The Challenge of Global Change in Financial Services

A UNI Finance Report

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Executive Summary – Part 1

This report is in two parts. Part 1 reviews global 'futures' reports for the sector which carry some strong messages about the industry's global imperatives. They describe client needs for one-stop flexible service packages across the whole range of financial services. Retail, commercial, investment, insurance and assurance markets are seen as coalescing. A distinction between selling advisory services and selling financial products is emerging as clients needs become more complex and products become more complete and designed in the software IT process.

The very strong profits picture is reported to be coming from core markets, commonly described as an 'organic growth' model, despite the parallel processes of global restructuring. Mergers and acquisitions and cross-border expansion involving both global regions and truly global ownership changes are also contributors to the growth, but are commonly seen as securing competitive advantage and access to new markets like India.

The most dramatic thesis is that global restructuring's next phase will involve the emergence of 'mega-banks'. A global 'tiers' model is suggested.

Part I provides varied versions of who the leading players will be in the process. It highlights global regions trends, traces merger and acquisition trends, including
sectoral issues such as insurance futures and the relevance of the bancassurance model.

It looks at outsourcing developments, but also presents experience of the counter development of the return of branches – re-branching *(author's term).* It also sketches the challenge from outside the finance sector from Walmart's and Tesco's banking ventures.

It sets these processes in the contexts of developments in governance, shareholder activism and competition policy.

Finally, it reports on views that a new workforce model will be a part of the processes, and suggests some perspectives for reviewing the UNI-Finance activities presented in Part II of the report.

THE CHALLENGE OF GLOBAL CHANGE

1. Recovery fuelled by global imperatives?

After the widely recognised difficulties of the finance sectors in many parts of the world in the 2000 to 2003 period, there has been considerable recovery of activity levels and especially trading profits. This has been true especially for major companies operating in several multi product markets, across national borders and across the globe. Economic forecasters predict a modest downturn to the extent that the past two to three years can be seen as part of the rising phase of a peaked business cycle.

There is recognition that the core retail and commercial banking sector, and the retail and industrial insurance sectors, are very profit sensitive to macroeconomic trends within overall growing markets for financial services. Financial services demand has been growing much faster than overall demand in Europe and parts of the Asia Pacific region – notably Japan. This general sluggishness can be seen as a result of the bigger imbalances of the US and European economies with the new economies of Asia and especially China. These imbalances are partly debt based, and also based on misaligned currency values. Global banks have an advantage that they can play many sides of this complex matrix of opportunities and risks.

Less well-positioned corporations relying on slower regional markets will need to keep up with competitive pressures. This may explain why mergers and acquisitions are occurring at several levels, not just amongst the global lead players.

2. The IBM '10 Year' Study

IBM's landmark study 'Banking 2015: Defining the Future of Banking' was released in November 2005. It focuses on the competitive forces facing the industry in the next ten years, business and technology innovations and societal trends. It says five key trends will dominate the future:

1. Customer power
2. Special niche competition
3. New workforces
4. Regulatory integration and coherence, and
5. Customised, rapidly developed technology

The future scenario looks like this:

Economic Dynamics: while average economic growth in the world will be in low round figures (2-3%s), the financial services sector will grow at a compound rate of 7.1% per year for the 15 years 2000 to 2015. It puts turnover up from $2 trillion in 2000 to $5.6 in 2015. Asia-Pacific growth will slow to a 7.6% average, which amounts to a 'no change' scenario.

That by 2015 the industry will be dominated by global mega banks.

'Conventional' banks will need to develop business models that give the customer a competitive value option.

New products will bring partnerships with small specialist providers.

IT systems will need to concentrate on speed of delivery, reliability and whole-enterprise coherence.

On labour and staff, core operations will need to be low cost and flexible, following the offshoring model, but strategies will also be needed for attracting and keeping highly skilled staff. This means the traditionally stable core becomes as unstable as the periphery except for skill groups with market power *(author comment).*

IBM spells out the product and process developments too. These are

- Big growth in housing finance (mortgages) with very competitive client costs.
- Radio frequency payments technology (RFID), growing at 30% per year from 2005 to 2015.

- Bundling of customer services into integrated service offers with cross subsidisation of product costs and recapture of single customer loyalty.

3. ACCENTURE'S Global Survey

A more quantitative survey of world retail banking by global consultancy ACCENTURE *(FT 13.03.06)* asserts that more than 80% of banks expect to achieve more than 5% growth in the next few years. That's roughly twice the level of rich country macro economic growth. Based on a survey of 100 senior executives from banks in Asia, Europe and the USA, 4 out of 10 of these managers saw future growth in the 5 to 10 % band. Most respondents made it clear that the growth would be organic, not acquisition led. The report paints a picture of inter-bank competition for clients which will be 'fierce' since it was based on high expectations of organic growth. The Asia-Pacific bank executives are the most optimistic about growth which everywhere, in any case, means 'selling more products to existing customers'.

4. A 'Toyota' revolution for banks?

To readers looking for a parallel it looks as if financial services are going to undergo the sort of revolution which happened through Japan's Toyota 'lean production' system to the world car industry from the 1970s on. And it's sobering to note that the London Financial Times said of ABN Amro's annual results in February 2006 that 'big question marks still hang over the Dutch bank's direction…it remains in the second tier of global banks with a disparate collection of assets …would its assets be worth more to shareholders if they were sold to hungry competitors ?'

Privatisation and deregulation also have a big impact. Competition policies drive these processes. Germany's public sector Sparkassen which are sometimes regarded as the major player in German retail banking, are currently involved in a competition policy battle to protect their brand identity.

5. Deloitte's 'Return of the Branch' Vision

The world's leading accountancy and consultancy group for financial services industries is Deloitte's of the USA. It is January 2006 report 'Loyalty Quest: Enhancing the Retail Banking Experience to Drive Growth' carries weight because of the extensive survey of senior bank executives and customers in the USA. Its results echo IBM. Growth will come from core markets (retail and industrial/commercial), and involve market capture from other banks of customers who want integrated services, low costs, and 'real person' access. They will also expect formal guarantees of customer service such as waiting limits and service response times. Service 'bundling' is also anticipated, assisted by regulatory relaxations of barriers between personal, savings and investment markets.

The conclusion is that there is a dramatic need to shift from the 1990s pattern of ATM and internet promotion to full branch servicing. They report that even in heavily branched cities like Chicago and New York, more branches are being built. In March 2006 HSBC announced that it was investing in its 1,528 branch network in the UK at an 'unprecedented rate'. £400 m has been put aside to create 50 new branches and refurbish 200 more, in a global bank where only 20% of profit is UK sourced.

6. In Their Own Words – Banking Leaders Speak Out

The chief executives of big financial services companies aren't always prone to seek publicity, but there is no shortage of visions and opinions, especially about public policies affecting the financial services industries.

Fortis chief Jean Paul Votron told the Financial Times all about his start-up session for training the top 3,000 managers in the expansion strategy aimed at making this 1990 merger bank/insurer into a true global player. Capitalised at €37.2bn, it is strong in its domestic markets. But it is nevertheless dwarfed by US and other European banks.

Santander chief Emilio Botin has stepped into the row about German energy company E.on's attempt to take over Spain's lead electricity company Endesa, criticising the Spanish socialist government's attempts to protect Endesa. Santander took over UK Abbey bank last year.
AXA chief Henri de Castries has gone on record against French government attempts to resist the takeover of French steelmaker Arcelor by India/UK Mittel Steel, and Italy's Enel energy company's hostile bid for French Suez energy company. AXA, the biggest fund holding investor in France, is now an insurance/banking combine, has more than €1,000 bn under management.

RBS chief Fred Goodwin, announcing a £1bn bonus for shareholders and record profits (28th Feb, 2006), with 23 acquisitions under his belt and global player status, told shareholders 'we have a huge range of opportunities for growth to pursue'. He has put £919m into Bank of China, 4 US retail banks and a purchase of Santander's German division.

Deutsche Bank announced in February through chief executive Josef Ackermann that it had reached its holy grail of a 25% return on equity with its €6.4bn profits. 'Outstanding' he said. The objective is now to sustain this over the business cycle.

7. Top Companies, lead Players

There is no one best way to work out who the top banks and financial services companies might be. It is horses for courses. Here are some examples.

FINANCIAL TIMES TOP 10 The FT *(9.03.06)* drew up a world league of banks ranked by their assets held outside the parent country. The information was compiled from The Banker and IFSL (International Financial Services London) website. It shows foreign assets as a % of total assets at December 2004.

Ranking	Bank	% assets overseas
1.	American Express, United States	86
2.	UBS, Switzerland	84
3.	Arab Banking Corp, Bahrain	84
4.	Credit Suisse, Switzerland	80
5.	Standard Chartered, United Kingdom	70
6.	Deutsche Bank, Germany	66
7.	ABN AMRO; Netherlands	65
8.	BNP Paribas, France	63
9.	Investec, South Africa	63
10.	KBC, Belgium	58

The FT reports that there are 15 banks with at least half their assets overseas, and that most have the majority of their staff working overseas. Generally speaking, European banks are bigger overseas asset holders than US banks.

GLOBAL BUSINESS INSIGHTS reports cover best practices and growth strategies. Their current Top 10 Global retail Banks list includes:

Citigroup – BNP Parisbas – Credit Agricle –Fortties –Deutsche Bank - Credit America - HSBC – Barclays - RBS, Credit Suisse – and Bank of America.

Their best practice model is:

RBS, as the fastest growing company in the industry averaging 15% growth, with HBOS its nearest rival at 10%. RBS has a multi-brand strategy, including running giant retail company Tesco's supermarket bank where it has 4 million customers, and is making fast inroads with its direct bank services. Looking at Eastern Europe, it has also bought into motor insurance in Germany and Italy and has an Asia/China strategy.

GLOBAL FINANCE analysts have done a report on Top Banks in 78 countries. It also includes an extensive rundown on Best Emerging Market banks. They propose that only 6 banks are already truly global.

Top corporate bank is Citibank, which processes $1 trillion daily for corporate customers, and gets backing from $12 trillion assets of its parent Citigroup.

Top consumer/retail bank is HSBC, which has 9,500 offices in 79 countries and is London based.

Top private bank is UBS, the 140 year old wealth management bank which employs nearly 70,000 staff across 50 countries.

Its twin UBS Asset Management Bank employs 2,700 staff in 20 countries providing investment services to corporate, government and pension fund clients.

Best custody bank is Bank of New York. It is the financing source for 100,000 investment professionals with 5 million clients. Its custodial assets range between $6 and 8 trillion.

Best investment bank is Goldman Sachs, the second largest but most successful arranger of acquisitions, mergers and equity offerings. It has control of $15 billion in equity holdings.

INSURANCE BASED FINANCIAL GROUPS The traditionally defined insurance has clearly moved as a partner in global restructuring. Arguably, globalisation is setting aside the 'bancassurance' model as too simplistic. The sideways movement of savings banks into insurance and retail banking is well established, and has important players from the state-owned sector who come to global markets with big assets. France's savings bank and state owned CDC are moving. The Netherlands' ING, the world's foremost savings bank, is also an insurance company. It emerged from a 1991 merger of the Netherlands state post office/bank and an insurance company.

Insurance companies, next to investment banks, and in some countries pension funds (USA,UK), are the world's major investment managers. The top ten, traditionally defined insurance corporations, by market capitalisation are:

Insurance Company	Country	€ bn	Special remarks
AXA	France	€ 55 bn	(€1000 bn under management)
Allianz	Germany	€ 55 bn	(70 countries)
AIG	United States		(business in 130 countries)
Generali	Italy	€ 38	
ING Group	Netherland		
Aviva	United Kingdom	€ 48	(€400 bn, 60,000 staff)
Nippon Insurance	Japan		
State Farm	United States		
Zurich	Switzerland		
Dai Ichi	Japan	€ 5.3	(managing $ 47 bn 2002)

(Sources: Economist, FT, Deloitte, BusinessInsights etc)

A pattern of mergers has been established for many years. But the narrowly defined industry faces static markets and the crisis about pensions/life assurance.

DELOITTE'S GLOBAL INSURANCE OUTLOOK 2004 This report says bancassurance has been most successful in Europe, where over half of life insurance is now delivered through banks. The report also features shortages of highly skilled professional staff and a mixed view about offshoring.

Currently the South Africa and the UK's Old Mutual is courting Skandia, the Nordic market leader with an offer price of around €7bn. Aviva has announced a US acquisition programme. AXA spent €1bn last year on small acquisitions. Generali has stated that Eastern Europe is getting expensive, is growing in China and is partnering an India company to get into India under the regulatory hurdles. Allianz claims 20 insurance companies in the 16 countries of the Asia Pacific region. AXA features in the financial press as the insurance company most likely to make a full crossover to bank status. Press rumours surface regularly that AXA will try a merger with Italy's Generali, producing a European-based mega insurance company with a strong foothold in full global bank status.

SOCIAL RESPONSIBILITY

A further glimpse of what matters in the global politics of financial institutions' can be gleaned from who is signing up to social codes and corporate social responsibility programmes.

One of the many initiatives is the UNI Global Compact that was launched by the UNI General Secretary Kofi Annan in 1999. Its purpose is to promote responsible corporate citizenship by bringing together business, labour and civil society. The aim is to move to a more sustainable and inclusive global economy by making business a part of the solution to the challenges of globalisation.

The Global Compact advances ten universal principles in the areas of human rights, labour, the environment and anti-corruption. The four labour principles are freedom of association and the right to collective bargaining, the elimination of forced labour, the abolition of child labour, and the elimination of discrimination in respect of employment.

While voluntary, the idea is that companies and their CEOs commit themselves to these principles and mainstream them into their business activities around the world.

Among the over 2600 companies that have signed the Global Compact 10% are from the finance industry. Of 103 signatories from among the FT Global 500, 21 are banks and insurance companies:

Westpac (Australia); Dexia (Belgium); AGF, AXA, BNP Paribas, Credit Agricole, Société Générale (France); Allianz, Deutsche Bank (Germany); Sanpaolo IMI, UniCredito (Italy); Millea Holdings/Tokio Marine & Nichido Fire Insurance, Mitsui Sumitomo Insurance (Japan); ABN AMRO (Netherlands); Santander (Spain); Credit Suisse, UBS (Switzerland); AVIVA, HSBC, Royal Bank of Scotland, Standard Chartered (United Kingdom).

THE WOLFSBERG GROUP For policy futures, the affairs of the Wolfsberg Group should be followed. The bankers' version of Davos, it meets regularly on global standards issues, including 'Know your customer', anti money laundering and counter-terrorism processes.

Currently the focus is 'due diligence' a reflection of the corporate governance agenda running after Enron and Worldcom scandals. Starting in 2002 with a meeting at the Wolfsberg Chateau in Switzerland, it involves 12 global banks:

ABN Amro - Santander Central Hispano (SCH) – Bank of Tokyo-Mitsibushi – Barclays - Citigroup – Credit Suisse Group – Deutsche Bank – Goldman Sachs – HSBC – JP Morgan Chase - Societe Generale - UBS.

8. Mergers and Acquisitions

UNI World Conference Report of 2002 'Globalisation of Financial Services' four years ago distinguished three kinds of merger and acquisition activities which reflected the pattern of the last 90s and the millennium. There were *domestic mergers* leaving in many countries just 2 to 4 major corporations, in both banking and insurance sectors. There were *cross border mergers*, and finally *special mergers* occurring when international and domestic banks bought up privatised banks and financial services from governments. De-mutualisations might have been included in this category too.

Now the pattern has moved on with the IMB model of the multi-sector, multi-country global corporations in formation. This new phase of regrouping is set out below.

There have been three big European takeovers in the current period:

Santander's 2004 acquisition of Abbey National, a former mutual building society was the then biggest European merger. It cost £8.9 billion (approx €13 billion).
Unicredit's takeover of HVB was bigger, costing €15.4 billion. Unicredit of Italy took over German rival HVB, with a consequential row involving the European Commission when the merger affected the second and third bank in Poland – both former subsidiaries - being combined. The Polish government has blocked the knock-on merger, and was given three months to remove

the veto. HVB already owned 75% of Bank Austria. UniCredit was formed in a merger in Italy in 1998.

In Central and Eastern Europe, West European banks and also insurance companies have made massive acquisitions. In many countries, these foreign companies are now the major players, often reducing domestically owned market share to below 20%. 75 of the 100 top banks are foreign owned, with KBC and UniCredit at the top.

BNP Paribas has made a cash bid for Italy's BNL (Banco del Lavoro) in what would be the third largest banking merger in Europe. Italy's Unipol insurance group also wanted to buy BNL, outbidding Spain's BBVA. BNP have now outbid Unipol, which is embroiled in the scandal of lobbying to get this European regrouping blocked by the Italian bank authorities. BNP was already active in Italy with 3,700 staff and interests in expanding its own insurance business. BNP values BNL at €9 billion. BNP and Paribas merged in 2000, and have spent €13billion on buying smaller retail bank operations. Last year it bought 14 companies.

In Africa, Barclays made a big move last year to consolidate its interests there with the purchase of 60% stake in South Africa's ABSA. Johannesburg based ABSA ranked 141 in the Top 1000 league, employing 57,000 staff. Just five months of ABSA ownership gave Barclays £335m extra profits for year ended December 2005. ABSA was South Africa's fourth biggest bank, worth £2.9bn to Barclays. ABSA provides retail access for Barclays which left South Africa after anti-apartheid pressures in 1986. ABSA has interests in the UK, Germany, the USA, China, Singapore, Hong Kong and the rest of Africa.

An important backdrop to the recent period is the global currency settlement. The € has been remarkably stable, has been pushed up relative to the $ and has remained stable to the £. It has meant that old Europe's € banks and UK banks can afford to buy into US and $ denominated markets.

A trend has also emerged of private equity funds buying into the financial services sector with the aim of taking them private, away from the pressures of stock markets and stakeholders. And some aspects of financial regulation.

It remains to be said that the financial press are not anticipating any more big mergers or acquisitions in Europe which has dominated activity. 'Mergers of near equals have rarely progressed beyond initial flirtations and have not always been happy experiences' *(Economist Feb 11, 2006).* The exception seems to Spain. After Santander's purchase of Abbey, its domestic rival BBVA remains ambitious globally, despite failing to get into the Italian buy-outs last year. Santander may also look for a big acquisition in Northern Europe, and has a €1 billion toehold in a US bank.

Some measure of the core cost differences inside Europe, with the common € currency, comes from a Capgemini report *(FT 16.3.06)*. This says basic annual banking costs in Italy are €252 (including some family accounts), compared to €64 in the UK and the Netherlands at €34. Germany, France and Spain are higher than the UK.

9. Outsourcing – a mixed pattern emerges

Perhaps the most challenging and perplexing issue to come to grips with is outsourcing and off-shoring. Like mergers and acquisitions and buy-ins, there are various forms. While global outsourcing has attracted most attention because of back-office job losses, domestic outsourcing is well established, especially where whole IT and processing functions are simply contracted out by a bank. Deutsche Bank's 2003 announcement of a global outsourcing of 5,500 IT jobs hit the headlines.

The spread of IT outsourcing can be judged from two recently announced contracts by global IT corporations: IBM has won its first Singapore Bank contract, and NEC has won its first Japanese bank outsourcing contract. Global outsourcing is being traced mainly to the English speaking world, from rich UK and USA to India and the Caribbean. Other global industries have already experienced similar vast moves: print setting and motor components are the classics.

For the non-English speaking world - as far as clients are concerned - there is a secondary pattern of regional off-shoring called 'near-sourcing'. This contains two elements – language grouping, both for staff and for future clients, as with German financial institutions going to Eastern Europe, and French institutions to the French Caribbean. In the USA, with the whole of Latin America to choose from, geographical proximity and new client contact has led a trend to near-sourcing just across the border in Mexico.

A new trend has been signalled by investment bank Deutsche, well known for a strong commitment to outsourcing. It involves senior, specialist grades of staff. They announced that their aim of moving half of their back-office staff to India by the end of 2007 would involve its sales and trading staff. They also announced that they were increasing their off-shored research staff to 500. So far this had saved the investment bank €1.9 bn. JP Morgan Chase will recruit 4,500 graduates in India in the next two years, aiming for 30% of its investment staff being off-shored. UBS, Lehman Brothers and Credit Suisse, all investment bankers, are making similar moves. Might senior staff transfers spread outside the investment bank sector?

There are differences in view about what will happen. The best case scenario has four anchors:

1. Reports about actual corporations who are moving against too much dependence on outsourcing. The UK's HBOS, a merger of a mortgage bank and a retail bank has brought its IT functions back in house, but denies a strategy as such. Each case will be on its cost merits and risks. Starting with shareholder protests about a call centre in India, HBOS said it will outsource IT functions where the business case is proven, but felt call centre and client services were different. The role of risk assessment as a management tool is crucial. The lead time for outsourcing contracts is reckoned at about 2 years. Could staff participation in risk assessments be negotiated as a part of restructuring agreements?

2. Re-branching looks like a well-established trend. HBOS chief Andy Hornby also announced the biggest bank branch expansion in the UK since the 1970s with 50 new branches and 50 more enlarged. It is the UK's biggest housing finance bank. HBOS closed 60 branches in Scotland only 3 years ago. UK banks closed 4,041 branches between 1995 and 2003.This suggests that the trend towards call centre-sales and

support outsourcing may not develop as envisaged. However IT functions, already often outsourced domestically, look like going to low cost, high skill countries.

3. New Zealand bank regulators may be setting an important precedent. The governance dimension of outsourcing has come to a head because of Australian outsourcing to exploit lower wages. The UNI affiliate has welcomed a consultation exercise by the Reserve Bank of New Zealand into outsourcing, raising prior notification duties, and the 'stand alone' capability for the outsourced units (an aspect of business risk analysis), citing the Argentine banking crisis of 2002 when foreign banks simply quit the country. Further suggestions for regulating outsourcing are independent auditing of proposals, tight information and data protection rules and the application of ILO minimum standards where outsourcing would be licensed.

   UNI-Finance's policy is that public authorities must legislate to protect decent work principles in outsourcing and international sourcing. Regulators should ensure that managerial responsibility is not eroded, and operational control is maintained. Transparency needs to be established, and clients and employees need data protection guarantees. Individual companies should be subject to regulatory licences.

4. 'Near-shoring' offers a prospect of cross-border organisation for unions, especially where the bank brand needs to be established with a language group of both workers and clients. The US case is that their banks want Mexican clients as well as Mexican low cost staff and services. An opportunity might therefore emerge for unions finding global coordination difficult but cross border organisation more feasible.

Job losses are substantial but not on a scale impossible to absorb and retrain.

ABN Amro has outsourced its global IT operations to IBM and three Indian companies, Patni, Infosys and Tata TCS. A total of 2,850 jobs will be restructured, with staff transfers to IBM in the Netherlands, and other transfers in other countries, and a net job loss of 1,500 from the total headcount of 2,850. ABN Amro did a big IT outsourcing previously to US corporation EDS, affecting 2000 jobs.

Lloyds of the UK, the 5th retail bank, has just announced the closure of three processing centres affecting 500 jobs, and another 105 jobs are to go from another centre to India. While there are no compulsory redundancies, Lloyds already employs 2,000 staff in India, and last year cut 300 jobs with off-shoring. A client backlash is reported by Lloyds staff representatives *(FT16.03.06)*.

Retraining, relocation and profit-sharing deals from outsourcing have been agreed with unions in some countries. In the UK, AMICUS, a multi sector union with financial services members, negotiated a share of a cost cutting deal for a retraining fund with the US Computer Sciences Corporation, and Barclays and Lloyds report similar agreements.

A key source is the recent McKinsey Global Institute report on Global Outsourcing. It says the US and UK lead the world in outsourcing, and cites a jump in global total outsourced jobs from 1.5 million to 4.1 million in 2008. US investment bank JPMorgan claims it will have 20% of its global workforce in India by the end of 2006. Europe is expected to join the trend, accounting for half of the forecast total, although French companies have been the most reluctant to outsource. 'The speed of this transformation is what is so daunting' observes a Morgan Stanley economist.

10. New Markets, Governance and Shareholders – a space for unions?

The context for the shifting pattern of financial services has three important characteristics. There is the question of new market players, eroding the boundaries of traditional financial service businesses. Then there is the whole governance and regulatory agenda, which links directly with shareholder and stakeholder activism. Finally, there is competition policy.

New Market Players Retail giant Walmart has declared that it will open its own industrial loans business to undercut US bank regulations, starting in its home state of Utah. In the UK, Tesco, the top supermarket retailer, has developed a full retail financial service for customers, so far as a joint venture with RBS bank. The next development, depending on comparative costs, might be for this to be taken in house under Tesco terms, or even to be outsourced directly by Tesco to another provider. Both Walmart and Tesco are global operators, counting millions of customers in using their sites regularly, compared to bank client's frequency of visit to branches. Even if banks go for re-branching, the retail giants pose a low-cost threat. Former US Federal Bank chief Alan Greenspan, a huge fan of Walmart, has now reversed gear, demanding new US legislation to protect US banks from Walmart's use of a legal loophole.

Corporate governance rules are now on a roll across the world after Enron and Worldcom crises. This process is imposing transparency rules and standards of behaviour about top salaries, control of non-executive directors and shareholder rights, especially in mergers and acquisitions. Shareholder and stakeholder activism is growing, with dramatic developments outside the USA, where class action legal cases are well established. The Australian high court has recently backed former insurance company clients who warned about business failure but were ignored only to find their stakes collapsing later.

Big pension funds and insurance investors and savings banks are increasing pressures on value for money, sometimes selfishly, sometimes with real long-term value in focus. UNI's report on Corporate Governance and Corporate Social Policy (2004) show how key employee pension funds in the USA have formed active alliances on value and social questions. While governance rules are normally legally based, and social questions are part of civil agreements, not legislation, sometimes with unions and NGOs, there can be cross-overs in matters of employee reporting, investment strategy and, as in the HBOS case, outsourcing.

Underlying these quite complex, technical pathways, there may even be a new international legal doctrine emerging of 'true information', which could be linked to notions of information being received by unions in good time, as with European works council laws.

Competition policy This is being codified internationally, and figures in World Trade Organisation cases. National champion strategies, in the European Union, for example, may be sustainable but only if there are open borders for strong competitors. It has to be remembered that Spain's Santander got Abbey of the UK because the UK government would not have allowed its four big retail banks to consolidate further. Europe will at some need to consider the possible excess market power of a European megabank. The European Metalworkers Federation has recently declared that it will use 'interested party' and 'third party' rights to be involved in merger enquiries.

11. Jobs – the shifting goalposts

The broad picture is well known: expansion of overall jobs, but at a slower pace than the production of services, meaning an increase in productivity. Dramatic upskilling and shortages of senior staff have most likely skewed costs, disguising relative lack of advance for ordinary grades of staff, key sections of whom face outsourcing pressures on salary levels and conditions. Salary cohesion is likely to break down, with both more low paid and more high paid staff.

However both the quantitative and qualitative sides of financial services employment statistics are poorly developed, considering the importance of the industry. Given the huge dynamic of restructuring in the sector, there is an urgent need to bring statistical sources up to best standards.

Tracking workforce value There is an acute need for statistics which help unions to decide how much competition is based on labour cost reduction, how much on market expansion and how much on technical, organisational and product development. Of particular importance are systematic trend breakdowns of staff numbers for corporations by country, rather than just global or national (home) figures. Another need is employment levels for typical, benchmarked jobs.

Collective bargaining will need to examine cross border issues, and especially the development of shared bargaining goals. This is happening in other industries, on annual and special hours of work, and differential salaries for typical jobs require quite complex developments. Pension comparisons might be a useful benchmark too. Emerging as a useful tool where currencies are stable and shared, as in the Euro area, is the concept of *purchasing power parity*. This looks at real standards of living – salaries at national price levels – so that pay levels between countries can be evaluated.

The shape of new jobs? For employers, the new multi-skilled workforce poses contradictory prospects: the more flexible their skills, the more transferable are the jobs for staff who want to move for better terms and conditions. Secondly, the more segmented the workforce, the more difficult it is to develop flexible skills. Futures reports suggest the need for multi-skilling to deliver re-branched service packages to customers. Re-branching implies a new stability and continuity of service standards, and the failure of some aspects of outsourced services.

There is a lot of specialist work to be done here to bring the sector up to the standard of global industries like the auto industry, retailing, travel and traditional manufacturing.

12. Some comments

Five thematic questions can be seen to emerge from the picture of current globalisation challenges. These are:

- Who will be the megabanks? This is a useful and practical question to help target candidates for global agreements and M&A actions. Perhaps equally important will be a sense of the new tiers of players, and prospects for bargaining consolidation (harmonisation of agreements) as more M&A develops. It might be useful to look at a tiered model, drawing on the world auto industry with its first, second, third and fourth tiers of component suppliers. Will there also be a global regions pattern, given language barriers?

- Can current models of workers information and consultation be adapted to get to grips with permanent restructuring? Can techniques like risk analysis become shared tools in the search for flexible security? How can the long lead times for management strategy be accessed to provide real influence over decision making?

- Given re-branching and new models of core and periphery workforces, what can be done to influence multi-skilling as it emerges? What salary structures are appropriate? What skills should be on retraining agendas?

- What happens if flexibility is not just multi-skilling at a stable workplace (i.e. flexibility of role), but flexibility which involves geographical flexibility, flexibility of working time and flexibility of contract? Can the four flexibilities be regulated by existing bargaining arrangements?

- Are alliances outside the collective bargaining partnership a useful tool? What about regulatory participation, political alliances and stakeholder politics – what might be the possibilities and the problems?

Where next for global engagement? – Part 2

1. Three arenas of action and some consequences?

The second part of this report aims to provide an overview of action and engagements with globalisation. It highlights areas where UNI-Finance and its affiliates have made progress.

There has been an impressive build up of documentation, organisational development and and campaigning on key issues. The work is complex and wide-ranging by its very nature, since it confronts a leading sector of what global economists have called the 'spaghetti bowl' of global economic patterns. The term was originally developed to describe the complexities of international trade.

Part 2 tries to group issues into zones of engagement to help the process of strategic development. It looks at three arenas of activity directly driven by globalisation. But it also briefly looks at three other arenas, that is, collective bargaining, governmental regulation and civil society regulation.

Four thematic questions are set out about union strategy, drawn from wider experience, and maybe sometimes from outside the 'culture' of traditional financial services union perspectives.

The questions and proposals revolve around a single, central proposition. This is that globalisation, in this sector above all sectors, means that the future will consist of permanent, ongoing restructurings of ownership, of industrial relations, of labour markets and regulation. The 'old' picture of a relatively stable industry with established industrial relations going perhaps through a phase of regrouping from time to time is not a reflection of reality.

To coin a phrase, *'business as usual'* is being replaced by *'restructuring as routine'*. It is going to be an era led by mega-financial corporations. This author suggests they might be called MFCs, rather than megabanks, or mega bancassurance corporations, or, simply, financial services corporations.

2. The arenas

Three new, global arenas of industrial relations engagement can be seen to have emerged. Big questions are also being faced about how these arenas link with the three 'traditional' arenas of established union positions in (1) national collective bargaining, (2) in national law making and some international legal regulation (ILO, OECD), and (3), in political and social campaigning with what is now called 'civil society'.

The three globalisation arenas are at very different stages of development in different geographical areas of course. But the emerging concept of the 'megabank' – or, less easy to say but more accurate, the emerging 'megafinancial corporation' or 'MFC' – provides:

the opportunity to target those companies emerging as lead players in what looks like a big, rolling process

and possibly also

the opportunity to follow issues through the levels of union organisation and activity, overcoming institutional separations. Here the NORDEA union group experience with the Nordic Bank constitutes an important model, even though at a global regional level.

Overall, it can be seen that UNI-Finance's work consists in six arenas of engagement. These are:

- with global, and global region agreements, with multinational employers
- UNI-Finance's own affiliates' bases of currently organised membership, its global region networks and zones for new membership
- with European Works Councils, and global and global region works councils

These three arenas have been developed through the common framework of UNI-Finance's strategy for Multinational companies (MNCs). The essential instrument of this strategy has been building inter-union alliances, whether to express a workforce view on a merger or takeover, or to build up representative strength in a particular MNC to develop a global council. This work is set out in Sections 5,6 & 7 below.

There are then the three traditional arenas:

- with collective bargaining processes of various kinds and levels
- with government regulators and labour and commercial law at national, regional (Europe/Australasia) and global levels
- with civil society and its stakeholders.

Part 2 seeks to set the global developments in a traditional context, with a view to understanding how traditional union bargaining and organising relate to the developments driven by globalisation.

3. Some big questions

Part 1 has thrown up some clear pictures of global development in the financial services sector. Four broad questions can perhaps provide a guide through the various arenas where engagement and action is already developing, or can be developed. The questions have no easy answers, whether short or long. They are intended as possible paths for debate, for further work, or preparing for choices.

1. Who will the 'mega's be, and where will they go?

Targeting companies and choosing the best opportunities is both a natural and a difficult process. Painting the picture of the mega institutions is at an early stage. But they will clearly have market capitalisations, on strict (Basel Tier 1) criteria, in the €100bn class. The Banker journal has produced a strict Top1000 ranking for banks, excluding the assurance parts of some banks (July 2005). The current Global Top10 range from about €70 bn to €36bn (2004 figures).

The possible size can only be guessed at, and it needs to be understood that competition law limits are still only national in practise, even if harmonised and codified as in the European Union. Even if most national governments conclude that three or four big financial institutions dominating domestic markets is the competitive limit to concentration, cross border concentration knows no such boundaries yet. But soon, the European Union may need to face this issue.

While commentators are not yet talking about a megafinancial corporation with the massive market dominating power of a Microsoft, the dynamic mix of expanding markets for services, and mergers and acquisitions, fuelled by rapid IT progress and cost cutting through outsourcing looks very strong. Even with a turn down in global demand (a global version of Japan's woes) concentration would not abate.

2. **What will the 'new labour markets' look like ? What are the strategic needs of financial sector staff under globalisation?**

Both the IBM and the Deloitte re-branching studies indicate a new human resource management period developing in tune with globalisation. Other industries talk about New Labour Markets, whether they are external labour markets – outsourcing taps these through time-limited contracts and casualisation, or new internal labour markets relying on multi-skilling, team work, new job hierarchies and crucially the four flexibilities – that is, flexibility of role, of time, of place and reward. Mainstream trade unionism in key global industries like the auto industry have produced a new doctrine of flexible security to strike a bargaining position which recognises new realities and seeks to regulate them on a negotiated basis.

The new skill bundle required is coyly indicated by Deloitte: 'As (insurance) companies focus more on providing advice than products, they need more sophisticated and highly skilled professionals. Recruiting and retaining the talented staff they require will demand more innovative approaches than ever before'.

Pay structures based on reward, not service or seniority, production costs benchmarked to sectoral performance norms, and productivity enhancement driven by permanent restructuring will need to be counterbalanced by retraining rights, bargaining about the quality of working life and job security measures. It may well be that action in arenas outside traditional collective bargaining will be needed.

Indicators from major reports may, of course, be wide of the mark. Some bargaining may already show the way. We therefore look at the UNI-Finance's bargaining outlook below.

3. **While it may look as though the big players hold all the cards, are there employer weaknesses, and windows of opportunity for unions ?**

Several factors suggest that well informed unions acting with coherence can build expertise and argue forceful positions for moderating and regulating strong market forces.

Lead times for outsourcing are generally reckoned at a minimum of two years. Establishing insider status for confidential information can help overcome the risk of commercial shock and instability.

New labour market development may rely on aspects of force as in redundancies, but workforce consent and positive motivation for complex multi-skilled roles with direct client contact are crucial.

Brand integrity is crucial, and stakeholder interests, whether the rapacious ones of hedge funds, the long value ones of pension investors or the social responsibility ones of NGOs have a powerful and permanent role.

Unions attached to sectoral collective bargaining might like to reflect on the alternative tradition of company bargaining, which in strong labour markets, can see that best practice moving more rapidly than when it is drag-anchored by the least efficient players in a sector. Company bargaining can also extend areas of mutual interest in a more targeted way than is normally possible under sectoral bargaining.

Social agendas like equalities and parental rights and ethnic opportunity also provide leverages of various kinds. There are mature issues here for unions.

Underlying new management practise lies the doctrine of risk management, a reflection of intense competitive pressure for funds and profits. The methods used by investment analysts are not hard to acquire and apply. 'SWOT' analysis, (strengths, weakness, opportunities and threats) is basic. 'Five Forces' analysis looks at competitive positions and 'PEST' analysis (political, economic, social and technical contexts) are supporting tools of professional management. Might they be adapted to trade union objectives?

There is a growing commercial and social appetite for openness – transparency, to sue the jargon. Transparency is required by regulatory bodies, even if some aspects of their work is bound by confidentiality. Unions as interested and third parties might learn to assert rights to such information. Accurate information is also essential, and increasingly a commercial right, for shareholders. It is at its most forceful when stakeholders pursue legal claims against financial institutions.

More difficult in the financial sector is accurate international information about costs and profits sources, but pressures have produced better standards of discovery about profits sources and the application of funds. Where megabanks make their money overseas is key information. How they make their domestic retail profits is vital for collective bargaining. Where profit sources are known, they may be controversial: the assertion in a signed article in the Financial Times of 23.3.06 by Fred Reichfeld and James Allen, that US banks (implicitly) are making as much as one third of their profits from nuisance and penalty payments may prove as embarrassing as overt attacks on executive greed.

Then there is political pressure. The New Zealand central bank's consultation exercise about offshoring from Australia is a classic. European Union harmonisation directives on then financial sector (a family of 12) are producing some transparency, even if the proposed Corporate Social Responsibility directive looks like being a weak 'code', rather than a regulatory instrument.

On global social responsibility, there is broad civil society pressure.

While brand coherence can mean that, for example, a ‘listening bank’ or a global ‘local’ bank gets caught when it refuses to listen or allow local decision making. The response level even to letter writing by UNI-Finance officers on responsibility issues has changed for the better: ‘We used to get one line replies, now we get three and four pages, with reasoned arguments and top professional consideration – the sensitivity threshold is changing’, explained Oliver Roethig.

What benefits can unions offer, on autonomous terms, to pursue mutual interests with employers? Can ‘global partnerships’ make mutual gains as well as establish traditional union rights and underpin collective bargaining?

What might be called the ‘dancing’ side of established trade unionism is especially relevant under globalisation. Properly targeted, it might supplement traditional collective bargaining – the ‘boxing’ side - in new labour markets, which are being pursued by employers increasingly outside sectoral bargaining frameworks. It needs to be remembered that the global extension of trade unionism has taken a company form, not a sectoral form. This insight does not undermine the important struggles, especially in the European Union, to defend sectoral bargaining processes, and the doctrine of automatic extension so crucial to defending minimum terms and conditions. The battles here are a proper warning to global corporations about regulatory compliance, of course, but the fact remains that global players so far act as corporations, not industry federations.

Union strategies here might involve offering risk avoidance support for industrial relations conflicts in countries and regions. This could happen both with and without full trade union organisation and membership rights. A UNI-Apro story illustrates:

"UNI Apro intervened in an Asian country (A) to sort out a dispute on the quantum of compensation to the bank employees displaced as a result of closure of the bank branches of one of the prominent multinational bank. Following the intervention of the CEO of the bank - an understanding was reached. Some time later the head office of X came back to UNI Apro saying that union have put in an increased wage demand despite the previous agreement. After checking it out, we discovered that the union was encouraged by the Bank's lawyer to increase their demand, effectively prolonging the dispute and therefore enabling the lawyer to earn more fees.”

Corporations under stakeholder pressures on social responsibility issues might gain from the legitimacy of joint monitoring and transparency procedures. Megafinancial corporations (MFCs) seeking to get into protected country markets might gain leverage with union endorsements for their HR policies. The supportive role of UNI and its affiliate SASBO in the ABSA-Barclays merger in South Africa – *described in Section 6* – is a pointer in this direction.

Unions familiar and positively committed to consultation rights in matters of public policy with government and inter-governmental agencies and industry sector social dialogue, for example, may need to learn more focussed skills if these ‘dancing’ dimensions of trade union work are to advance in parallel with globalisation.

These general reflections may help to take a fresh look at the mainstream trade union propositions that global agreements should concentrate on minimum international labour rights, that European works councils should remain restricted to information and consultation issues, that collective bargaining is a national and sectoral and certainly national company issue. And equally, that social dialogue and public policy campaigning should operate through special 'high partnership' pathways, kept apart from workplace activities except when shocks and crises bring the levels together under united campaigns.

4. The global agreement arena

Three pathways are emerging for the development of global agreements. These are:

(1) Global regional networks *(see 6 below)* building union links across country borders in MFCs.

(2) Cross border mergers and acquisitions resulting in stronger representative positions for unions able to press for global agreements as well as European councils *(see 6 below).*

(3) European works councils expanding to global coverage *(see 7 below).*

Global agreements are developing rapidly, bearing in mind that there is no international law requiring their existence, as is the case with European works councils and company works councils in the European union. They comes in various shapes, developing out of longstanding trade union world councils in industries like automobiles and chemicals, but in the financial sector they are relatively new.

Across the world there are now 38 global agreements, commonly known as IFAs, that is, international framework agreements. In a recent review by the European TUC's research institute, UNI is recorded ass involved in 5 agreements, 3 of them exclusive to UNI. The 38 agreements cover 3 million global workers, working for corporations with sales of $1000,000m. Headquarters countries include most European countries, the USA, New Zealand, South Africa, and Russia. Only 5 corporations with global agreements do not also have an EWC.

These agreements have a common basis of committing the corporation to a minimum set of ILO (International Labour Office) Conventions. These Conventions which legally cover only governments who sign up to them are transposed into the IFAs with the intention that they should be *'directly applicable'.* This legal term however does not guarantee any legal force for these IFAs because international labour agreements remain in limbo, until some legal creativity can perhaps secure some force for them.

Most of the agreements rest on a core of ILO Conventions covering freedom of association and union rights, forced and child labour, and equalities rights. Some add Conventions on hours of work, public contracting, minimum wages and worker representation. A 1998 Declaration on Fundamental Rights by the ILO covers the 8 Conventions which form the core platform.

IFAs vary in form. Many take the form of joint declarations, and seek meetings structures for exchanges of views on commitments to core ILO principles. Others have an approach much more like bargaining, with representative structures, annual meetings and agreed agendas, emergency meeting procedures and dispute resolution mechanisms. Some have extended the bargaining to agreements on issues rather like the EWC 'rights' approach taken by the French companies Accor (hotels and leisure) and Danone (food). UNI has gone for a bargaining approach with the intention of developing issue agreements.

UNI Finance's approach started with a model framework agreement (IFA). This drew on the United Nations' Global Compact initiative which many multinational corporations have signed up to.

Here are some recent UNI-Finance developments.

Skandia's Global Works Council leads the extension of EWCs to the global arena.

The Skandia development follows the social dialogue through a works council model. In 2004, the coverage of the finance company's EWC agreement was extended to Australia, Colombia, Mexico and the USA. Thus a global works council came into being based on European EWC legislation. The purpose remained the same, to increase the flow of information, knowledge and cooperation between representative unions and the global employer. It was described by UNI-Finance's Oliver Roethig at the time as making Skandia into a 'true global social partner in the finance sector'. Skandia has now been acquired by South Africa's Old Mutual (London registered). In 2004 it has 5,500 staff and derived 80% of its business outside Sweden.

Stalemate at Banco do Brasil on a global framework agreement

Operating in 19 American countries, this corporation with almost 80,000 employees has been an aggressive manager in several countries. It ranks 133rd in the Global 1000, withdrew from and then re-opened in Uruguay in protest at its governmental politics, and ended collective bargaining in Paraguay. UNI-Americas Finance last year launched a social dialogue initiative with the company, with particular help from affiliate CNB-CUT in Brasil. After initial good prospects however, unions found the talks blocked by the bank's legal department. It claimed the company has no right to negotiate international agreements. The agreement was seeking union organisation rights, equal opportunities, and anti racial discrimination measures, all aimed at improving union recruitment.

Falck, the Danish UNI-organised corporate services company, has agreed a full global works council.

Recently separated from Group 4 security company, Falck intends expanding globally beyond Denmark, Norway, Poland and Sweden, building on bases in Brazil, Trinidad and Tobago, and Malaysia. This agreement has the notable feature of having a direct UNI representative as a council member, who is able to call on additional expert advice. The UNI representative helps set agendas, is involved in deciding confidentiality issues, sits on the workers side and on a disputes committee. The UNI representative is also the first person to be told about serious decisions affecting employment in more than one country, and has the right to request urgent meetings with top management.

Further examples for international framework agreements are National Australia Group (Australia), Dexia (Belgium) and AXA.

Challenges can be formulated as:

Because the ILO minimum standards may not be applicable to financial services as opposed to manufacturing and commercial services companies, agreements on other issues may need to take more prominence. The European reference will help here. Equal opportunities and anti discrimination measures may need a strong profile too, although they are in the ILO

Fundamental Rights Declaration. Common HR issues like training rights, life-long learning and consultation rights on restructuring in turn imply a full works council approach, rather than a focusn on corporate social responsibility issues.

Notwithstanding the previous point, joint monitoring of social responsibility issues in countries without effective representation will need to be developed.

Targeting will need to keep pace with the mergers and take-overs, which will create the future megafinancial corporations (MFCs). So far it looks as if consensus and evolution have produced good results. Conflict-based developments may need to be prepared for.

5. UNI-union networks for global and global region corporations

The regional organisations of UNI-Finance have set strong agendas seeking global agreements (IFAs) at regional and cross border levels. It is the cooperative work of affiliates across borders which is the key characteristic. In Europe, this activity has normally worked through EWC mechanisms, as sketched in Section 7 below. In some regions, global companies operate in many countries but are also 'nationless', without identifiable headquartering and decentralised HR policies. Mergers and takeovers have improved union cooperation, creating a base for developing stronger cross order agreements with employers.

Regional union cooperation takes different forms with different results.

In the case of UNI-Finance Apro (Asia-Pacific Regional Organisation) it has built a base for union identities in the intergovernmental ASEAN trade bloc. The Asean Bank Union Council has been developed, with a South Asian Finance Sector Union Council, and UNI dialogue with Japanese affiliates.

In HSBC, while it is a very big financial services corporation with 253,000 employees, most are in the Asia/Pacific region but its biggest single group of 55,000 staff is in the UK, with only another 20,000 in the European Union countries. It is one of the biggest bank groups in the Americas too. It is very advanced in servicing global customers from bases in India, China and Malaysia. UK union AMICUS was one of the first to draft a Charter on Globalisation.

So while its recently improved EWC is valuable, the core of the company in the Apro region has led to UNI-Apro affiliates establishing a joint union Forum as a start to seeking a global council. The HSBC Asia-Pacific Forum formed by UNI affiliates met in 2002 and 2004 with management in attendance.

HSBC is also one of the largest banks in South America, with its strongest client base in Brasil, and a substantial role in the USA where there is no union presence. It operates in 13 American countries, has harsh HR policies including 12 hour days to support 9 hour customer service. UNI-Americas unions, aiming for a framework agreement are building active links and establishing an information system for HSBCAmericas.

In South America, the ABN Amro regional council of unions has been receiving active cooperation with European unions involved in the company's EWC. Outsourcing in Europe to India is mirrored by outsourcing of ABN Amro work within South America. Iubero-American coordinating committees have been formed for the two major Spanish groups – BBVA and Santander (SCH) who have strategic interests in South America

In Africa, Barclays was targeted by the union regional council in 2000 for a negotiated Partnership Agreement. This was agreed in 2005, bringing into play broad principles of consultation, accountability, avoidance of redundancies, employee development, equal treatment and opportunities and good industrial relations. The Partnership Agreement so far involves 19 groups from 6 nations. This agreement was built on the Barclays Africa/Union Forum which started in 2000, with twice yearly meetings covering 12 countries including Mauritius and the Seychelles and Egypt and the United Arab Emirates. Barclays started in 2000 with 7,000 employees, and with the ABSA merger and expansion now has 37,000 regional employees. Corporate social responsibility commitments are focussing on AIDS.

Barclay's power in African markets was shown recently by its acquisition of 60% of the equity of South Africa's ABSA group. The move in 2005 was welcomed by SASBO and UNI-Finance because of Barclay's positive industrial relations policies. The ABSA union received assurances about employee's futures. Barclays acquires a retail arm in S.Africa with ABSA.

Regional works councils have also been targeted for Stanbic and Nedcor.

The formation of the First Caribbean International Bank from the merger of CIBC (Canadian Imperial) and Barclays led to the creation of a regional forum bringing unions together in 2002. In 2005, a comprehensive First Partnership Principles Agreement was signed. Described as a 'huge milestone', taking two years to negotiate, it provides for joint consultation and an unusual joint public relations committee. There are commitments to family friendly policies, employee flexibility and a training philosophy. Seven unions were involved initially. The merger and the agreement have overcome the classic problem of a Caribbean financial services sector run through centralised decentralisation. There has been enhanced cooperation between unions, and this has in turn helped strengthen the unions at national level.

In Australia, the Financial Sector Union (FSU) has felt offshoring pressures like other global region centres with high standards of living. AXA in 2003 highlighted the issue by shifting jobs from Melbourne and Brisbane to Bangalore in India. And then near-shoring, once again with an English speaking zone, to New Zealand produced campaigning cooperation with New Zealand unions. The response by the New Zealand central reserve bank is described in Part 1 of this report. There is considerable regulatory potential if the public consultation on the capital adequacy and business riskiness of offshored functions has positive result.

In the Scandinavian finance company Nordea, unions have probably established the most advanced system of transnational employee involvement and trade union cooperation. Nordea is in the small group of companies that plan to transform into a European Company/Societas Europea (SE).

The group was formed from a major merger of Nordbank and Merita Bank in 1997, creating a dominant Nordic grouping. This ambitious company ranks 44th in the Global 1000. It includes the Baltic countries, Poland, Germany, the UK, Luxembourg and Ireland with 33,000 employees and 1,100 branches. The bank has recently declared for a 'lean banking' model, has a quarter of its clients on internet banking, and operates profit sharing. Almost two thirds of its employees are women. It provides excellent employee information statistics.

Nordea Union is the common union structure of individual company unions in Sweden, Denmark (2), Finland and Norway, all part of national UNI Finance affiliates. Their aim is to match the regional employer's development.

Nordea Union has its own annual meeting. Its board meets twice monthly and is responsible for overall coordination of the workers' side. The union welcomes workers' representatives from other countries and is building towards a transnational employee involvement system. The objective is to have one member union – affiliated to UNI – in each country in which Nordea operates.

The current system of employee involvement in Nordea is not based on legislation but on negotiated agreement and therefore on trade union strength. It operates at three different levels. Nordea Union is represented in the company's board of directors and this is the most important arena for exercising influence. Employees participate in meetings with three titular and one substitute member (one per country).

This is complemented by a structure similar but going beyond European works councils. The Group Council is the top body for dialogue between management and unions comprising the key people from both sides. For each business area in Nordea a Consultative Committee exists. It has a hands-on role to discuss with management business strategies and operations of the business area affecting employees. If a consensus cannot be reached by a Consultative Committee, the Negotiating Committee at group level with representatives of both sides can be involved to make a decision. The transnational structure, however, cannot negotiate issues that are regulated by national collective agreements. This remains the prerogative of the national unions.

In sum, the Nordea structure presents most of the ingredients set out in the UNI Finance model for trade union involvement in multinational companies: a transnational trade union organisation, co-determination in the board of directors at group level, and a transnational works council structure with consultation and co-decision rights.

In Eastern Europe, with EU enlargement, UNI-Finance has launched a project with financial services employers in the Czech republic, Slovakia and Hungary to explore mutual interests under the impact of open markets. In parallel, partnerships between UNI unions in 'old' Europe with existing unions in Eastern Europe are being forged.

6. The quiet battle for control of EWCs turns global

For more than 15 years, there has been a quiet, persistent and often frustrating battle between unions and employers to control the character of EWCs and capture their souls. On the one side, the employer philosophy of EWCs being constrained to pursue corporate interests. On the other side, unions and employees wanting, and perhaps needing EWCs to be part of the great family of trade union institutions as a democratic extension of collective bargaining. And a road to co-determination. Real life suggests that the true question is getting a progressive balance between the two directions, and integrated work between unions and employee representatives on the workers side.

The big EWC picture shows considerable diversity of development. But there is a central direction. This is the emergence of agreements at EWC level about restructuring, outsourcing, global standards, training, equalities issues and health and safety. This dynamic implies further developments towards common minimum standards in contractual terms such as hours of work and the regulation of overtime. Emerging law harmonising cross-border merges and acquisitions, protecting non-standard contracts and posted workers, for example, provide minimums on which EWCs can build to supplement and support national collective bargaining processes, and spread best practise to achieve amore level playing field in European labour markets. And maybe the new laws will impose a duty on EWCs to uphold worker rights as well, since at cross border level they are the only legally required consultation bodies for employee rights.

Regardless of complex issues developing for EWCs, the global picture has made things harder. Globalisation was scarcely glimpsed when the EWC Directive first saw the light of day in 1992. It was about harmonising the dual collective bargaining and works council/co-management experience of Europe. But at the same time as EU enlargement to the East brought 10 new nations into the EU, the EU was forced to turn outwards too under the pressures of globalisation.

This double challenge of expansion has complicated what was already a complex field of union/employer struggle. It has produced a wide variety of EWC models, which range from poorly unionised structures which some employers are thinking might provide them with a weak alternative collective bargaining structures. At the other extreme, full unionisation has meant bargaining extension into EWCs, using them to establish minimum standards, to establish social agreements and to regulate the global activities of EU based companies.

To date, there are 737 EWCs, out of a total of 1,865 corporations. EU enlargement from 18 to 28 countries increased this figure to 2169 corporations, very few of them with their head office based in the new member states.

UNI-Finance’s EWC strategy is now looking to a third phase. Key developments to date are:

A total of 43 EWC agreements have been achieved by UNI-Finance through its UNI-Europa region affiliates. The latest 3 agreements involve two of the big Spanish banks BBVA, and the biggest, SCH (Satander Central Hispano), which recently took over the UK’s Abbey. It employs over 100,000 staff and is strong in Europe and Latin America. Third comes the Austrian bank Erste which specialises in the Central European markets for retail and small and medium commercial clients. It has 36,000 staff. BBVA has 91,000 employees, operates in 32 countries and is a ‘universal’ bank.

Since 2004, European Union law allows companies to incorporate as a European Company/Societas Europea (SE) and to operate as one legal entity throughout the EU. A key element for an SE’s structure is a transnational system of employee involvement, including a European works council and employees appointing non-executive directors.

Two major European financial services corporations have decided to transform into an SE. Already in 2003, Nordea published its plan; however, technical difficulties in the legislation have stalled progress so far. Allianz is the first major multinational company that will transform into an SE by the end of 2006. It employs 162,000 staff in 70 countries. The SE will be headquartered in Germany. It will maintain its fully established co-determination system, with its 50% participation by employee representatives on the supervisory board.

AXA's EWC matures with social dialogue on restructuring and global framework agreements. As with many of the European industry sectors, one or two corporations emerge as pioneers of comprehensive consultation and rule making organisations. AXA has followed the French model of making agreements and signing joint texts through a bargaining process. These are normally implemented at business unit level. With a global workforce of 110,000, and 75,000 staff in the European Union, plus an interest in Turkey, AXA has agreed with its EWC on a full social dialogue process in its 2005 agreement. The heart of the agreement is 'necessary business change' which means restructuring. A four stage procedure has been agreed to be implemented within 'an appropriate time-frame'. The stages are the pre-decision review, the preparation of management plans, consultation on implementation and impact, and finally implementation and follow-up. Management is committed to supplying 'information' on 'alternative solutions', to seeking redeployment of staff, and a 'natural downsizing' approach. This means the avoidance of compulsory redundancies through natural wastage processes. Retraining and continuous training are specified, geographical moves of jobs will be voluntary, and equal opportunities policies are fully specified.

The dialogue process comes through monthly meetings of the EWC select committee, and there is a commitment to the harmonisation of employment conditions across Europe. This signals collective bargaining involvement in the future.

Cooperation on European mergers and takeovers. Active campaigns by involved unions, with UNI-Finance secretariat support, have taken place recently in the two big Spanish bank takeovers. These involved Santander(SCH) taking over the UK's Abbey, and BBVA's takeover of Italy's BNL. Currently the merger of HVB Bank with Italy's UniCredito has led to the demand for an EWC, driven by threats to jobs.

EWC prospects are once again developing, with a review of the Directive under way, and the recent passage of the national level works council law. While some countries interpret the national information and consultation as something less than works councils, in Eastern Europe unions should find this new legal requirement for worker representation opening a door for union recruitment.

Strategic challenges will be:

- to enhance cooperation between unions and workers' representative structures within companies at national, regional and world level (trade union alliances)
- to coordinate workers' activities across borders in cases of takeovers and offshoring as well as of monitoring corporate governance and corporate social responsibility
- to maintain the strength of national unions as companies increase their global operations
- to maintain cohesion between collective bargaining trends and the forms of bargaining developing in some regional works councils and EWCs

7. Collective Bargaining, Legal Regulation and Civil Society Campaigning

Some observations and questions might be in order about the behaviour of the global financial corporations involved with UNI affiliates.

- The first concerns their evident concern to avoid acute industrial relations problems. Banco de Brasil is a clear exception. Most seem to have adopted a developmental strategy, quite apart from whether a bargaining process has emerged, or a rights declaration process, or a partnership approach, or a routinised information and contact process. Tradition and culture obviously play a big role.

If the experts are correct in believing that mega financial corporations will carry on developing with further restructurings of ownership and commercial performance, will these various industrial relations ‘settlements’ stand the strain? Can they develop stronger positions for workers needing protection? Are the representation links and the ‘early warning’ rights adequately secured? Can advances established in national collective bargaining, perhaps on working time, equalities and lifelong learning, for example, be extended through global agreements?

- Because the legal status of international union/employer agreements is a largely uncharted area of labour law, with the exception of the abuse of ILO conventions, are the emerging agreements adequately served by disputes settlement mechanisms? How might these work? Are there principles and practices from commercial law, for example, which might develop to ensure that the information given in consultations is ‘true and fair’, that employee representatives as stakeholders have legal status as ‘interested’ and maybe sometimes ‘third’ parties to commercial contracts with stakeholders? Can freedom of information principles help in contested situations? What are the limits of global confidentiality in industrial relations compared to those in commercial law? Where intergovernmental law making does not provide support, can law still be used creatively to advance workers interests?

- Where global agreements include corporate social responsibility commitments, whether of the ILO basic rights type, or on specific issues like the environment or health, how might the union side of the agreements relate to NGOs and rights campaigners? On economic value issues, how might unions relate to responsible shareholder groups? Are alliances possible in addition to the two party relationships in global agreements? UNI’s work on global governance and global social responsibility policies is facing these issues.

- Where strong representation structures and substantive agreements develop, will established collective bargaining simply develop on traditional lines, producing a kind ‘dual system’ like the sectoral bargaining and company co-determination model in some parts of Europe? Will globalisation add to pressures for company, not sectoral bargaining? If Human Resource policies go global with re-branching and advisory service products for the financial services industry, how will then pressure on existing salary levels and structures be resisted? What techniques of analysis and comparison can deal with differing wage movements in different national economies and regions? UNI’s collective bargaining work is a vital linkage.