

An assessment of the Australian financial services sector

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This assessment report, prepared for the International Labour Organization by Prof. Paresh Kumar Narayan, is intended to provide a rapid overview of the financial services sector in Australia and to stimulate discussions at the Tripartite Workshop to Promote Social Dialogue on Financial Services Reforms in Selected Asia and Pacific Countries (Jakarta, Indonesia, 5-6 August 2015). The views expressed in the report are not necessarily those of the ILO.

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1. Introduction

The report provides a rapid assessment of the Australian financial services sector. Specifically, the report consists of five sections. Section II provides the structure of the financial services sector. Section III discusses financial sector effects of the global financial crisis. Section IV provides evidence on social dialogues and documents any relevant laws and regulations. Section V discusses social protection measures. This report is based on an extensive desk research and a complete list of data sources is documented in Appendix A.

2. Structure of Australia's Financial Services Sector

Australia's services sector has seen strong growth over the past two decades. Information media and telecommunications have recorded the highest average annual growth rate since 1992, followed by financial and insurance services, and professional, scientific and technical services. Overall, Australia's services sector has expanded by an average of 3.5% per annum, outperforming the all-industries average of 3.3%.

Over the five years to June 2014, Australia's financial markets have expanded, with total annual turnover (over-the-counter and exchange traded) rising 27% to A\$125 trillion. The latest figure is 79 times the size of Australia's nominal GDP, reflecting the depth of the country's financial markets.

The industry has assets valued at around \$5.6 trillion, which is almost four times the nominal GDP. Superannuation funds, local banks, and insurance dominate the industry's revenue base. The sector contributes \$130 billion to GDP, equivalent to 9% per annum, ranking the industry the largest in Australia. Moreover, on an annual basis, the sector contributes around \$18 billion in tax to the Australian Government.

In terms of employment creation, the sector employs around 411,700 workers (equivalent to 4% of total employment). Over the five years to November 2014, employment rose by 8,200 (or 2.0%). Employment growth is expected to be strong over the five years to November 2019 (up by 11.3% or 46,400). Another feature of employment is that it is highly concentrated in the capital cities (85%), particularly in Sydney and Melbourne, where many financial institutions have their head offices. Relatively few people work part-time in the industry (only 17%) compared to the all industries average (30%). Half the workforce is female, which is higher than all industries (46%).

This industry employs a relatively narrow range of occupations. *Clerical and Administrative Workers* and *Professionals* dominate employment in the sector, accounting for almost four in every five workers. While it is true that the financial services sector employs only 4% of the total workforce, this sector boosts workers with a higher level of education than other sectors. Almost half of all employees in the sector hold a bachelor's degree or higher, compared to just over a quarter across all industries. Employees in the sector also have a higher level of diploma-level qualifications than aggregate industry, and it was a top-five employer of Australian university graduates in 2013. A summary of this data is presented in Table 1, below.

The future prospects of the skilled financial and insurance services workforce are reinforced by its demographics. The workforce has a relatively younger age profile; only about 33% of the workers are over 45 years compared to 38% for all industries. Women are also well-represented. Exactly half of the workers in the sector are females which compares with 46% women employed in the rest of the sectors. Employees in the industry are relatively well-remunerated; the average employee salary is just over \$87,000 per annum. By comparison, the average annual salary of all employees in Australia is \$58,390.80.¹

Table 1. Financial and Insurance Service Sector - Employment—A Snapshot

Employment	This industry	All industries
Employment Nov 2014	411,700	11,613,900
1 year change to Nov 2014	-1.1%	1.2%
5 year change to Nov 2014	2.0%	7.0%
5 year projected change to Nov 2019	11.3%	10.0%
Employment Profile		
Working part-time	17%	30%
Female	50%	46%
Aged 15 to 24 years	8%	15%
Aged 45 years or older	33%	39%
Regional	15%	32%
Workforce Educational Profile		
With a bachelor degree or higher qual	48%	29%
With a cert III or higher VET qual	23%	31%
Without a post-school qual	24%	34%
Top 5 Occupations		
Bank Workers	52,400	52,500
Financial Investment Advisers and Managers	40,200	49,100
Clerks, Insurance, Money Market and Statistical	26,600	29,300
Credit and Loans Officers	24,600	28,800
Financial Brokers	22,300	26,400

¹ However, just because this is an average salary it should be interpreted with care because there may well be some sub-sectors within the financial services sector that are very highly paid which is, as a result, contributing to this high average. In other words, salary inequality could be high in the sector. Unfortunately there is no disaggregated data for us to analyse this further. Moreover, there are industries with higher average salaries than financial and insurance services. These industries are mining, construction, public administration and safety, and education and training. On average, the lowest paid workers in the financial services sector are employed in client services, collections and data entry. The highest paid workers by comparison are those employed in audit, risk management and treasury functions.

3. Potential effects of the Global Financial Crisis²

The global financial crisis has had a gradual effect on the Australian financial services sector. The sector highlighted its concerns about Australia's prospects of growth in 2015 in the September 2014 MYOB Business Monitor Report, a survey of over 1,000 SME business operators nationwide. Just 16% of business operators in the finance and insurance industry believe the economy will improve from its current position within 12 months, compared to 24% of businesses overall.

Small and medium-sized financial services firms have recovered in past years, with 20% of them reporting improved revenue (one percentage point lower than the all-industry SME average) and 64% saying revenues were the same in the 12 months to August 2014. SME businesses in the sector were expecting to make significant gains in 2015. For example, 36% of finance and insurance SMEs were forecasting increased revenue for 2015 compared to 32% of all-industry SMEs.

Despite pressure on business funding/finance and rising bad loans, Australian financial companies overall remained highly profitable. At the same time their overseas competitors survived only on government support, and were either nationalized or allowed to collapse. However, in the immediate crisis period, some Australian companies were reducing staff. For example, in September 2008, Macquarie slashed its global headcount by 1,047 to 12,851, following two write-downs totaling Australian \$2 billion and a substantial reduction in its profits. Babcock & Brown announced that by 2010, it intends to reduce its workforce by two-thirds, or 850 jobs, thereafter operating with just 650 employees. Among Australia's Big Four Banks, the Australian Finance Sector Union (FSU) reported that job losses for 2008 included 1,000 for 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 estimated that almost 5,000 jobs were lost in the financial industry in 2008. This though seemed an underestimate, as an industry observer put the losses at closer to 19,000 based on company briefings to analysts and media reports.

An outcome (albeit indirect) of the global financial crisis has been mergers and acquisitions, which is likely to exert downward pressure on employment, especially in back-office and head office management roles.

Changes in consolidation post-GFC³

Following the global financial crisis, many non-bank lenders exited the market or significantly scaled back their operations due to the closure of securitization markets, which constituted the primary source of funding for many of these entities. These competitors were particularly important in driving competition in home loan lending.

² This section draws on the report available on:
<http://www.rustreport.com.au/uncategorized/financial-sector-consolidating/>

³ This section draws on a report available at:
<http://www.treasury.gov.au/PublicationsAndMedia/Speeches/2010/Bank-competition-in-the-post-crisis-environment>

Other non-bank lenders exited the market or significantly scaled back their operations due to constraints in other funding markets. Some of these constraints originated in Australia, for example, in the commercial paper market. Other funding constraints began in the jurisdiction of their parent companies overseas, restricting the parents' ability to provide capital injections to their Australian subsidiaries.

Moreover, some foreign banks exited the Australian market or significantly scaled back their operations in Australia due to funding constraints. These competitors were particularly significant in providing corporate business banking services. Several smaller Australian banks have also scaled back their operations, largely due to increased funding costs, particularly in wholesale funding markets. This impact was mitigated by the Government's large deposit and wholesale funding guarantee scheme, and the financial claims scheme. Under these schemes, smaller institutions were able to raise deposits and secure funding using a Government guarantee.

State participation

There are currently 53 banks operating in Australia, 14 of which are predominantly Australian owned. In terms of assets on their domestic books, the banks vary in size from \$0.17 billion to around \$270 billion. With the exception of one small bank that is owned by a consortium of superannuation funds, all Australian-owned banks are listed on the Australian Stock Exchange (either directly or indirectly through their parent). There are no banks owned by the Australian government. All banks are supervised by the Australian Prudential Regulation Authority (APRA).⁴

By international standards, the Big Four Banks are reasonably large. In terms of consolidated group assets, each of them rank in the top-80 in the world (with the largest of them currently ranked 54th), and in the top-50 based on market capitalization. In part, this reflects the fact that these banks have been very profitable over the past decade, recording an average pre-tax return on equity of around 21%.

Finally, there is one Australian-owned bank (Macquarie Bank) that undertakes predominantly investment banking activities. The Macquarie Bank is ranked sixth largest in Australia in terms of domestic banking assets. In the year to March 2015, funds management contributed almost 40% to its total after-tax profit, while traditional investment banking activities accounted for an additional 32%. Financial markets trading and lending activities accounted for the remainder.

⁴ This section draws on a report available at:
<http://www.rba.gov.au/publications/fsr/2006/mar/html/struct-aus-fin-sys.html> &
<http://www.rba.gov.au/publications/fsr/2006/mar/html/struct-aus-fin-sys.html>

4. Sectoral Social Dialogue and Collective Bargaining

Workplace or enterprise bargaining is the most common method for setting wages and conditions of employment in Australian workplaces. During the period covered by this report there were three significant legislative changes. In May 2007 the Australian Government announced the introduction of the fairness test for all new workplace agreements and the creation of the Workplace Authority to administer the fairness test. The fairness test required that for most agreements lodged with the Workplace Authority, fair compensation had to be provided in lieu of the exclusion or modification of any protected award conditions.

A year later, the Workplace Relations Amendment (Transition to Forward with Fairness) Bill 2008 was passed, which made significant changes to the regulation of workplace agreements, including preventing the making of any new Australian Workplace Agreements (AWAs), allowing for the making of a transitional form of individual statutory agreements, such as Individual Transitional Employment Agreements (ITEAs), in certain circumstances and abolishing the fairness test and replacing it with a more comprehensive no-disadvantage test.

On 1 July 2009, the Fair Work Act 2009 (FW Act) came into operation. This Act is centered on bargaining at the enterprise level underpinned by good faith bargaining and a comprehensive safety net, comprised of modern awards and the National Employment Standards. Other key changes to the agreement-making framework in the FW Act include the removal of any provision for individual workplace agreements and the removal of the distinction between union and non-union agreements, providing instead that enterprise agreements can be made between an employer or more than one employer and their employees. As noted above, this report is limited to workplace agreements made under the WR Act in the reporting period.

Social dialogue and collective bargaining

Australia has reinforced the protection of workers in the event of individual and collective dismissals. Employers are now required to consider alternatives to collective dismissal for economic reasons and a redundancy payment scheme has been introduced in cases of individual and collective dismissals. There are three agreements related to the Finance and Insurance industry, which is summarized in Table 2 below⁵:

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https://docs.employment.gov.au/system/files/doc/other/agreement_making_in_australia_under_the_workplace_relations_act_2007_to_2009_1.pdf

Table 2. Summary of agreements relating to the financial services sector

Agreement number	Title	Industry	Employees covered	Effect of clause
AC308019	Working Together Agreement 2007	Finance and Insurance	9058	Support options available to primary carer upon return to work One day of paid volunteer leave per annum Career day, in which employees can work in another role within the company
AC325300	The Australian Health Management (Dental and Eyecare Practices) Collective Agreement 2009–2012	Finance and Insurance	250	Company pays up to \$500 per annum towards employee health insurance
AC318761	Mystate Financial Credit Union of Tasmania Union Collective Agreement 2008	Finance and Insurance	241	Casuals have access to paid compassionate leave

5. Issues and some outcomes of Social Dialogue in Australia

The Finance Sector Union (FSU) has been extremely active. FSU has documented hundreds of success stories, ranging from voluminous individual cases (such as restoring holiday pay, lack of consultation with staff, and restoring reduced hours/parental leave) to saving the implementation of plans for large-scale job cuts. For example, a story reported on Wednesday 9 October 2013 read: “In a significant win for FSU members, finance ... workers at ANZ Direct ... have successfully campaigned to keep jobs in Australia”. This campaign actually saw 590 ANZ jobs saved.⁶ In 2008, following the global financial crisis, when Mitsubishi closed its plant in South Australia, the Union finalised a deal with Mitsubishi providing retraining for employees to help them find alternative work, improve redeployment arrangements, and increase severance payment to five-and-half weeks of pay per year of service.

The FSU also introduced the “Invest in Australia” policy. Under this policy, two specific calls were made for Australian companies. The first was to avoid moving jobs and skills overseas, thereby retaining jobs locally; and, the second was to contribute 1% of payroll to a fund to be used to train staff for new jobs and to increase severance payments to five-and-half weeks of pay per year of service.⁷

The global financial crisis also saw the introduction in Australia of the “flexible work practices”—a policy that encouraged more part-time work, reduction in the hours of full-time work, the use of purchased leave, and video-conferencing as an alternative to

⁶ <http://www.fsunion.org.au/About-the-FSU/Success-Stories/default.aspx>

⁷ This section draws on the report:
<https://www.fsunion.org.au/Upload/FSU%20Publications/FSU%20Q-News/QNews%20Summer%202009-10.pdf>

travel. These were in response to the reduction in volume and revenue resulting from the effects of the financial crisis.⁸

In a survey report published by the Department of Social Services (Australian Government), it was found that the financial crisis led to a rethink of the existing business models and work design practises in many organisations. The survey found that some organizations: (a) experimented with different flexibility options—including Flexible Work Arrangements, such as reduced hours; and (b) implemented the ‘flexi-leave’ policy—such as, reducing working hours to part-time work (e.g 6 hours/day or 3 or 4 days/week), taking accrued annual or long service leave at half pay, and/or purchasing additional leave of between 1-4 weeks.

6. Summary

The financial services sector employs just over 400,000 people, representing 4% of the Australia workforce. The sector contributes about 9% to GDP. The sector has been somewhat resilient to the recent global financial crisis in that an economic recession was avoided. While jobs have been lost and manufacturing plants closed, the effects have been managed by the sector Unions in an impressive fashion. Union involvement has been not only about working with troubled organisations towards re-training, re-deployment, and severance payments but also about playing an active role in policy development, such as the “Invest in Australia” policy aimed at securing jobs. Most organisations, so it seems from Government survey reports, have played their part towards introducing a range of measures including ‘flexi-leave’ and other flexible work arrangements aimed at reducing full-time hours of work and increasing part-time hours of work. This has meant that the impact on, and impact of, unemployment has been largely controlled in the sense that Australia has avoided a social and economic crisis in the aftermath of the global financial crisis. This report is of the view that further case studies are needed to understand how exactly unions have worked with troubled organisations in helping workers secure alternative jobs. Moreover, this report has not been able to ascertain the gender effects of unemployment in the financial services sector resulting from the global financial crisis. Again, case studies will be a useful way of documenting gender effects on employment in the sector. These should be directions for future research on Australian financial services sector.

⁸See <https://www.dss.gov.au/our-responsibilities/women/publications-articles/general/a-new-flexibility-normal-the-case-for-work-redesign?HTML>

Appendix A. Data sources

Relevant information	Name of documents	Sources
1. Structure of national financial services sector and its development.	Australian jobs 2015	https://docs.employment.gov.au/system/files/doc/other/australian_jobs_2015.pdf
	Australia benchmark report 2015	https://www.austrade.gov.au/ArticleDocuments/3823/Australia-Benchmark-Report.pdf.aspx
	State of the industry 2014	http://www.fsc.org.au/downloads/file/ResearchReports/File/2014_1117_FSCUBSStateoftheIndustryReport2014LR.pdf
	Financial services- environment scan 2014	https://www.ibsa.org.au/sites/default/files/media/IBSA%20Escan%202014%20Financial%20Services.pdf
	Financial Sector consolidating	http://www.rustreport.com.au/uncategorized/financial-sector-consolidating
	Banking Concentration, Financial Stability and Public Policy	https://ideas.repec.org/h/rba/rbaacv/acv2007-16.html
	Financial services workforce development strategy_2	https://www.ibsa.org.au/sites/default/files/media/Financial%20Services%20Workforce%20Development%20Strategy_2.pdf
	Financial and insurance services	http://www.awpa.gov.au/our-work/Workforce%20development/national-workforce-development-strategy/2013-workforce-development-strategy/Documents/2013%20Industry%20Snapshots/K-Financial-and-insurance-services.pdf
	The Structure of the Australian Financial System	http://www.rba.gov.au/publications/fsr/2006/mar/html/struct-aus-fin-sys.html
2. Effects of global financial crisis and recent financial reform	Impact of the Financial Crisis on Finance Sector Workers	http://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/meetingdocument/wcms_103263.pdf
	Bank competition in the post-crisis environment	http://www.treasury.gov.au/PublicationsAndMedia/Speeches/2010/Bank-competition-in-the-post-crisis-environment
	Escan 2013 Financial Service Industry	https://www.ibsa.org.au/sites/default/files/media/Escan%202013%20Financial%20Services%20Industry.pdf
	Financial Services- Environment Scan 2014	https://www.ibsa.org.au/sites/default/files/media/IBSA%20Escan%202014%20Financial%20Services.pdf
	Financial services workforce development strategy_2	https://www.ibsa.org.au/sites/default/files/media/Financial%20Services%20Workforce%20Development%20Strategy_2.pdf
	Developments in the Financial System Architecture	http://www.rba.gov.au/publications/fsr/2014/mar/html/dev-fin-sys-arch.html
3. Sectoral social dialogue and collective bargaining in the country	Errata: Agreement making in Australia under the Workplace Relations Act: 2007 to 2009	https://docs.employment.gov.au/system/files/doc/other/agreement_making_in_australia_under_the_workplace_relations_act_2007_to_2009_1.pdf
	Employment protection and industrial relations	http://onlinelibrary.wiley.com/doi/10.1002/wow3.4/pdf
	Employment Protection and Collective Bargaining: Beyond the deregulation agenda	http://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_191726.pdf
	Trends in Employee Methods of Setting Pay and Jurisdictional Coverage	http://www.abs.gov.au/ausstats/abs@.nsf/products/9FB5869AF01C0708CA25792200E2F22?OpenDocument
	Collective bargaining framework	http://www.rcsa.com.au/documents/Fair_Work/DM2-554622%20-%20FINAL%20-%20Collective%20Bargaining%20Framework%20module.pdf

	Towards more productive and equitable workplaces - An evaluation of the Fair Work legislation	https://docs.employment.gov.au/documents/towards-more-productive-and-equitable-workplaces-evaluation-fair-work-legislation
4. Redundancy, Layoffs and Social protection	10,000 banking jobs to go by 2014: FSU	https://www.realestateinvestar.com.au/ME2/dirmod.asp?sid=1A0FFDB3E8CD48909120C118D03F6016&nm=&type=news&mod=News&mid=9A02E3B96F2A415ABC72CB5F516B4C10&tier=3&nid=725458E2A3BD4235B8E799BE39A8BAD7
	3000 finance jobs a year may be sent offshore	http://www.bankingday.com/nl06_news_selected.php?selkey=13862
	Off-shore and off work: The future of Australia's service industries in a global economy	https://www.fsunion.org.au/Upload/Campaigns/Offshoring/NIEIR_2012_report_SPE004_SSU_offshoring_update_final_011012.pdf
	A new "flexibility" normal? The case for work redesign	https://www.dss.gov.au/our-responsibilities/women/publications-articles/general/a-new-flexibility-normal-the-case-for-work-redesign?HTML
	Change, Redundancy, Redeployment and Retrenchment	http://www.fsunion.org.au/Upload/WBC%20RRR%20OCT2010%20web.pdf
	Alternatives to redundancies and legal implications	http://www.changeboard.com.au/content/1804/Alternatives-to-redundancies-and-legal-implications/
	Banking, Finance and Insurance Award 2010	http://www.afei.org.au/pdf/MA19.pdf
	Termination pay	http://www.moneyhelp.org.au/losing-your-job/redundancy-payment/
	FSU National conference 2011	https://www.fsunion.org.au/Upload/FSU%20Publications/2011%20-%20Account%20Magazine/Account_spring_2011_low_res_FINAL.pdf
	Department of finance and deregulation enterprise agreement 2011 – 2014	http://www.finance.gov.au/sites/default/files/Finance_Enterprise_Agreement_2011_1.pdf
	Newsletter of the Finance Sector Union of Australia, Queensland Branch - Summer 2009/10	https://www.fsunion.org.au/Upload/FSU%20Publications/FSU%20Q-News/QNews%20Summer%2009-10.pdf
Redundancy termination entitlements	http://www.legalanswers.sl.nsw.gov.au/pdf/employment_redundancy.pdf	