses confidence. What is needed is a global, coordinated stimulus package that breaks this vicious circle and responds to the current problems of failing capital markets, drying-up of credit and massive job losses.¹⁷

Such a policy package would be based on the following broad principles:

- An immediate policy objective is to stabilize the financial sector and restore confidence to capital markets. In addition, a macroeconomic stimulus package is needed to boost overall demand, thereby supporting the economy and job creation.

¹⁶ The first segment to disappear was non-bank mortgage origination, of which the most notable firm was Countrywide, absorbed by the Bank of America in early 2008. Other segments including “monocline” bond insurance followed. However, the most striking event so far has been the disappearance of Wall Street investment banks, with Lehman Brothers going bankrupt, Bear Stearns and Merrill forced to merge and the survivors – Goldman Sachs and Morgan Stanley – converting themselves to commercial banks in order to secure government protection. And this is only the beginning of the restructuring of the financial sector (Quiggin, 2008).

¹⁷ International Institute for Labour Studies (2008a).

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- To mitigate the adverse effects of the crisis on disposable incomes and income inequality, social welfare systems need to be strengthened and workers' rights protected. Experience shows that social dialogue, as part of the Decent Work Agenda, can be instrumental in designing an effective package of measures.
 - Finally, the massive impact of the crisis for the financial sector needs to be mitigated by social policies that cushion the adverse effects on employment and disposable income and help those who lose their jobs in the sector to return quickly to employment.

These measures are essential to stabilize the economy and thereby also help improve the outlook for the financial sector. In addition, specific policies targeted towards stabilizing job-creation prospects and maintaining employment are necessary as the sector undergoes a period of major restructuring. The following section looks closer at policies to tackle the economic and social consequences for the financial sector.

2. Helping finance sector workers cope with the crisis

There is widespread recognition that the crisis is partly due to a variety of practices and instruments in use in recent years, and to irresponsible risk taking in the financial sector. Yet the majority of the sector's workers had no role in causing the crisis and need support to find new jobs, adapt their skills and sometimes embark on a new career.

It is therefore important to adopt measures that: (i) provide adequate, well-designed unemployment benefits and social protection; (ii) support job search and placement into new jobs, which may sometimes necessitate new skill development measures – all the more important, because, as noted earlier, the sector is likely to shrink, leading to a permanent reduction in employment; many job losers will therefore need to obtain jobs in other sectors; (iii) strengthen social dialogue within financial institutions to mitigate the adverse social effects of the crisis and pave the way for a healthier sector; and (iv) guarantee that contractual commitments made vis-à-vis workers are honoured, especially for those financial enterprises that are forced to leave the market (employees may have to take legal action to protect their rights at work). In addition, as discussed later, compensation packages for executive and trading staff will need to be modified so as to limit rewards for excessive risk taking.

Access to social protection

Policies are needed to ensure that financial sector workers laid off during the crisis are properly protected against substantial losses of income. In particular, lower level employees are unlikely to receive generous severance payments and will have to rely on unemployment benefits. In some countries, policies are currently being introduced to extend the maximum duration of unemployment benefit. As the crisis unfolds, policy-makers are urged to ensure that finance sector employees continue to be appropriately covered and supported in new job search.

Even those employees – often highly skilled specialists – that have contractual guarantees for severance payments are at risk as the crisis brings down entire financial institutions.

In addition, governments should ensure that finance sector employees continue to benefit from relevant social services such as health. Currently, in countries like the United States, health-care insurance is tightly linked to employment, so there is a higher risk of losing proper health coverage as well as jobs. In Japan, too, the growing ranks of newly

unemployed temporary or part-time workers have no company-based unemployment benefits to rely on and there are mounting signs of incidences of extreme poverty. Unemployment benefits, social protection and employment protection are embedded in ILO Conventions that many member States have ratified. It is especially important to apply these Conventions in the current context. This will reinforce automatic stabilizers, thereby supporting economic recovery.

Activation policies and effective public employment services

Effective activation policies could play a crucial role in promoting the re-employment prospects of job losers from the financial sector. The main elements of these programmes include employment services (such as job matching, career guidance and job search support; adequate management of unemployment benefits; and referral of jobseekers to reintegration programmes after a period of unsuccessful job search). In certain cases, employment programmes like direct job creation or subsidized jobs can also play a useful role – especially to avoid demotivation among jobseekers. These programmes, if well designed, have proved to be very beneficial, helping cushion economic shocks without jeopardizing growth when the upswing sets in. For example, universal social policies such as those used by Nordic countries (e.g. Denmark, Sweden) have encouraged economic development by maintaining high employment and strong labour force participation while at the same time leading to favourable social outcomes (see *World of Work Report 2008*,¹⁸ Chapter 6).

There is a strong case for designing specific training programmes for unemployed workers from the financial sector who have been without work for a long period. As already noted, many of these job losers will have to find a job outside the sector, which may involve acquiring new skills.

Whether government support to the financial sector should be made conditional on job guarantees or not is a complex issue, which needs to be addressed taking into account national institutions and practices. However, supporting some of the existing jobs, at least for a limited period of time, may be an effective policy. This of course needs to be coordinated with the policy approach adopted for other sectors – where many innocent victims of the crisis are also losing their jobs.

Using social dialogue to help manage the effects of the crisis

Social dialogue is crucial to balance conflicting interests and is especially important in the context of the crisis.¹⁹ Finance sector workers may be willing to accept the inevitability of downsizing and restructuring, and even lay-offs. But workers also call for management to inform and consult their staff or their representatives before drastic decisions are taken. Moreover, social dialogue can help design training and other programmes that support job losers and facilitate later recovery of the sector.

The conclusions of the Tripartite Meeting on the Employment Impact of Mergers and Acquisitions in the Banking and Financial Services Sector of February 2001 remain valid in the current crisis. These specified, among other things, that all possible measures short

¹⁸ International Institute for Labour Studies (2008b).

¹⁹ ILO (2001).

of terminations, such as international transfers, restriction of overtime work and reduction of normal hours of work, should first be considered in case of the need for staff rationalization.

Avoiding counterproductive solutions: Early retirement and outsourcing

During crises, when job redundancies become the chosen measure to contain costs in enterprises to allow them to stay in the market, several alternatives to lay-offs (early retirement, outsourcing, flexible staffing and work methods, etc.) exist, with more or less adverse consequences for the long-term performance of the labour market. In particular, early retirement programmes that have been widespread in the past have proved to be damaging for both fiscal sustainability and employment prospects among the elderly. Evidence suggests that gradual retirement policies and measures that help workers acquire a new career are to be preferred in this respect, as they help employees to keep in touch with the labour market. Of course, governments may need to ensure that such measures do not substantially damage the capacity for these employees to find a more stable form of employment.

During the Asian crisis in Thailand, for example, KTB Securities Company initially retained all staff, including those from acquired banks, but eventually restructured its combined operation, introducing incentives to encourage early retirement which resulted in the departure of 2,372 employees at the taxpayers' expense, with long-term adverse consequences for the labour market. Spain provides another example of the dangers of forced early retirement. According to the finance sector trade union, jobs in the banking sector declined from 180,000 to 129,000 between 1980 and December 1999, mainly due to merger-linked early retirements, sometimes thinly disguised as voluntary. Under these circumstances, it is recommended that policy measures be implemented to ensure that banks and financial institutions bear the full costs of their restructuring activities and are not allowed to increase the taxpayers' burden. In particular, measures that cause long-term damage to the proper functioning of the labour market – such as forced early retirement – should be avoided.

3. Policies for a more effective finance sector serving the real economy

Challenges also lie ahead for those employees that continue to work in the financial services industry. Apart from major restructuring efforts, existing banks and financial institutions need to concentrate on their core business. This will require incentives to move towards less risky activities and avoid excessive risk taking. This calls for changing corporate governance of the banking sector, including a fresh look at remuneration packages of executive and trading staff. In particular, compensation packages and earnings growth of these employees could better reflect their ability to fulfil the lending role of the institutions that employ them.

Realigning executive pay, dividend policies and corporate goals

Rewarding risk taking rather than sustainable growth in economic value is considered as one of the factors behind the financial crisis. Indeed the reward system for executives and bank managers needs to be adapted to prevent excessive risk taking. The existing remuneration model leads to misallocation of risk and places burdens on those least capable of taking on large gambles.

In defining appropriate executive compensation packages, experts recommend that reward must depend on high performance attained through the right mix between risk taking and risk management. As part of this approach, individual incentives would be realigned with the long-term performance of the enterprise. In this respect, some have argued that such a realignment of incentives would require abolishing shareholder value as an indicator of success for the compensation schemes of managers. They contend that financial institutions, by their very nature as businesses, are legally obliged to maximize profits for shareholders and it was up to the government to provide the regulations within which they operated. There can be no disagreement on this obligation. As is now clear, however, excessive risk taking does not necessarily lead to profit maximization; it may rather lead to total destruction of shareholder value. In any case, some countries, such as the United Kingdom, have moved in the direction of requiring that government capital injections come with restrictions on executive pay and dividend policies. This could be used as a possible reform approach in other countries. Another policy recommendation²⁰ is to redirect executive payments away from short-term cash toward longer term payments. Withholding a portion of annual compensation depending on performance goals allows their subsequent adaptation to eventual adverse conditions that can be clearly linked to previous executive action.

Revisiting corporate governance

Multi-stakeholder coordination in financial institutions may be improved to ensure better coordination and implementation of agreed international corporate governance standards. Remuneration and incentive systems are supposed to align the interests of corporate officials with the long-term interest of the enterprise and shareholders. Developments in corporate governance mechanisms have led to an increasing use of performance-related pay systems for executive managers and directors, but empirical studies show that such systems have little effect, if any, on the performance of financial institutions. Moreover, wide variations exist, with examples in some countries displaying virtually no relationship between performance-related pay and company profits. On the contrary, evidence suggests that managers are in a dominant wage-bargaining position with respect to owners, partly as a result of institutional flaws. Distortions in these structures are dangerous, since they may lead to a short-term bias towards additional risk taking, a particular concern for the financial industry. There have been calls from some quarters for employee representation in corporate governance, which might help realign the interests of different stakeholders. Strengthening the role of the enterprise's board and allowing other stakeholders to participate can counterbalance managerial power and may limit excessive risk taking. This measure is especially relevant in the finance sector, given the abovementioned problems of excessive management compensation.

²⁰ Ben W. Heineman Jr. (2009).

Part C. Concluding remarks

The finance sector is currently undergoing a deep and thorough restructuring, and the crisis has hit the sector unevenly, which may result in labour movement among financial subsectors. This will reinforce the impetus towards structural changes similar to those experienced until now.

This restructuring of the finance sector cannot take place without substantial consequences for both employment and income of current employees in this industry. In fact, the sector is already experiencing a permanent decline in overall activity after years of expansion, which is triggering significant job losses. Moreover, evidence shows stagnation and even deceleration in income growth.

Measures that help workers cope with the crisis in the sector would serve social and economic goals. These include adequate, well-designed unemployment benefits and social protection, activation policies and effective public employment services. They would not only support the income of affected workers, but also facilitate transition to new jobs and reduce the risk of long-term unemployment and inactivity. There is also a strong case for launching retraining programmes targeted on finance sector workers, given the likely cut in total employment in the sector.

This paper also considers measures that encourage moving towards a more effective finance sector that focuses on the needs of the real economy. One of the proposed options is to build incentives that encourage the sector to shift to less risky activities through an improved corporate governance structure. This could include rationalizing executive pay and dividend policies.

Social dialogue among employers and trade unions in the sector can greatly support adoption of effective measures. Social dialogue is also crucial in ensuring that the measures specific to the sector are well designed.