Eurofound

Recession and social dialogue in the banking sector: a European perspective

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Executive summary

Introduction

The worldwide banking system is at the heart of the greatest economic crisis for at least 70 years. The crisis has strongly affected a sector that had already experienced significant changes in the preceding 30 years. Structural changes in the world economy, caused by globalisation processes and technological development, transformed the banking system internationally. On top of these global developments, the European banking system faced challenges caused by the European integration process and the creation of the European Single Market. European banks adapted their strategies in order to compete in a larger market; they went through significant merger and acquisition processes, diversified their products and took advantage of technological changes. The evolution of the banking sector led to contrasting trends in its employment dynamics across Europe. Employment grew on average by 6.5% between 2004 and 2008. However, while employment levels rose significantly in a number of New Member States (particularly in Bulgaria, Estonia, Latvia, Lithuania and Romania), other countries saw jobs go in credit institutions, with the German banking sector, for example, losing over 26,000 employees in that period. Since 2008, the consequences of the economic crisis for the banking sectors of European countries have been mixed.

Policy context

Despite the different impact of the crisis on the nine EU Member States (Estonia, France, Germany, Hungary, Italy, the Netherlands, Spain, Sweden and the UK) analysed in this report, the action taken by national governments has been rather similar. All governments have sought to increase the confidence of consumers and investors and to ensure liquidity by means of guarantee funds or by the provision of affordable credit to banks. In the most affected countries, such as Hungary and the UK, and for some banks in the Netherlands, governments intervened with bail-out schemes, where the state took control of banks in full or in part.

In the next few years, it can be expected that the key structural trends developed over the last two decades will continue, in particular those related to further mergers and acquisitions, restructuring processes in advanced economies, and expansion in eastern Europe. But according to the International Monetary Fund (IMF), after the collapse of Lehman Brothers and the consequent financial crisis, the more recent volatility of the sovereign bond market has more clearly exposed the weaknesses of the European banking sector. In the euro area in particular, banks' holdings of government securities tightly link perceived sovereign and financial sector risks, limiting access to interbank lending for some institutions. These factors increase concerns about a credit crunch. The stress tests conducted on European banks provide pointers for possible interventions and, according to the IMF and the European Banking Forum (EBF), the next step in strengthening the sector is the restructuring and capitalisation of the vulnerable banks and the rebuilding of confidence in the whole system.

Key findings

The banking sectors in Hungary and the UK seem to have been particularly affected by the crisis in terms of profitability and employment. The impact was moderate in the majority of the countries analysed. In Estonia, France, Germany, the Netherlands and Sweden, the impact of the crisis differed depending on the characteristics of the individual banks. In these countries, only some banks experienced a loss of profits, portfolio quality and jobs, whereas others were not significantly affected. In Sweden, there was a sharp downturn in the economy, leading to a recession, but severe loan losses were experienced in foreign countries where Swedish banks operated. Swedbank and SEB had the largest exposure to the Baltic States, which were hit very hard by the economic downturn. In Italy and Spain, the impact of the financial crisis on the banking sector was almost non-existent.

Sector and company dialogue proved useful in tackling difficulties caused by the crisis in the relationships between unions and employers. Changes have been largely addressed through collective bargaining, both at sector and company level. The main issues addressed included measures to safeguard jobs, the impact of restructuring processes on employment, and the reduction of labour costs. In most cases, management strategies to cut costs involved an intensification of work and a reduction in pay. These trends contributed to changing the sector's traditional characteristics of good remuneration, working and employment conditions.

Although collective bargaining became more difficult, it has been shown to be an important factor in regulating the social impacts of the crisis. In some cases, it has also been possible to innovate in negotiations, as in the German study, where the need for regulating different aspects of selling products and advising clients has been introduced, at least indirectly, as an issue in sectoral collective bargaining. Collective bargaining systems characterised by coordination between sectoral and decentralised levels (as found in France, Italy, Spain and Sweden, and to some extent in Germany and the Netherlands) seem to represent a relatively effective model.

Industrial relations

In general, the crisis has had no qualitative effects on industrial relations as their structure and mechanisms have remained basically unchanged. Sector and company dialogue proved useful in dealing with difficulties caused by the crisis. It is interesting to note that, in the case of Hungary and the UK, industrial relations at company level have become more important in recent years.

The different national systems have been affected by the increasing competition between trade unions. The limited resources and the reduced room for manoeuvre have led, especially on the trade union side, to different responses. One outcome is that agreements are signed only by some trade unions and possibly by trade unions that represent only a minority of employees. These cases of so-called separate agreements reveal a lack of regulation in assessing the representativeness of the actors involved in the collective bargaining.

Another important trend at the level of company-level industrial relations is the process of centralisation. The underlying objective of centralisation in industrial relations is to save time and costs, thereby increasing efficiency. These objectives may, however, conflict with established forms of trade union and industrial democracy. Thus, local trade union branches complain that employee representatives at plant level are more and more excluded from information and consultation procedures.

European-level industrial relations did not seem to play a significant role in addressing the consequences of the crisis either at a sectoral or a company level. One of the major challenges for the future in industrial relations is the need for more effective regulation of restructuring processes at European level. As restructuring processes are expected to continue, especially at large banking groups, information and consultation processes at European level need to be developed further.

However, the real challenge will be in developing and implementing proactive strategies that anticipate change. In this context, transnational framework agreements might be a useful tool. As large banks pursue international human resource and business strategies, there could be a growing number of companies interested in establishing transnational dialogue structures to facilitate the introduction of international policies, for example, in the areas of diversity management, skills development, and performance assessment.

Introduction

Significant structural changes have occurred in the world economy over the last 30 years, particularly due to globalisation processes and technological developments, which have helped modify the banking sector at global level. On top of these changes, the European banking system has faced new challenges brought about by the European integration process and the creation of the Single European Market. Since 2007 the banking system has had to face the greatest economic crisis for at least 70 years. This crisis has strongly affected a sector already experiencing restructuring.

This study examines the industrial relations and employment structure of the banking sector, focusing on the impact and challenges of the crisis. In particular, the report gathers information on industrial relations in the banking sector in nine EU Member States (Estonia, France, Germany, Hungary, Italy, the Netherlands, Spain, Sweden and the UK) and analyses liberalisation and restructuring processes, as well as the role of social dialogue in the context of the crisis.

Chapter 1 provides an overview of the key developments occurring at European level that have directly or indirectly affected the European banking sector. It begins by describing the changes in three different areas – the market environment, the strategies for business development and the technological setting – which have all contributed to modifying the European banking structure. The first area covers the evolution brought about by Europe's integration process and the creation of a single market. The second area follows directly from this, referring to the measures undertaken by banks to react to the new competitive environment. The third refers to the technological changes over the past 15 years that have gradually transformed the way customers and banks interact, and their effect on the sector's structure. The chapter goes on to present key facts and figures on the structural characteristics of the European banking sector. It also addresses the impact of the recent economic and financial crisis on companies and on employment. The final section presents specific information on the nine countries studied, providing a summary of the major consequences of the crisis and the key actions taken by the different governments.

Chapter 2 deals with the industrial relations systems in the banking sector in each of the nine countries, focusing on the role of social partner organisations, collective bargaining and workplace representation.

Chapter 3 analyses the role of industrial relations in dealing with the impact of the crisis at national level.

Chapter 4 examines European-level industrial relations in the context of the crisis. It pays particular attention to the role of European works councils, transnational framework agreements and the European sectoral social dialogue committee in the banking sector.

Chapter 5 discusses future challenges for the European banking sector and Chapter 6 draws together the overall conclusions from the study.

Overview of the banking sector in Europe 1

Key developments in the European banking sector

Market environment

Several structural changes in the sector have been caused by the European integration process and progressive market deregulation. Table 1 summarises the key legislative changes since the late 1970s at EU level that have contributed towards the integration of European banking and financial markets. Other major developments at a more general level that have impacted on the banking and financial sectors include:

- the 1985 White Paper on the Completion of the Internal Market;
- the 1986 Single European Act;
- the 1992 Maastricht Treaty (which consolidated the single market programme);
- the introduction of the euro in 1999;
- the accession of 12 new Member States between 2004 and 2007, increasing EU membership to 27 countries.

Several legislative actions were taken during the 1980s and 1990s with the aim of removing obstacles to the provision of services and the establishment of branches across the borders of Member States, allowing free cross-border capital flows and controlling for risks of large exposures and failures.

One of the key policy documents developed by the European Commission was the 1999 Financial Services Action Plan (FSAP), an ambitious programme setting the framework for an integrated financial services market to be realised by 2005. It introduced 42 measures, each containing operational objectives (such as increasing market confidence and harmonising information) in order to pursue four key strategic goals:

- developing a single European market in wholesale financial services;
- creating open and secure retail markets;
- ensuring financial stability through establishing state-of-the-art prudential rules and supervision;
- setting wider conditions for an optimal, single, financial market.

By 2005 several measures had been implemented, although many were still outstanding as pointed out by the Commission's White Paper on financial services policy (2005a):

> *A further boost in the efficiency of pan-European markets for long-term savings products is needed urgently. The EU's major structural economic challenge – its huge pensions deficit – needs to be financed. The retail internal market is a long way from completion. A better functioning risk capital market is needed to promote new and innovative firms and to raise economic growth.*
>
> (European Commission, 2005a, p. 5)

The latest available documents assessing FSAP's role on the European banking system are the FSAP impact assessment (Malcolm et al, 2009) and the financial integration report (European Commission, 2009a). Among other things, the FSAP impact assessment analyses the role of the Capital Requirements Directive (CRD), also known as Basel II, one of the key measures undertaken under FSAP to guarantee financial stability across Europe. In particular, CRD aimed to make bank capital risk reflective so that banks that want to take on more risk must have more capital to cover for it.

Policy responses to the financial crisis

CRD had to be transposed by 31 December 2006. It came into force in January 2008, which coincided with the subprime crisis and the credit crunch. For this reason a full assessment of CRD cannot be undertaken. However, the impact assessment of 2009 points out that:

> *The credit crisis itself indicates that the current framework has proved to be insufficient. The crisis has revealed weaknesses with risk management approaches as inadequate disclosure of complex financial instruments and a failure of due diligence in understanding the risks such instruments imposed, especially during times of stressed markets, combined to lead to considerable write-downs of the value of assets. Capital requirements imposed on banks to mitigate against such risk also now appear to have been inadequate.*
>
> (Malcolm et al, 2009, p. 83)

In response to the financial crisis, which started in 2007 and intensified throughout 2008, in November 2008 the European Commission asked a High Level Group chaired by Jacques de Larosière to propose recommendations for reforming European financial supervision and regulation. The group's 31 recommendations represented a comprehensive set of proposals for regulatory and supervisory repair (De Larosière Group, 2009). In particular, binding rules on remuneration and enhanced capital requirements for trading book positions will come into force once there is agreement on the third revision of the Capital Requirements Directive (CRD III) (European Commission, 2009b).

In addition, the work of the Financial Stability Board (FSB), the G20 and the Basel Committee will probably lead to a proposal for further amendments by the Commission to the CRD (CRD IV) in order to:

- improve the quality and quantity of capital held by banks;
- introduce capital buffers;
- ensure the build-up of capital in good times, which may be drawn on in more adverse economic conditions (European Commission, 2010a).

Table 1: *Legislation impacting on the EU banking and financial sector*

Year	Legislation
1977	**First Banking Directive**. Removed obstacles to the provision of services and establishments of branches across the borders of EU Member States. Harmonised rules for bank licensing. Established EU-wide supervisory arrangements.
1988	**Basel Capital Adequacy Regulation (Basel I)**. Minimum capital adequacy requirements for banks (8% ratio). Capital definitions: Tier 1 (equity); Tier 2 (near equity). Risk weightings based on credit risk for bank business. **Directive on Liberalisation of Capital Flows**. Free cross-border capital flows, with safeguards for countries with balance of payment problems.
1989	**Second Banking Directive**. Single EU banking licence. Principles of home country control (home regulators have ultimate supervisory authority for the foreign activity of their banks) and mutual recognition (EU bank regulators recognise equivalence of their regulations). Passed in conjunction with the Own Funds and Solvency Directives, incorporating capital adequacy requirements similar to Basel I into EU law.
1992	**Large Exposures Directive**. Banks should not commit more than 25% of their own funds to a single investment. Total resources allocated to a single investment should not exceed 800% of own funds.
1993	**Investment Services Directive**. Legislative framework for investment firms and securities markets, providing for a single passport for investment services.
1994	**Directive on Deposit Guarantee Schemes**. Minimum guaranteed investor protection in the event of bank failure.
1999	**Financial Services Action Plan (FSAP)**. Legislative framework for the Single Market in financial services.
2000	**Consolidated Banking Directive. Consolidation of previous banking regulation**. Directive on e-money. Access by non-credit institutions to the business of e-money issuance. Harmonised rules/standards relating to payments by mobile telephone, transport cards and Basel payment facilities.

Year	Legislation
2001	**Directive on the Reorganisation and Winding Up of Credit Institutions.** Recognition throughout EU of reorganisation measures/winding up proceedings by the home state of an EU credit institution. **Regulation on the European Company Statute.** Standard rules for company formation throughout the EU.
2002	**Financial Conglomerates Directive**. Supervision framework for a group of financial entities engaged in cross-sectoral activities (banking, insurance, securities).
2004	**New EU Takeover Directive**. Common framework for cross-border takeover bids.
2005–2010	**White Paper on Financial Services Policy**. Plan to implement outstanding FSAP measures, consolidation/convergence of financial services regulation and supervision.
2006–2008	**Capital Requirements Directive**. Updates Basel I and incorporates the measures suggested in the International Convergence of Capital Measurement and Capital Standards (Basel II). Improved consistency of international capital regulations. Improved risk-sensitivity of regulatory capital. Promotion of improved risk-management practices among international banks.
2007	**Directive of the European Parliament and of the Council for a new legal framework for payments**. The aims are to make payments quicker and easier, to guarantee fair and open access to payments markets, and to increase and standardise consumer protection. **White Paper on the integration of EU mortgage credit markets**. The aims are to improve the competitiveness and efficiency of mortgage markets by facilitating the cross-border supply and funding of mortgage credit as well as by increasing the diversity of products available.
2008	**Proposal to amend the Capital Requirements Directive**. The aims of the proposal are to reinforce stability in the financial system, reduce exposure to risk and improve supervision of banks operating across borders. **Directive of the European Parliament and of the Council on credit agreements for consumers**
2009	**Roadmap – improving financial regulation**
2010	**Commission communication** – Regulating financial services for economic growth. **Green Paper** – corporate governance in financial institutions and remuneration policies.

Source: *Goddard et al (2007) and Eurofound updates*

2010 Green Paper

In June 2010, the European Commission published a Green Paper on corporate governance and remuneration policies in financial institutions (European Commission, 2010b). This states that the existing corporate governance regime proved to be deficient or poorly implemented and that the lack of effective control mechanisms, in particular, contributed to excessive risk-taking on the part of financial institutions. In the Green Paper, the Commission illustrates the main weaknesses in the corporate governance of financial institutions and presents a variety of ways to respond to them. These cover:

- the recruitment of members of directors' boards;
- the role of supervisory authorities, external auditors, shareholders and remuneration policies.

The Commission also recognises that the growing importance of financial markets in the economy (due in particular to the multiplication of sources of financing/capital injections) has created new categories of shareholders, who show little interest in the long-term governance objectives of the businesses/financial institutions in which they invest. This is because they tend to maximise the profits of their relatively short or even very short (quarterly or half-yearly) length of investment, thus encouraging excessive risk-taking. Moreover, the Commission has adopted several recommendations (2009/384/EC and 2009/385/EC) aimed at strengthening rules on directors' remuneration in order to link remuneration more closely to long-term performance.

Impact on market integration process

Despite the prompt actions taken to counteract the financial crisis, it had severe consequences for the liberalisation and integration process of the European market. Segments that had experienced the highest degree of integration over the last decade have been heavily hit by the crisis and in many cases have seen a sharp reversal in the positive trend over the period 2007–2008. This is especially the case for unsecured money markets, government bond markets and equity markets.

There is not enough evidence at this stage to assess whether these recent trends can be interpreted as a symptom of increasing long-term market segmentation, or if they are linked to a temporary entrenchment by market actors within domestic borders. This latter hypothesis seems to be confirmed by the reversal of the trend of some indicators (such as the interbank lending market and in the government bond markets) in the latter part of 2008 and beginning of 2009.

The financial crisis has pushed EU banks to shift their focus to domestic issues and markets, and engage less in internationalisation. Government interventions, in the form of rescue acquisitions, significantly re-shaped the process of consolidation, boosting domestic mergers and acquisitions and contributing to a reduction in the transnational footprint of EU banks (European Commission, 2009a). This view is shared by the European Central Bank (ECB), which stated in its latest report on financial integration in Europe:

> *Wholesale and securities-related activities continue being more integrated than retail banking. The financial crisis has slowed or stopped the integration process in a number of market segments. But there are reasons to believe that the halt may be temporary, and that the earlier trends may resume, perhaps soon, since the fundamental drivers of banking integration (efficiency enhancements such as the concentration of functions at the group level, the transfer of technology and managerial skills, diversification and advances in the harmonisation and integration of retail payment legislation and infrastructures) remain in place in the EU.*
>
> (ECB, 2010a, p. 31)

Strategies for business development in the new competitive environment

The policy and market changes taking place in European banking have modified the environment in which banks operate, thus favouring evolution in the strategic choices for growth and development put in place by financial institutions (Amel et al, 2004; Gual, 2004).

Three of the main growth strategies adopted by European banks in response to the more liberalised and integrated market are summarised below (Goddard et al, 2007):

- expansion and consolidation;
- product diversification;
- geographical diversification.

Expansion and consolidation

Many of the most successful European banks have responded to the changing competitive environment by expanding significantly, either through internally generated growth, or through mergers and acquisitions (M&As). Banks have grown in order to:

- benefit from scale and scope economies;
- reduce labour costs;
- reduce functional overlaps that could create inefficiencies.

Consolidation has contributed significantly to the reduction in the number of banks operating in Europe in the last few years, particularly between the second half of the 1990s and 2007 (see Chapter 2). According to Dermine (2006), between 1997 and 2004 there were 1,024 mergers involving one or more banks located in the European Economic Area (EEA),[1] where almost half (47%) involved transactions within exclusively national boundaries, 25% involved cross-border transactions within the EEA and 29% involved a party outside EEA.

Despite the many M&As taking place since the mid-1990s, the large majority were confined until 2004 within national borders. Cross-border bank mergers, especially involving large banks, have been relatively uncommon within Europe. Only after 2004, with mergers between Spain's Banco Santander and the UK's Abbey (in 2004), and Italy's Unicredito and Germany's HVB (in 2005), did large cross-border mergers start to appear.

The smaller number of cross-border acquisitions compared with domestic ones can be explained by several factors. Economic literature (Berger et al, 2001; Vennet, 1998) shows that there are efficiency barriers to M&As in the European banking sector generated by differences in banking regulation and supervision. Foreign banks have to comply with regulations both at home and abroad, thus facing additional costs compared with domestic banks. Furthermore, different regulations reduce the amount of overlapping fixed costs, which reduces the potential to reap benefits from economies of scale and scope and makes the acquisition of foreign banks less attractive. Efficiency barriers also arise from cultural and language diversity, as well as differences in corporate cultures, which all increase information costs and make an efficient restructuring and reorganisation of the acquired institution more difficult.

Other studies have demonstrated the existence of market-entry barriers (European Commission, 2005b; Köhler, 2007, 2009) generated by political interference and misuse of supervisory powers by authorities with the aim of protecting domestic banks from foreign ownership. A well-known example of this kind of behaviour occurred in Italy, when the acquisition of Banca Antonveneta and Banca Nazionale de Lavoro (BNL) by the Dutch ABN Amro and the Spanish Banco Bilbao Vizcaya Argentaria (BBVA) was seemingly blocked by the Bank of Italy in 2005 for prudential reasons and formal errors. However, when it later became public that the deals were blocked to protect Banca Antonveneta and BNL from foreign ownership, the European Commission brought actions against Italy for infringement of the principle of the free movement of capital. Political influence also played a role in the bidding war for Crédit Industriel et Commercial (CIC) (Boot, 1999). Although ABN Amro was favoured because of its excellent track record compared with French bidders, CIC was sold in 1998 to Crédit Mutuel.

Consequently the number of credit institutions in the EU declined over the 15 years to 2007. However, the consolidation process has recently shown signs of a moderate slowdown (see Chapter 2).

Product diversification

The second most important process banks have been experiencing is diversification of revenue sources. As net interest margins (the most traditional source of revenue) have fallen significantly due to the competitive pressure, many banks have focused on achieving growth from other, non-interest income sources such as 'bancassurance' (also known as the Bank Insurance Model), mutual fund sales, private banking, and in general off-balance sheet business, which generates fee and commission income (Carbò and Fernandez, 2005).

[1] The European Economic Area comprises the EU15 plus Iceland, Liechtenstein and Norway.

For example, according to Laeven and Levine (2007), large diversified banking groups typically earn around 50% of their income from non-interest activities. But if banks have entered new markets in order to increase their income sources, insurance companies and investment and pension funds have also grown as household savings have been siphoned away from banks and toward alternative savings and investment products. Moreover, non-bank institutions such as supermarkets and telecommunications firms have entered financial services markets. Consequently, the distinction between banks and non-bank financial intermediaries has become increasingly blurred (Rajan and Zingales, 2003; Van der Zwet, 2003).

Geographical diversification

Geographical diversification, in the form of increased cross-border activity, has played an important role in the business and growth strategies of European banks.

There are several methods by which a bank might operate across national borders within an integrated European banking market, including:

- establishing a branch or a subsidiary in another European country;
- providing banking services directly across national borders;
- entering a strategic partnership with an institution in another country;
- locating different functions in different countries.

Recent years have seen the emergence of several large cross-border institutions within the EU. In 2005, the 14 largest cross-border banking groups accounted for almost a third of total EU bank assets (Papademos, 2005). However, cross-border European banking activity was taking place through the creation of subsidiaries rather than branches, highlighting the existence of significant barriers to full market integration (Barros et al, 2005), as discussed above. Note that the ideal of a single banking licence to operate throughout the EU, supervision by the home country regulator, deposit insurance through a home country insurer and single bankruptcy proceedings does not apply if cross-border activity is through separate legal entities in the form of subsidiaries rather than branches (Goddard et al, 2007).

Technological changes

Technological change in the past 20 years has modified the way companies and individual customers access the banking network. In particular, the spread of automatic teller machines (ATMs) and of internet and phone banking has reduced the number of people visiting branches. According to the latest data available (Eurostat, 2009), there were about 294,600 ATMs in the EU27 in 2006, and in only five of the 25 Member States with data available were there fewer ATMs than local branches. Bulgaria, Estonia, Finland and Portugal reported the highest ratios of ATMs to local branches, while the lowest ratios were in Austria and Cyprus.

Eurostat's information society statistics (Eurostat, 2009) offer an insight into the use of the internet for financial services, notably e-banking and share purchasing. In 2008, almost a third (29%) of all people (aged 16–74) in the EU27 used the internet for banking, a share that was close to one half (47%) when limited to users of the internet in general. In nearly all Member States, even those with already high internet banking usage, the proportion of people using the internet for financial services grew between 2007 and 2008 – the exceptions being Bulgaria, Cyprus and Romania (Table 2).

In general terms, it can be noted that Europeans use online banking to quite different degrees. Adoption rates decrease from north to south and from rich to poor. According to a study by Deutsche Bank Research, gross domestic product (GDP) per capita and latitude statistically explain around 80% of the variation in Europe (Meyer, 2006).

Table 2: *Use of internet banking by those aged 16–64 (%)**

	All individuals		Individuals who used the internet	
	2007	2008	2008	2008
EU27	25	29	44	47
Austria	30	34	44	47
Belgium	35	n/a	52	n/a
Bulgaria	2	1	5	3
Cyprus	12	11	31	30
Czech Republic	12	14	24	25
Denmark	57	61	70	73
Estonia	53	55	83	84
Finland	66	72	84	87
France	32	40	51	59
Germany	35	38	49	51
Greece	4	5	12	13
Hungary	12	n/a	23	n/a
Ireland	24	n/a	42	n/a
Italy	12	13	31	32
Latvia	28	39	50	64
Lithuania	21	27	43	51
Luxembourg	46	48	58	60
Malta	22	25	48	52
Netherlands	65	69	77	79
Poland	13	17	29	35
Portugal	12	14	29	32
Romania	2	2	7	7
Slovakia	15	24	27	37
Slovenia	19	21	36	38
Spain	16	20	31	35
Sweden	57	65	71	73
United Kingdom	32	38	45	49

Notes: n/a = no data available.
* In the three months prior to the survey
Source: *Eurostat information society statistics (2009)*

Despite the differences in the proportion of people accessing banking services through the internet across Europe, overall the number of e-banking users has increased substantially over the last 10 years. If this trend continued, the average adoption rate could be 50–60% in the EU15 by 2020 – a level already reached by Denmark and Sweden today. Moreover, in most cases, online banking is growing at the expense of branch visits (Meyer, 2008).

Looking at these trends, it is likely that these changes will have a significant impact on employment levels in the banking sector, as customers will increasingly access services without direct contact with bank personnel, as well as on the ability of banks to enter foreign markets, as customers could be approached more easily through virtual channels.

Structure of the European banking sector and impact of the economic crisis

Key facts and figures

According to the latest available data from the ECB, there were 10,067 monetary financial institutions (MFIs) excluding central banks in the European Union in July 2010 (Table 3). Some 82% were credit institutions, 17% were money market funds and the remaining were classified by the ECB as 'other institutions'.

According to the definition used by the ECB, MFIs comprise:

> *resident credit institutions as defined in Community Law, and other resident financial institutions, the business of which is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic terms), to grant credits and/or make investments in securities.*
>
> (ECB, 2002, p. 2)

The number of credit institutions in each Member State includes those under the jurisdiction of that country, regardless of whether or not they are subsidiaries of foreign banks, and the branches in that Member State. If a foreign bank has several branches in a given country, they are counted as a single branch. However, if the same bank has several subsidiaries, the latter are counted separately because they are considered to be separate legal entities. Credit institutions that depend on a central organisation (such as groups of cooperative banks) can be counted separately in accordance with Statistical Regulation ECB/2001/13 (as amended) (ECB, 2010b, p. 1).

'Money market funds' are defined under EU law as:

> *those collective investment undertakings of which the units are, in terms of liquidity, close substitutes for deposits and which primarily invest in money market instruments and/or in other transferable debt instruments with a residual maturity up to and including one year, and/or in bank deposits, and/or which pursue a rate of return that approaches the interest rates on money market instruments.*
>
> (Regulation (EC) No 25/2009, Annex 1, Part 1, Section 2)

'Other institutions' are made up of other resident financial institutions that fulfil the MFI definition, irrespective of the nature of their business.

Within the EU, Germany (2,011), France (1,241) and Austria (819) have the highest number of MFIs (Table 3). In almost every Member State, credit institutions count for 80% of all MFIs; the exceptions are Estonia (49%), Ireland (69%), Greece (75%), France (56%), Lithuania (49%), Luxemburg (24%), Hungary (76%) and Slovakia (66%). France (543) and Luxembourg (476) have the highest absolute number of money market funds, with these two countries providing the base for almost two thirds of all European money market funds.

Table 3: *Monetary financial institutions (excluding central banks), July 2010*

	Credit institutions		Money market funds		Other institutions		Total	
	Number	%	Number	%	Number	%	Number	%
EU27	8,285	82.3	1,698	16.9	57	0.6	10,067	100
Austria	790	96.5	28	3.4	0	0.0	819	100
Belgium	106	86.2	16	13.0	0	0.0	123	100
Bulgaria	30	83.3	5	13.9	0	0.0	36	100
Czech Republic	56	82.4	11	16.2	0	0.0	68	100
Cyprus	154	99.4	0	0.0	0	0.0	155	100
Denmark	163	98.2	2	1.2	0	0.0	166	100
Estonia	19	48.7	0	0.0	19	48.7	39	100
Finland	343	91.2	32	8.5	0	0.0	376	100
France	696	56.1	543	43.8	1	0.1	1,241	100
Germany	1,941	96.5	69	3.4	0	0.0	2,011	100
Greece	64	75.3	20	23.5	0	0.0	85	100
Hungary	189	75.9	59	23.7	0	0.0	249	100
Ireland	496	68.8	224	31.1	0	0.0	721	100
Italy	789	96.2	30	3.7	0	0.0	820	100
Latvia	85	96.6	2	2.3	0	0.0	88	100
Lithuania	37	49.3	3	4.0	34	45.3	75	100
Luxembourg	148	23.7	476	76.2	0	0.0	625	100
Malta	25	80.6	5	16.1	0	0.0	31	100
Netherlands	292	96.7	7	2.3	2	0.7	302	100
Poland	707	99.4	3	0.4	0	0.0	711	100
Portugal	162	97.6	3	1.8	0	0.0	166	100
Romania	42	80.8	9	17.3	0	0.0	52	100
Slovakia	27	65.9	13	31.7	0	0.0	41	100
Slovenia	25	89.3	2	7.1	0	0.0	28	100
Spain	340	81.7	57	18.0	0	0.0	416	100
Sweden	180	84.9	30	14.2	1	0.5	212	100
United Kingdom	379	92.2	31	7.5	0	0.0	411	100

Source: *ECB data, 2010*

Number of credit institutions

Credit institutions represent the core of the European banking system, though consolidation processes at European level have led to a reduction in their number over the last decade (ECB, 2008, 2010a), as has already been pointed out. However, the latest available data show a deceleration of this process (Table 4). Between 2007 and 2008, the total number of credit institutions increased, but this was mainly due to the increase in Ireland from 81 to 501, possibly due to structural reorganisations which caused changes to the existing legal entities. The trend was confirmed in the subsequent years, with the number of credit institutions in the EU27 reaching 8,285 in July 2010, the lowest level since 2004. In the first seven months of 2010, the number of credit institutions decreased in almost all EU27 countries but particularly in France (-16), Italy (-12), Spain (-12) and the UK (-10).

Table 4: *Number of credit institutions, 2004–2010*

	2004	2005	2006	2007	2008	2009	2010 (July)
EU27	8,902	8,683	8,507	8,354	8,510	8,360	8,285
Austria	796	818	809	803	803	790	790
Belgium	104	100	105	110	105	104	106
Bulgaria	35	34	32	29	30	30	30
Cyprus	405	391	336	215	163	155	154
Czech Republic	70	56	57	56	54	56	56
Denmark	202	197	191	189	171	164	163
Estonia	2,148	2,089	2,050	2,026	1,989	1,948	1,941
Finland	9	11	14	15	17	18	19
France	363	363	361	360	357	349	343
Germany	897	854	829	808	728	712	696
Greece	62	62	62	63	66	66	64
Hungary	80	78	78	81	501	498	496
Ireland	787	792	807	821	818	801	789
Italy	23	25	28	31	34	37	37
Latvia	74	78	78	80	84	85	85
Lithuania	162	155	156	156	152	147	148
Luxembourg	217	214	212	206	197	190	189
Malta	16	19	18	22	23	23	25
Netherlands	461	401	345	341	302	295	292
Poland	744	730	723	718	712	710	707
Portugal	197	186	178	175	175	166	162
Romania	40	40	39	42	43	44	42
Slovakia	21	23	24	26	26	26	27
Slovenia	24	25	25	27	24	25	26
Spain	346	348	352	357	362	352	340
Sweden	212	200	204	201	182	180	180
United Kingdom	407	394	394	396	391	389	379

Source: *ECB (2010b), Eurofound updates*

While the number of credit institutions fell between 2004 and 2008, the number of branches in the EU27 grew from 211,442 in 2004 to 238,117 (Table 5). The growth in the number of branches at European level was generated by two different processes: local branches declined in the more economically advanced countries, particularly in Germany (-5,800), Belgium (-521) and the Netherlands (-377), while they have increased in the New Member States (NMS), with Romania (+143%), Poland (+55%), Lithuania (+28%) and Estonia (+26%) experiencing the highest growth in relative terms.

Table 5: *Number of branches, 2004–2008*

	2004	2005	2006	2007	2008
EU27	211,442	214,925	228,648	233,889	238,117
Austria	4,360	4,300	4,258	4,266	4,243
Belgium	4,837	4,564	4,574	4,425	4,316
Bulgaria	5,606	5,629	5,569	5,827	6,080
Cyprus	977	951	941	921	923
Czech Republic	1,785	1,825	1,877	1,862	1,993
Denmark	2,119	2,122	2,152	2,194	2,192
Estonia	203	230	245	266	257
Finland	1,585	1,616	1,756	1,693	1,672
France	26,370	27,075	40,013	39,560	39,634
Germany	45,331	44,044	40,282	39,777	39,531
Greece	3,403	3,543	3,699	3,850	4,095
Ireland	909	910	935	1,158	895
Italy	30,950	31,504	32,334	33,230	34,139
Latvia	583	586	610	682	658
Lithuania	758	822	892	970	973
Luxembourg	253	246	234	229	229
Hungary	2,987	3,125	3,243	3,387	3,515
Malta	99	109	110	104	111
Netherlands	3,798	3,748	3,456	3,604	3,421
Poland	8,301	10,074	10,934	11,607	12,914
Portugal	5,371	5,422	5,618	6,055	6,391
Romania	3,031	3,533	4,470	6,340	7,375
Slovakia	1,113	1,142	1,175	1,169	1,258
Slovenia	706	693	696	711	698
Spain	40,603	41,979	43,691	45,500	46,065
Sweden	2,018	2,003	2,004	1,988	2,025
United Kingdom	13,386	13,130	12,880	12,514	12,514

Source: *ECB (2010b)*

Numbers employed by credit institutions

As seen in Table 6, the number of people employed by credit institutions grew between 2004 and 2008 by more than 200,000 in the EU27, increasing from 3,129,775 to 3,335,210 (+6.5%). The ECB provides data for credit institutions only, excluding employment in money market funds. Therefore these data underestimate the employment levels of the banking sector as defined in this study. However, we estimate that the inclusion of data on money market funds would not change the overall picture dramatically.

Eurostat offers an alternative source of information on employment in the banking sector at European level. It provides data by NACE (*Nomenclature générale des activités économiques dans les Communautés Européennes*) code at two-digit level, thus giving information on the whole financial and insurance activities sector and overestimating significantly the employment levels in the banking sector.

The average figure of 6.5% growth given by the ECB data is generated by different dynamics between EU countries. In line with the diverse increase in the number of branches across the EU, the number of employees has been rising significantly in several NMS, with Bulgaria (+55%), Lithuania (+53%), Romania (44%), Latvia (44%), Estonia (+38%) experiencing the highest increases in employment in credit institutions. Conversely, other countries saw a decline in employment in credit institutions, with Germany, above all, losing over 26,000 employees between 2004 and 2008. Latest available data from the ECB (2010c) show that the number of employees in credit institutions fell by 2.5% between 2008 and 2009. Note that these figures exclude Belgium, France and Germany as data for these countries are unavailable; however, results from this study show that the number of employees in the banking sector decreased in 2009 by 5,000 in France and by 12,000 in Germany.

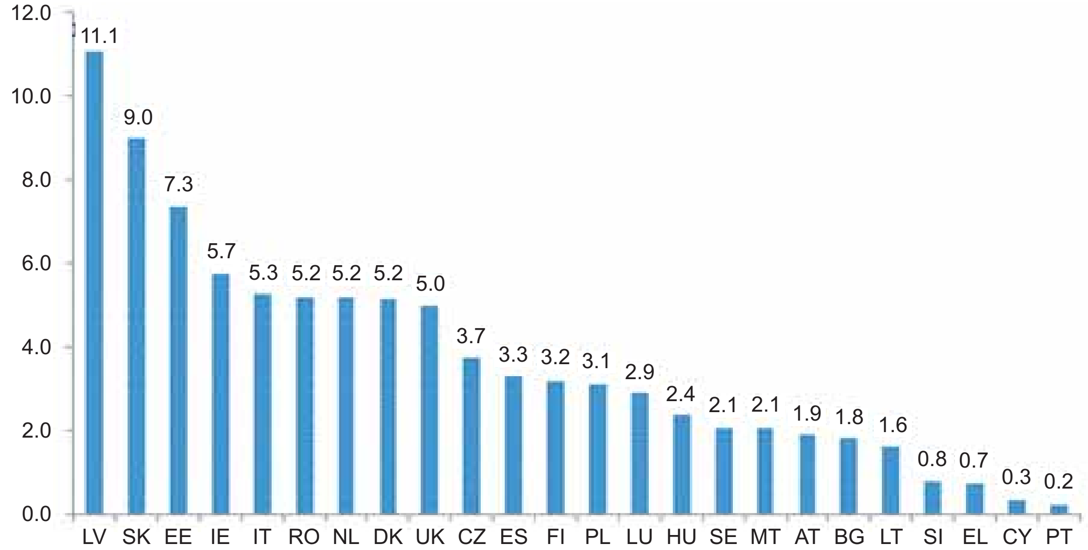
Table 6: *Number of employees of credit institutions*

	2004	2005	2006	2007	2008	2009
EU27	3,129,775	3,132,633	3,190,703	3,315,196	3,335,210	2,007,336
Belgium	71,347	69,481	67,957	67,080	65,246	n/a
Bulgaria	22,467	22,945	26,738	30,571	34,930	34,290
Cyprus	10,617	10,799	10,845	11,286	12,554	12,513
Czech Republic	38,666	37,943	37,825	40,037	39,882	38,394
Denmark	46,372	47,579	46,394	49,644	52,830	50,101
Estonia	4,455	5,029	5,681	6,319	6,144	5,693
Finland	25,377	23,644	24,769	25,025	25,699	24,879
France	432,326	442,230	484,557	497,384	492,367	n/a
Germany	712,300	705,000	692,500	691,300	685,550	n/a
Greece	59,337	61,295	62,171	64,713	66,165	65,673
Hungary	35,558	37,527	39,302	41,905	43,640	42,607
Ireland	35,564	37,702	39,154	41,865	40,507	38,178
Italy	336,354	335,726	339,091	340,443	340,463	322,575
Latvia	9,655	10,477	11,656	12,826	13,905	12,365
Lithuania	7,266	7,637	8,624	10,303	11,080	10,902
Luxembourg	22,549	23,224	24,752	26,128	27,208	26,416
Malta	3,371	3,383	3,515	3,756	3,915	3,834
Netherlands	118,032	120,165	116,500	114,424	116,000	110,000
Austria	72,858	75,303	76,323	77,731	78,754	77,246
Poland	150,037	158,130	162,125	173,955	188,969	183,064
Portugal	53,230	54,035	58,213	60,979	62,369	62,221
Romania	49,702	52,452	58,536	66,039	71,622	67,898
Slovakia	19,819	19,773	19,633	19,779	20,598	18,750
Slovenia	11,602	11,726	11,838	12,051	12,284	12,188
Spain	246,236	252,831	261,890	275,506	276,497	267,383
Sweden	44,242	44,943	47,069	48,457	50,115	49,071
United Kingdom	490,436	461,654	453,045	505,690	495,917	471,095

Note: n/a = data not available
Source: *ECB data, 2008, 2010c*

According to ECB data, the highest decreases in percentage terms were in Latvia (-11.1%), Slovakia (-9%), Estonia (-7.3%), Ireland (-5.7%) and Italy (-5.3%) (Figure 1). These negative trends took place entirely in 2009; between 2007 and 2008 employment in credit institutions increased in almost every country. Full data for 2010 are not yet available, but Table 4 shows that the number of credit institutions in Europe continued to decrease in the first seven months of 2010, following the 2009 trend. A negative trend for employment is likely as well in 2010.

Figure 1: *Loss of employees from credit institutions, 2008–2009 (%)*



Source: *Own elaboration on ECB (2010c) data*

Total assets of credit institutions

Total assets of credit institutions in the EU27 increased between 2004 and 2008 (Table 7), although the rate of growth at EU level decelerated moving from 13.7% in 2005 to 10.7% in 2007. However, there were wide fluctuations behind this aggregate figure. Some NMS such as Bulgaria, Estonia, Latvia and Lithuania experienced very high growth rates in the period prior to the crisis. Signs of the financial crisis are seen in 2008 when the growth rate at EU level dropped to 2.8%. In some cases the signs of the crisis were already evident in 2007 as credit institutions in a few countries were already experiencing a decrease in the growth rate of total assets.

From this perspective, the position of the UK, whose financial sector accounts for approximately a quarter of the EU banking sector's assets, is particularly interesting: the growth rate of total assets dropped from 15.7% to 2.3% between 2006 and 2007 and became deeply negative in 2008 (-12%).

Table 7: *Total assets of credit institutions (€ millions)*

	2004	2005	2006	2007	2008	2009
EU27	29,160,206	33,163,364	37,080,758	41,062,021	42,208,841	29,921,272
Austria	635,348	721,159	789,770	890,747	1,067,860	1,036,597
Belgium	914,391	1,055,270	1,121,905	1,297,788	1,272,147	1,155,506
Bulgaria	13,224	17,447	22,302	31,238	36,825	37,950
Czech Republic	87,104	100,902	114,878	140,168	155,056	160,219
Cyprus	46,540	62,553	76,623	92,897	118,142	139,372
Denmark	629,587	746,589	822,024	978,264	1,091,806	1,104,536
Estonia	8,586	11,876	15,379	20,603	22,039	21,340
Finland	212,427	234,520	255,055	287,716	383,906	387,630
France	4,419,045	5,073,388	5,728,127	6,682,335	7,225,140	7,155,460
Germany	6,584,388	6,826,558	7,121,039	7,562,431	7,875,402	7,423,967
Greece	230,454	281,066	315,081	383,293	461,982	490,134
Ireland	722,544	941,909	1,178,127	1,337,357	1,412,191	1,323,584
Italy	2,275,628	2,509,436	2,739,244	3,331,830	3,628,272	3,691,965
Latvia	11,167	15,727	22,694	30,816	32,249	29,924
Lithuania	8,553	13,162	17,347	23,817	26,542	26,180
Luxembourg	695,103	792,418	839,564	915,446	931,564	797,460
Malta	n/a	78,289	93,679	108,504	124,678	126,160
Netherlands	20,838	27,195	30,034	37,807	42,283	41,242
Austria	1,677,583	1,697,781	1,843,176	2,176,197	2,235,179	2,217,008
Poland	141,571	163,421	189,739	233,938	263,098	274,212
Portugal	345,378	360,190	397,123	439,461	482,332	520,188
Romania	23,200	35,400	51,911	72,095	84,541	86,386
Slovakia	30,834	37,834	49,151	58,053	65,509	54,473
Slovenia	24,462	30,135	34,841	43,493	49,010	53,404
Spain	1,717,364	2,149,456	2,515,527	2,945,262	3,381,187	3,433,283
Sweden	599,682	653,176	773,736	845,958	899,769	934,534
United Kingdom	7,085,205	8,526,508	9,868,683	10,094,08	8,840,131	9,420,998

Note: n/a = data not available.
Source: *ECB data 2008, 2010c*

Largest banks in Europe

The European banking sector is dominated by very large banking groups and thus the strategic choices applied by a few of them have a significant systemic impact. Table 8 shows the 30 largest banks in the EU ordered by total assets. From this perspective, The Royal Bank of Scotland (RBS), Deutsche Bank, Barclays and BNP Paribas are the largest banks in Europe, with more than €2,000 million in total assets. From the employment perspective, the picture looks different: BNP Paribas becomes the largest bank in Europe with more than 330,000 employees, followed by RBS (197,600), Banco Santander (165,946), HSBC (163,615) and ING Group (160,430).

Table 8: *The 30 largest banks in Europe, 2008**

	Bank	Country	Total assets (€ millions)	Total income (€ millions)	Number of employees
1	The Royal Bank of Scotland Group (RBS)	United Kingdom	2,521,118	23,845	197,600
2	Deutsche Bank	Germany	2,202,423	12,948	79,931
3	Barclays	United Kingdom	2,155,230	24,010	149,773
4	BNP Paribas	France	2,073,325	27,766	331,458
5	HSBC Holdings	United Kingdom	1,814,646	57,515	163,615
6	Credit Agricole	France	1,783,248	29,027	80,672
7	UBS	Switzerland	1,356,968	1,545	125,285
8	ING Group	Netherlands	1,325,866	14,834	160,430
9	Société Générale	France	1,129,704	21,765	139,688
10	Banco Santander	Spain	1,049,173	29,912	165,946
11	UniCredit	Italy	1,045,611	27,065	47,950
12	Credit Suisse Group	Switzerland	788,114	7,341	74,676
13	HBOS	United Kingdom	722,857	8,004	28,099
14	Dexia	Belgium	650,919	5,008	110,021
15	Intesa SanPaolo	Italy	636,093	17,762	40,532
16	Commerzbank	Germany	625,196	7,063	60,252
17	Rabobank Nederland	Netherlands	612,120	11,973	37,010
18	Fortis Bank	Belgium	586,777	5,290	65,545
19	Credit Mutuel	France	581,709	8,898	111,936
20	Banco Bilbao Vizcaya Argentaria	Spain	542,621	18,149	23,755
21	Danske Bank	Denmark	475,406	5,499	33,944
22	Nordea Bank	Sweden	474,065	7,920	66,473
23	Lloyds Banking Group (ex-Lloyds TSB Group)	United Kingdom	457,373	11,455	13,646
24	Landesbank Baden-Wuerttemberg	Germany	447,932	1,059	24,642
25	DZ BANK	Germany	427,090	2,212	19,405
26	Bayerische Landesbank	Germany	421,666	680	30,195
27	Dresdner Bank	Germany	420,961	824	1,892
28	Hypo Real Estate Holding	Germany	419,654	516	4,228
29	Kreditanstalt fuer Wiederaufbau (KfW)	Germany	394,826	3,971	59,150
30	KBC Group	Belgium	355,037	920	6,221

Note: Ordered by total assets
Source: *R&S (2010)*

Emergence of the financial crisis

Summary of the economic crisis

In the second half of 2008 the global financial system entered the most significant crisis of the previous 70 years, leading to the greatest economic crisis since the Second World War. World economy growth declined from 5.2% in 2007 to 3.0% in 2008 and -0.6% in 2009 (IMF, 2010a). However, recent data (IMF, 2010b) appear to show that the global economy seems to be expanding again, pulled up by the strong performance of Asian economies and stabilisation or modest recovery elsewhere. World growth is projected at about 4.5% in 2010 and 4.3% in 2011.

In advanced economies, economic activity has been stabilised by unprecedented public intervention which has even fostered a return to modest growth in several countries. However, the pace of recovery is slow and activity remains far below pre-crisis levels. The pickup is being led by a rebound in manufacturing and a turn in the inventory cycle, and there are some signs of gradually stabilising retail sales, returning consumer confidence, and firmer housing markets. The triggers for this rebound are strong public policies across those advanced and many emerging economies that have supported demand. In particular, central banks reacted quickly with exceptionally large interest rate cuts as well as unconventional measures to inject liquidity and sustain credit. Governments launched major fiscal stimulus programmes, while supporting banks with guarantees and capital injections. Together, these measures reduced uncertainty and increased confidence, fostering an improvement in financial conditions.

Financial markets have recovered faster than expected, helped by supportive activities. Nevertheless, financial conditions are likely to remain more difficult than before the crisis (IMF, 2010b). Money markets have stabilised and the tightening of bank lending standards has moderated. Moreover, most banks in core markets are now less reliant on central bank emergency facilities and government guarantees. Nonetheless, bank lending is likely to remain sluggish given the need to rebuild capital. Equity markets have rebounded and the issuing of corporate bonds has reached record levels, amid a reopening of most high-yield markets. However, the surge in corporate bond issuance has not offset the reduction in bank credit growth to the private sector. Those sectors that have only limited access to capital markets, namely consumers and small and medium-size enterprises (SMEs), are likely to continue to face credit constraints. So far, public lending programmes and guarantees have been critical in channelling credit to these sectors. Sovereign debt has come under pressure for some small countries, as they struggle with large government deficits and debt, and as investors increasingly differentiate across countries.

Even though the global economy appeared to start growing again during 2009 and financial markets to recover, labour markets showed little sign of improving. According to the International Labour Organization (ILO), the global unemployment rate for 2009 is estimated at 6.6% (ILO, 2010). Following four consecutive years of decreases, the global unemployment rate started increasing in 2008, but the 2009 rate as well as the number of unemployed people (estimated at 212 million in 2009) shows a much sharper increase. Between 2008 and 2009, the largest jumps in unemployment rates by region occurred in:

- developed economies and the EU (increase of 2.3 percentage points);
- central and south-eastern Europe (non-EU) and Commonwealth Independent States (increase of 2.0 percentage points);
- Latin America and the Caribbean (increase of 1.2 points).

Similarly, these three regions account for more than two thirds of the increase in the global number of unemployed in 2009. Other regions saw more limited increases in unemployment rates (0.5 points or less).

Looking in more detail at the EU, the unemployment rate was 6.7% in the second quarter of 2008, the lowest level in the last 10 years. According to Eurostat unemployment statistics,[2] it then started rising sharply in the wake of the economic crisis: the unemployment rate in the EU27 reached 8.9% in 2009 and rose to 9.6% in July 2010, unchanged compared with June 2010 but 0.5 percentage points higher than the level reported in July 2009.

[2] http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Unemployment_statistics

Among the Member States, the lowest unemployment rates were recorded in Austria (3.8%) and the Netherlands (4.4% in June 2010), and the highest rates in Spain (20.3%), Latvia (20.1% in the first quarter of 2010) and Estonia (18.6% in the second quarter of 2010). Compared with a year ago, three Member States recorded a fall in the unemployment rate, two remained stable and 22 showed an increase. The largest falls were observed in Austria (5.1% to 3.8%), Malta (7.3% to 6.5%) and Germany (7.6% to 6.9%). The highest increases were registered in Latvia (13.5% to 20.1% between the first quarters of 2009 and 2010) and Lithuania (11.2% to 17.3% between the first quarters of 2009 and 2010).

Consequences for the banking sector

The financial services sector is not only at the heart of the recession but is also one of the sectors experiencing the strongest impact. It is still difficult to quantify in aggregate terms the actual impact of the crisis, in particular when looking at the effects on the labour market. Available data on employment levels at European level do not yet provide information on 2009 and 2010 (ECB data) or on the whole financial services sector including insurance activities (Eurostat data). However, empirical research shows that the financial sector saw significant restructuring activities between 2008 and 2009. In particular, as illustrated by the European Restructuring Monitor (ERM) Report 2009 (Eurofound, 2009a), there were 15 announced cases of employment loss involving at least 5,000 employees worldwide by banking groups in 2008–2009. The largest single restructuring in the sector took place in the USA; Citigroup announced in November 2008 that it would cut around 52,000 jobs worldwide after large losses on subprime mortgage-related securities. The job cuts were predicted to impact particularly on its workforce in London and New York, and followed earlier announcements of 4,000 job losses in January 2008 and 9,000 job losses in April 2008.

The ERM Report 2009 notes that European banks have suffered the consequences of the global financial crisis as severely as the American ones, presenting a list of 11 banks that reported at least three restructurings during 2008–2009. Effects of the economic crisis can also be witnessed in terms of a general decline in activity, the introduction of short-time working schemes, temporary or permanent layoffs, and restructuring plans. Furthermore, a rising number of European banks are merging and acquiring other financial institutions, which adds pressure to national labour market systems and regulations.

According to the European Commission (2010c), the health of the financial system improved in 2009 and 2010, with the capital ratio of the euro area banking system increasing by one percentage point in autumn 2008 to 7.5% in December 2009. Moreover, the prolonged deleveraging has reduced the instability and the likelihood of shocks, and has normalised financial markets. Above all, the unprecedented public intervention has meant that some of the most important European banks have received public capital support. For example RBS (UK) received €50.1 billion, Lloyds (UK) €25.2 billion, Commerzbank (Germany) €18.2 billion, ING Group (Netherlands), €10.0 billion and BNP Paribas (France) €5.1 billion. In some cases public investment was given in tandem with the suggestion that central governments would influence banks' management in long-term strategies (such as Commerzbank), whereas in other cases (such RBS), a complete takeover into public ownership occurred.

At national level, the considerable amount of restructuring activities over the last two years has been managed very differently in different countries. In some countries, restructuring in the financial services sector has led to a large number of job losses, whereas in other cases banks tried to limit redundancies. These differences were caused by the characteristics of national contexts in terms of impact of the crisis, quality and features of industrial relations and social dialogue, as well as differences in the banks' strategies. For example, banks can adopt different strategic decisions, depending on whether they are commercial or investment banks and if they are private or public.

There are also structural and historical characteristics that might influence companies' strategic choices in difficult situations. For example, research conducted on BAWAG PSK (Eurofound, 2009b), an Austrian banking group historically closely aligned with the trade union movement, shows that the actors tried to implement a 'socially acceptable' workforce reduction programme when faced with the need to restructure the organisation. The Italian banking sector is characterised by strong social partner organisations and a highly developed social dialogue. During the economic crisis social partners signed an agreement providing for an 'emergency fund' which can be used in cases of company crises. The fund is aimed at investing in retraining measures and financing early retirements. In France, a sectoral agreement on the employment of older people was concluded. In Spain the economic crisis has caused severe problems for the solvency of Spanish saving banks. Several mergers are being negotiated, but difficulties are emerging in the restructuring process because of the wide influence of regional governments on the governing bodies of the savings banks. A reform of the law concerning savings banks is still under debate. In other countries, such as Luxembourg, the social partners and the government are negotiating within the framework of a tripartite committee in order to reach an agreement on how to deal with the impact of the crisis.

The results from the empirical analysis presented in this report throw light on the impact of the crisis on the banking sector across European countries and on the role of the social dialogue in managing and containing it, thus allowing us to better understand the reasons behind the diverse consequences of the downturn across European countries.

Some results from current research on the European banking sector

Structure of the sector in the countries analysed

In line with several other studies at European level, all the analysed countries reported having experienced a significant number of mergers and acquisitions over the last 20 years. Consequently, the banking sector had to face a large number of redundancies in most of these countries. At the same time, privatisation and liberalisation processes led to a growth of the sector, which allowed many employees to relocate within the sector itself. In countries where this was more difficult due to a slower growth process in the sector, surplus employees were often offered retirement schemes. The pattern is different for many eastern European countries studied (such as Estonia and Hungary), which have experienced a much more recent development of the sector, with a significant growth in the number of branches, and thus also leading to a growth in employment levels.

In general terms, employment levels in the banking sector over the past 10–15 years have been influenced by two opposing trends. On the one hand, thanks to the liberalisation process, the sector has grown in terms of profitability, added value and employment; this happened in particular in countries where the financial sector was underdeveloped compared with other European countries. On the other hand, the concentration process increased the number of redundancies, in particular in countries where the sector was already well structured.

Before the crisis, during the structuring phase followed by the liberalisation and privatisation process, national governments helped the sector mainly by allowing mergers and acquisitions. As pointed out previously, some governments tried to avoid the takeover of national banks by foreign companies, thus facing legal consequences. Apart from this, there was no direct intervention in the system, excluding the new regulatory regime built up at European level. Instead, during the crisis, there was a huge and unprecedented direct public intervention to bail out financial institutions. In the countries analysed for this study, this was particularly true in the UK, but also in Germany and the Netherlands. Other countries such as Estonia, Italy, Spain and Sweden seemed to be less affected than others for the reasons presented below.

In almost all countries where the state provided aid to banks, this was not accompanied by a new regulatory scheme (with the exception of the Netherlands where some changes to the national regulation were brought about). This absence was felt particularly strongly in the UK, especially considering the large capital injections by the state into the financial system.

Impact of the crisis

In line with data from the ECB, the International Monetary Fund (IMF) and other key institutions, the study found that the banking sectors of all nine analysed countries were affected by the economic crisis – although to differing extents.

Among these countries, the banking sectors of Hungary and the UK seem to be particularly affected, both in terms of employment and the banks' profitability. Hungary's vulnerability derives mainly from excessive borrowing by both the public and private sectors, while in the UK the finance sector was particularly exposed because its deregulation of investment banking and because the trading of stocks and securities was greater than elsewhere. One immediate result in both cases was the down-sizing of banks.

However, in the large majority of the countries in this study, the impact was moderate. In particular, in Estonia, France, Germany, the Netherlands and Sweden, the crisis in the financial sector had a differentiated impact depending on the characteristics of individual banks. Consequently, in these countries, only some banks experienced a reduction in profitability, portfolio quality and a contraction of employment, whereas others did not experience significant consequences. The German and Swedish cases provide interesting examples of this. In Germany, only a small number of mostly large banks had difficulties following the subprime crisis and the bankruptcy of Lehman Brothers in September 2008, while the majority of banks remained almost unaffected by the crisis. Saving banks and cooperative banks did particularly well during the crisis; even in 2008 and 2009 they were still able to post a pre-tax profit, although in some cases this was considerably lower than in previous years. In Sweden, there was a sharp downturn in the economy, leading to a recession, but severe loan losses of its banks came in foreign countries where Swedish banks operated. Swedbank and SEB had the largest exposure to the Baltic States, which were hit very hard by the economic downturn.

In Spain and Italy the impact of the financial crisis on the banking sector was almost non-existent. In Italy, although the economic crisis has brought about severe consequences on the overall economy, the banking system has not suffered as much as those in other countries. This is because Italian banks, generally speaking, are not very international and are more cautious and strict about allowing credit. Similarly, in Spain, lenders benefited from strict supervision by the Bank of Spain and from large reserves of counter-cyclical bad loan provisions. The Spanish Central Bank had learned several lessons from former crises in the sector and established a tight control system, which successfully managed to limit the exposure of Spanish banks to the US subprime market and other forms of international 'toxic' debt.

The key consequences of the crisis on the banking sector for each of the analysed countries are presented below.

Estonia

The global financial crisis coincided with a local decline in the real estate sector after a boom. The Estonian economy was hit hard by the crisis and the labour market is experiencing one of the highest unemployment rates in the EU. However, the impact of the crisis in the banking sector has not been as serious as in some other countries (such as Latvia). This is due largely to the long-term developments over the last 10 years as outlined above. Since the Scandinavian banks have been more stable during the crisis, this has kept the Estonian banking sector relatively strong.

France

The main impact was on companies' results, with banks like Natixis and Société Générale becoming famous between 2008 and 2009 for high losses linked to speculative investment banking. The weakness faced by certain banks provided incentives to mergers, which have grown during the last couple of years. This led to a shrinkage in recruitment rates (8% in 2008 compared with 11% in 2007) and, for the first time, the employment level fell in 2009 (by 5,000 employees).

Germany

Only a small number of mostly large banks experienced difficulties following the subprime crisis and the bankruptcy of Lehman Brothers in September 2008. The majority of banks remained nearly unaffected by the crisis, with saving banks and cooperative banks doing particularly well. Even in the years 2008 and 2009 they were still able to post a pre-tax profit, although in some cases this was considerably lower than in previous years. This was mainly due to their focus on classic lending and deposit business, and their more cautious policy with regard to financial operations. The large banks, *Landesbanken* (state-owned banks), mortgage banks and special purpose banks were especially affected by the crisis; these subsectors were more engaged in own-account trading in securities, financial instruments and foreign exchange assets and hence more vulnerable to losses in trade-structured products such as an asset-backed security (ABS), collateralised debt obligation (CDO), residential mortgage-backed security (RMBS) and commercial mortgage-backed security (CMBS), though Even among these groups of banks there were striking differences. Hence, the losses of the German banking sector in general can be traced back to the dramatic losses of a rather small number of banks.

Hungary

Hungary was hit early and hard by the recent crisis, suffering its worst recession in 2009 since 1991. Its vulnerability was caused by excessive borrowing in the public and private sectors. Consequently, the aggregate results of the Hungarian banking sector declined, though less than might be expected. However, a major differentiation among banks is going on, with a growing number of banks producing lower earnings than before. The banks' profit after tax has decreased (the profit after tax in 2010 was 30% less than in 2007) and the portfolio quality has deteriorated. The latter had a major impact on banks' results. The return on assets (ROA) in the aggregate remained positive (0.6% in 2009) but dropped to 0.47% on a year-on-year basis (first half of 2010). The return on equity (ROE) in the first half of 2010 decreased from 7.1% (in 2009) to 5.7% on a year-on-year basis. Bank lending to households and companies is largely denominated in foreign currency, making the private sector vulnerable to a depreciation of the exchange rate. The home loans scene has deteriorated greatly since the crisis. Between June 2008 and June 2010 household loans denominated in foreign currency to total household loans increased from 63% to 72%, causing bankruptcy in many households. To ease households' difficulties in paying back foreign-currency loans – first of all in Swiss francs – the banks had to offer bridging solutions and take part in the government's home-rescue programme.

The economic crisis started to influence bank sector employment more deeply in the second half of 2009. In the middle of 2009, the Hungarian Banking Association calculated that there had been a 10–15% decrease in employment in the sector. Other data show that staff numbers had fallen to 32,000 by the fourth quarter of 2009, implying an 8% decrease compared with the similar period in 2008, as banks shed some 3,200 jobs. Some banks were hit harder than others, for example the Budapest Bank faced a 10% reduction in its staff, laying off around 300 people in 2009.

Italy

Although the economic crisis has had severe consequences on the overall economy, the Italian banking system has not suffered as much as those of other countries. This is because Italian banks, generally speaking, are not very international and are more cautious and strict about allowing credit. During 2009 and 2010 job cuts were announced by UniCredit, the largest Italian bank, but this is mainly due to a re-organisation planned before the crisis. Italian banks, nevertheless, have experienced the credit crunch, the effects of which have been transferred to households and companies, thus contributing to the weakening of the overall economic system.

Netherlands

The crisis affected companies' turnover. Larger banks such as ING and ABN Amro announced large job cuts with, for example, ING announcing that it would cut 7,000 jobs worldwide (2,800 in banking and the remaining in insurance activities). ABN Amro is expected to cut 6,500 jobs after the merger with Fortis.

Spain
The crisis left the Spanish financial system in a relatively strong position, better than their main competitors. The Spanish lenders benefited from strict supervision by the Bank of Spain and from large reserves of counter-cyclical bad loan provisions. The Spanish Central Bank had learned several lessons from former crises in the sector and established a tight control system which successfully managed to limit the exposure of Spanish banks to the US subprime market and other forms of international 'toxic' debt. This relative strength against international financial turbulences, however, is contrasted by domestic problems arising from the real estate bubble and the end of consumer-led economic growth. Spanish banks fuelled the country's property boom by lending vast sums of money to property developers and then to resident buyers to acquire their finished products. As the domestic property and credit boom gathered pace they also relied increasingly on the short-term wholesale money markets to finance their long-term loan and mortgage portfolios. When the real estate bubble burst many companies went bankrupt and developers had to renegotiate their debts. At the same time economic downturn and exploding unemployment increased mortgage defaults. The banks and cajas are now the biggest property owners in Spain. A report by the Bank of Spain estimates that 41.2% of all credit investments (€180.8 billion) in Spain correspond to problematic housing sector credits (Bank of Spain, 2010).

Sweden
The crisis did not hit the domestic operations of the Swedish banks very hard. There was a sharp downturn in the economy, leading to a recession, but the severe loan losses came in foreign countries where Swedish banks operated. Swedbank and SEB had the largest exposure to the Baltic States, which were hit very hard by the economic downturn. In 2008 and 2009, Swedbank and SEB undertook rights issues to cover loan losses abroad. Swedbank made two rights issues, totalling SEK 27.5 billion, (€3 billion as of August 2010) and SEB made a rights issue of SEK 15.1 billion. (€1.64 billion); Nordea made one of €2.5 billion. These rights issues covered the credit losses suffered by the big Swedish financial banking groups. The major banks suffered heavy losses, but none was so badly affected that the government had to take over ownership.

Swedish loan losses greatly reduced in 2010 as the economies of the Baltic States and Scandinavia returned to growth. Loan losses seem to have peaked somewhere around 0.2% of total bank assets, which is not alarmingly high considering the severity of the global financial crisis. In other countries, loan losses have amounted to several per cent of total assets.

The crisis that Sweden went through in early 1990 led to banks losing around 8% of their total balance sheet and Sweden lost somewhere around 10% of its total GDP. The relatively small impact of the present crisis on the Swedish economy has resulted in a reduction in the number of bank employees. Compared with the relatively limited reduction in assets, the reduction in personnel is larger, though the number of employees today is roughly the same as in 2008.

United Kingdom
The UK finance sector was particularly exposed to the crisis because its deregulation of investment banking and of trading stocks and securities was greater than elsewhere. One immediate result was to impose downsizing on banks that were already being restructured. Another was that the passive stance of the state as a regulator of UK banks and banking was reviewed and, through a massive state recapitalisation, two of the largest banks – The Royal Bank of Scotland (83%) and Lloyds Banking Group (43%) – became partially state-owned. Moreover, Northern Rock was nationalised in February 2008 and Barclays was forced to access Bank of England credit, with its shares suspended. In return for agreeing that the state should bail out RBS and Lloyds Banking Group, the European Commission insisted that banks receiving state aid must get rid of many of their business operations outside 'core' banking. For example, Lloyds must sell 600 of its branches by 2013, while RBS has committed to selling off its insurance business. In May 2010, RBS announced that it would be dismissing 2,000 of its 16,000-strong insurance workforce, while outsourcing about 500 jobs to India. It has also sold 318 of its branches to Santander, incurring job losses of about 1,500. Job losses occurred at all four major UK banks in 2009. Since 2006 they have been particularly dramatic at Lloyds and RBS. In September 2010,

RBS announced a further 3,500 job losses, taking the total reduction since the government invested in it to 20,600 UK jobs.

Government intervention

Despite the differentiated impact across the analysed countries, the actions of national governments have been similar. In all countries, governments sought to increase the confidence of consumers and investors and to ensure liquidity by means of guarantee funds or by the provision of affordable credit to banks. In the most affected countries, such as the UK and Hungary, and for some banks in the Netherlands, governments took full or partial control of banks. The interventions on the labour market side have been rather poor. Even in the most affected countries the interventions to reduce the impact on employment in the banking sector were the traditional ones that already existed in the system.

The governments' key interventions in the banking sector for each of the analysed countries are summarised below.

Estonia

Compared with other Member States, the Estonian government has not provided any special financial aid to banks operating in Estonia during the crisis. This is because none of the credit institutions licensed in Estonia has faced problems of solvency or liquidity where government intervention would be necessary. While some of the affiliated branches of foreign credit institutions (such as the Estonian branch of the Latvian bank, Parex banka) have been in serious difficulties, the Estonian government has not had to provide financial aid based on EU financial supervision arrangements.

France

The French government provided €320 billion in guarantees for credits between banks over a five-year period. The package also allows for recapitalisation up to €40 billion. Rescue packages guaranteed by the French government to help banks mitigated the impact the crisis could have had on employment.

Germany

The German government was already involved in the rescue of IKB Deutsche Industriebank in 2007. To control the effects of the financial crisis in Germany, the German government-owned development bank, KfW, along with numerous commercial and cooperative banks (including Deutsche Bank and Commerzbank), formed a rescue fund of €3.5 billion to bail out the group. The case of IKB provoked several legal investigations. The German federal financial supervisory authority Bafin (Bundesanstalt für Finanzdienstleistungsaufsicht) and the Ministry of Finance opened an investigation into allegations of misconduct on reporting and accounting. Although no charges were brought against the bank, four of the five executives of IKB stepped down. After the Lehmann crash, however, rescue actions on an individual basis proved to be insufficient to restore trust in the financial markets. A general system-wide stabilisation scheme was put in place to deal with the crisis and to restore confidence in the financial system: the programme of the German government was established by the German Financial Market Stabilisation Act (Finanzmarktstabilisierungsgesetz) on 17 October 2008. Some of the largest German banks were rescued by the state. In two cases private banks were transferred (at least partly) into public ownership.

Hungary

The effects of the global financial crisis reached Hungary in October 2008. The following month, Hungary agreed a USD 25 billion (€17.7 billion) financial stabilisation package with the IMF, EU and World Bank in order to increase investor confidence and ensure the liquidity of domestic financial markets. As part of the stabilisation package, the government, in its Letter of Intent to the IMF, announced a banking sector support package consisting of a Capital Base Enhancement Fund to help raise banks' capital adequacy ratio, and a Refinancing Guarantee Fund to guarantee the rollover of loans and wholesale debt securities to promote interbank lending. To strengthen the foreign exchange liquidity position, three banks without foreign parents received foreign exchange loans from the government in April 2009. OTP Bank received €1.36 billion, the mortgage lender FHB Bank received €400 million and the state-owned development bank, MFB, got €600 million. (OTP Bank paid back €700 million in November 2009 and the rest in March 2010.)

Italy

The key government intervention in Italy was the creation of the ‘Tremonti bonds’, taking the name from the Minister of Economy and Finance, Giulio Tremonti. The main objective was to strengthen the Core Tier 1 indicator via the provision of credit to banks by the state. Banks could apply if they were judged to be sufficiently solid and if they could meet certain conditions (banks receiving this aid had to guarantee the provision of credit to companies and households). This intervention proved unsuccessful primarily because:

- the credit shortage was perceived in Italy as being much less than in other countries and thus banks did not really need such an intervention;
- the interest rate applied by the state to the Tremonti bonds was very high, which was better for the state than for the banks.

Netherlands

All three Benelux countries invested €11.2 billion to support the Fortis Group, with the Dutch government taking 39% interest in Fortis Bank for €4 billion. Later in 2009, an additional capital injection of €4.4 billion was announced for ABN Amro. Aegon received a capital injection of €3 billion and SNS Reaal an injection of €750 million. All three banks have repaid a sizeable part of the amount received. Finally, the Dutch government has strengthened the regulation of banking activities.

Spain

In the face of the financial crisis, the government established a special fund for the acquisition of bank assets and public securities for the issue of bonds, but there was no need for direct intervention to rescue financial institutions. This meant there was no significant public debate on private bank policies.

Sweden

The financial crisis of 2008–2009 was not as severe as previous financial crises in Sweden (particularly compared with the crisis in the 1990s). Many of the preventive steps and measures taken in the present crisis were modelled on the previous one and the government signalled a preparedness to act in much the same way as in the previous crisis. However, this time it did not have to support banks by taking equity stakes in them.

The primary task performed by the Swedish government and the Bank of Sweden in the crisis of 2008–2009 was to support the interbank lending market after the collapse of Lehman Brothers. Most Swedish banks did not have matched short- and long-term positions so, when the interbank lending market dried up, they could not refinance their loans easily. The Swedish Riksbank provided most support for the interbank market from September 2008 to November 2010.

Another source of support provided by the government was a promise that the state would guarantee the continued operations of ailing banks. This was done by giving the national debt office the task of issuing loan guarantees and capital infusions for solvent banks and providing emergency support for banks experiencing a crisis. The bank guarantee programme provides banks, mortgage institutions and certain credit market companies with an opportunity to obtain a government guarantee covering part of their borrowing. This means that the government promises, for a charge, to intervene if the institution cannot pay its lender.

The Swedish government also decided to start a stabilisation fund to finance any necessary support measures for the financial services sector. The institutions must pay a stabilisation charge to the fund to ensure that taxpayers will not be adversely affected should it become necessary to provide this support.

United Kingdom

Besides providing huge sums to underwrite the bail-out, UK government action has been very limited. In autumn 2008 the Financial Services Authority (FSA) introduced new rules on bonuses requiring up to 60% to be deferred over three years. Yet, in 2009, over 2,800 individuals in the City of London working for the 27 companies covered by the rules were still each paid salaries and bonuses in excess of £1 million (€1.1 million). Of these individuals, 1,300 were employed by UK banking groups, with the rest at big investment banks.

The Labour government under Prime Minister Gordon Brown continued to apply a light touch right up to the end of its period in office. Regulatory responsibilities remained divided between the FSA, the Bank of England and HM Treasury; they were kept to a minimum and nothing changed.

Industrial relations in the banking sector 2

This report examines nine countries representing a wide range of industrial relations systems from models with a high level of institutionalisation to models based on voluntary approaches. When discussing industrial relations, it is crucial to point out the main national aspects in order to obtain a clearer understanding of the relationships between the banking sector and the national government. The industrial relations systems vary from those in Germany, where industrial relations are mainly shaped by law, to those in Italy, where legal institutions are rare and the autonomy of the parties involved is high and industrial relations is decentralised. The countries analysed represent different positions between an institutionalisation-based model to a negotiation-based model.

Trade unions and employers' organisations in the banking sector

This chapter begins with a comparison of the unionisation rates at sectoral and national level. It is important to note that the banking sector has unionisation rates that are not in line with the national average. In most of the countries analysed, the unionisation rate in the banking sector is much higher than the national union membership average and this impacts on social dialogue in the sector.

Levels of cross-industry union density vary widely between countries from about 70% in Sweden to 8% in France. A common element that emerged from the case studies conducted at national level is the higher unionisation rate in the banking sector compared with the national level of unionisation in general. In Italy and Spain, the gap between national and sectoral union membership is the largest among the selected countries. While the average unionisation rate is about 30% in Italy and 15% in Spain, in the banking sector it reaches 80% in both countries. Even in France, a country with the lowest unionisation rate among Member States, the number of unionised workers (9.6%) in the banking sector is higher than the national average (8%). In Estonia due to the lack of trade unions in the banking sector, the unionisation rate could be estimated at zero. In Hungary the union density in the banking sector is at around 25%, higher than the national average (17–18%) but with big differences among banks. In Budapest Bank and in OPT the unionisation rate is about 60%; in CIB Bank it is 10%. In Germany, even though the data on unionisation rate are divided by union organisation (ver.di/DGB: about 8%, DBV: about 3%; DHV: no data published),[3] the unionisation rate is significantly lower than the average (about 20%).

As shown in Table 9, the banking sector is characterised in all the countries involved by increasing competition among trade unions. The reasons for the fragmentation of union representation in the banking sector lie in:

- political or religious rivalry of union confederations at national level;
- the increasing number of autonomous unions based on industrial sector, occupational category or company.

In the UK, for example, Unite, the sector-wide trade union that has represented finance workers since 2007, competes with company-based staff associations. The main staff associations are:

- Lloyds trade union – the largest independent company-based union;
- Accord – the Nationwide group staff union;
- Advance – the Britannia staff union.

[3] See Table 9 for full names of these unions.

Italy, with its traditionally high union fragmentation, has nine different trade unions in the banking sector. This is due partly political affiliations and partly to the strong presence of several autonomous unions, such as Fabi, the largest union in the sector. In Spain, there is a particular trade union confederation, CSICA, for savings banks.

In general, employer organisations in the banking sector are defined by legal status or bank type (private, public, savings and cooperative). Germany is typical here as there are four different employer organisations, of which one is specifically related to public banks (VÖB).

Table 9: *Unionisation rate in the banking sector*

Country	Trade unions	Trade associations and employer organisations	Unionisation at national level (2008)	Unionisation in banking sector
Estonia	No trade unions	Estonian Banking Association	7.6%	0–1%
France	French Democratic Confederation of Labour (CFDT) National Bank and Credit Union (SNB) Force Ouvrière (FO) General Confederation of Labour (CGT)	French Banking Federation (FBF) French Banks' Association (AFB) (private banks)	7.7%	9.6%
Germany	United Services Union (ver.di) – affiliated to Confederation of German Trade Unions (DGB) DBV German Trade and Industry Employees' Association (DHV) – affiliated to Christian Federation of Trade Unions (CGB)	Employers' Association of Private Banks (AGV Banken) Collective Bargaining Union of Public Banks (VÖB) Employers' Association of Cooperative Banks (AVR)	19.1%	8% ver.di 3% DBV
Hungary	Financial Sector Trade Union Association (BBDSZ) Association of Investment Service Providers (BDSZSZ) Hungarian Trade Workers' Union (KASZ) (commercial banks)	Hungarian Banking Association (private banks) National Association of Cooperative Banks (OTS) Association of Savings Cooperatives (TESZ)	16.8%	25%
Italy	Italian Federation of Insurance and Credit Workers' Unions (Fisac) – affiliated to General Confederation of Italian Workers (Cgil) Italian Banking and Insurance Workers' Federation (Fiba) – affiliated to Italian Confederation of Workers' Trade Unions (Cisl) Union of Italian Credit, Collection and Insurance Workers (Uilca) – affiliated to Union of Italian Workers (UIL) UGL Credito – affiliated to the General Union of Workers (UGL) Autonomous Credit and Allied Services Union (Silcea) Independent Federation of Italian Banking Workers (Fabi) Independent Federation of Italian Credit and Savings Workers (Falcri) National Trade Union Association for Credit, Financial and Banking Managers (Dircredito Fd) National Federation of Independent Trade Unions – Credit, Finance and Insurance Personnel (Sinfub)	Italian Banking Association (ABI) (private and saving banks) Italian Federation of Credit Cooperative Banks	33.4%	80%

Country	Trade unions	Trade associations and employer organisations	Unionisation at national level (2008)	Unionisation in banking sector
Netherlands	Allied Industry, Food, Services and Transport Union (FNV Bondgenoten) Federation of Christian Trade Unions, Services Union (CNV Dienstenbond) De Unie – affiliated to Federation of Managerial and Professional Staff Unions (MHP)	Dutch Banking Association (NVB) – affiliated to Confederation of Netherlands Industry and Employers (VON-NCW)	18.9%	20–25%
Spain	Services Federation of the General Workers' Confederation (FES-UGT) Federation of Financial and Administrative Services of the Trade Union Confederation of Workers' Commissions (COMFIA-CCOO) Confederation of Independent Trade Unions in Saving Banks (CSICA) Regional trade unions	Spanish Banking Association (AEB- private banks) Spanish Confederation of Saving Banks (CECA-saving banks)	14.3%	70–80%
Sweden	Financial Sector Union (Finansförbundet) Swedish Confederation of Professional Associations (SACO) Swedish Association of Graduates in Business Administration and Economics (Civilekonomerna) JUSEK	Bank Employers' Organisation (BAO)	68.3%	64.1%
United Kingdom	Unite Company-based staff associations	British Bankers' Association (BBA) Building Societies' Association (BSA)	27.1%	30.5%

Source: *OECD, Eurofound national reports*

In other cases different branches are merged under a single organisation. In Italy, ABI includes private and savings banks, while BCC represents cooperative banks. The Netherlands is the only country in which it is possible to find a unique employer organisation for the banking sector that is also entitled to negotiate; NVB had about 89 member companies in 2010 employing 157,000 people.

The same organisation is not always in charge of negotiation and representation/lobbying. In the UK, there is no longer any employer organisation mandated to negotiate on social or employment issues. The two industry bodies are BBA, representing about 220 banks, and BSA with about 49 building societies. The main actors within the UK banking system are thus the big banks themselves. In Hungary too, there is no employer organisation with the formal mandate to negotiate, but the Hungarian Banking Association, although it is a professional association, acts de facto as the employer organisation. In France, FBF has no formal mandate to negotiate social issues. Due to the fragmentation of the French employers' there are four different sectoral bargaining bodies (AFB is in charge of collective bargaining only for private banks); in BPCE (Banque Populaire and Caisses d'Epargne) employees are covered by four different collective agreements.

Collective bargaining

Two main aspects to collective bargaining are found in the national case studies: the collective coverage and the different levels of collective bargaining (Fulton, 2011).

In general, the proportion of employees covered by collective bargaining in the countries analysed varied from 98% (France) to 25% (Estonia and Hungary).

The level of collective coverage depends mainly on union density, the legal framework for collective bargaining in each single country and the role of the government. In the Netherlands, for example, it is estimated that the government action in extending collective agreements adds around 10% to bargaining coverage.

As it is not easy to measure collective bargaining coverage, not all the national case studies reported the coverage in the banking sector. In the UK, bargaining coverage in the banking sector is higher than the average rate; the average coverage is about 34% (in the private sector coverage it is lower at around 20%) but in the banking sector it reaches 38.1%. In Germany, 55% of all employees in the banking sector are covered by collective agreements while the average is about 60%. In Italy, the coverage rate is almost 100%, which is higher than the average in the whole private sector (80%).

However, the coverage is not the only relevant factor when looking at collective bargaining. The level at which bargaining takes place and the way different levels interact are also important. Each country analysed in this study offers a different structure of collective bargaining at the national level and, as a consequence, in the banking sector.

Estonia

Collective bargaining is regulated by legislation. It takes place at national, industry and company level. The key level of collective bargaining is at the company level in the private and public sectors. In the banking sector, there are no collective bargaining practices. According to the national case study, the lack of collective bargaining is due to the better working conditions in the banking sector compared with the private sector as a whole (wages in banking are twice the national average).

France

Collective bargaining occurs at national (covering all the employees), industry (at national, regional and local level) and company level. At each level there are detailed legal provisions about the actors entitled to negotiate and the requirements for an agreement to be valid. In recent years, legislation has made it easier for company agreements to adopt exit clauses from industry-level agreements. In the banking sector, although the collective bargaining takes place with four different employer organisations, there is a strong multi-employer collective bargaining within AFB. The cooperative banks have their own collective bargaining structure in Credit Agricole and BPCE Credit Mutuel. In 2000, the renegotiation of the industry-level agreement radically changed the regulation of the employment and wage structure, strengthening the change from the public to the private sectors. The new agreement provided for greater wage flexibility at company level and the abolition of the seniority principle. The agreement also opened a breach in existing cooperative labour relations among French social partners in the banking sector.

Germany

Collective bargaining is still mainly conducted at industry-level between single trade unions and employer organisations. Separate agreements at company level are rare (with the exception of Volkswagen). However, the collective bargaining structure has been recently threatened with employers leaving or not joining employer organisations, and the agreements themselves provide for exit clauses giving greater flexibility to local negotiators.

In the banking sector, the collective bargaining roughly reflects the three pillars of the sector: commercial banks, saving banks and cooperative banks. Despite the differences between the competing trade unions, collective agreements are normally signed by all three trade unions. However, in 2008, ver.di did not sign the collective agreement for the cooperative banks, as it opposed the decision to turn up to 14% of the collective wage into variable remuneration depending on the company's performance.

Hungary

Despite several sectoral social dialogue committees set up to encourage industry-level bargaining, collective bargaining takes place mainly at company level. Over the last 10 years, the number of company agreements has diminished. According to the national case study, there is no official sectoral social dialogue committee in the banking sector as employer organisations did not express any interest in setting it up. In some cases, for example in CIP Bank and OPT Bank, despite the lack of effective collective agreements, some social issues (such as flexibility or wages) are shaped jointly by management and employee representatives (in CIP Bank) or trade unions (in OPT Bank).

Italy

Collective bargaining in Italy takes place mainly at two levels – at industry level (the most important) and company level; collective bargaining is rare at local level. The bargaining framework has come under pressure in recent years. The employers' association, Confindustria, and two out of the three national confederations (Cisl and UIL in contrast to Cgil) have called for more decentralised collective bargaining, giving greater relevance to company-level bargaining. As the three union confederations could not agree on this issue, Cisl and UIL (together with UGL) signed an outline agreement with the employers' associations and the Berlusconi government on a new system of collective bargaining replacing the Tripartite Agreement on industrial relations concluded in July 1993. Cgil does not recognise the new system.

In the banking sector, collective bargaining has two levels: sector level (bargaining power) and company or group level (bargaining with no overlapping with the sector level). A tripartite protocol of intents at sectoral level was concluded in 1997 with the national government. The protocol launched a process of negotiations between trade unions and employers on cost reduction, redundancies and competitiveness, and shaped the industrial relations system according to the guidelines included in the Tripartite Agreement.

Another important feature of the tripartite protocol of intents is the establishment of a redundancy fund, financed by contributions from both employers and employees. The fund allows the introduction of social shock absorbers into the credit sector (contractual welfare). The last national collective bargaining (2007) in the banking sector agreed that the duration of its pay deal (part of the national collective agreement) would be three years rather than two. There is also growing pressure for the decentralisation of collective bargaining to company level.

Netherlands

Collective bargaining occurs at industry or company level, though agreements at industry level cover the large majority of employees. However, the largest companies have their own agreements. Union negotiators at both industry and company level work within a framework of recommendations from the central confederations. In the banking sector, due to the average size of the major banks, company level is dominant in collective bargaining. All the largest banks (Rabobank, ING, Fortis/ABN Amro) negotiate their own company-level agreements. However, most of the agreements do not cover higher paid staff or non-standard workers. Company-level collective bargaining is mainly focused on pay and working hours while information and consultation procedures, industrial relations systems and work organisation are issues negotiated within works councils.

Spain

Collective bargaining in Spain takes place at national, industry and company level. For 2002–2008, the national agreements covered a wide part of non-pay issues and made recommendations for pay bargaining by negotiators at industry and company level. There are some industry agreements for the whole sector, such as those in the building sector, chemical industries and in the banking system itself. But this is quite rare. Large and medium companies normally have a company-level agreement, while smaller companies are covered by local agreements for their industry. Multi-employer collective agreements are specified and complemented by company agreements.

Sweden

In Sweden, collective bargaining in the private sector has traditionally taken place at three different levels:

- at national level between trade union confederations and the main employers' organisations;
- at industry level between sector unions and employers' industry associations;
- at local level between the company management and local unions.

With regard to pay, nowadays the key bargaining level is the industry level, although there are some forms of coordination at national level.

The banking sector trade unions have been receptive to the crisis in the sector and have negotiated with the employers on both the reduction of bank staff and lower wage increases. Usually, the agreements in Sweden have a two-year duration. The previous agreement that ran from 2009 to 2010 provided for wage increases of 3.6% over a two-year period. The agreement also included a limit to long working hours, provisions for industry-wide wage reviews every two years, and a commitment to reduce wage differences. In March 2011, the financial services industry reached a four-year agreement running from 1 January 2011 to 31 December 2014. The agreement provides for individual wage increases of 1% in 2011 and collective wage increases of 1.8%. For the period from 2012 to 2014, the agreement provides for wage increases for union members amounting to half of the overall wage increases in the banking sector. Minimum wage levels are still centrally defined by the collective agreement. The agreement also provides for a reduction of the gender pay gap. The conclusion of the agreement was the result of a long negotiation process, which at the end was resolved by the intervention of government-appointed mediators (Eurofound EIRO, 2011).

United Kingdom

In the private sector, the most important level of collective bargaining is that of the company or individual workplace. In some industries there is still sectoral collective bargaining, but during the 1980s, there was a clear move to bargaining at lower level and several employer organisations stopped being involved in collective bargaining. In the banking sector, there is no longer any employer organisation mandated to negotiate at sectoral level.

Workplace representation

Employee representation at the workplace varies across the countries analysed, combining representation through local union bodies and works councils, or similar structures elected by all employees (Fulton, 2011). On the basis of the different roles taken by unions and works councils, it is possible to identify four different formal structures for workers' representation (Table 10).

In the first, the main workplace representation is through works councils elected by all employees and unions do not intervene at the workplace. This is the case in Germany and the Netherlands.

In the second, the law provides for the role of both union and works council at the workplace. France, Hungary and Spain have this system, although in Spain the representation structure in the banking sector is somewhat different from other sectors, with the financial service federations opting to deal with the companies' trade union representatives rather than works councils.

The third formal structure is union representation plus elected worker representatives. In Estonia and the UK, unions have always played an important role, and it is only recently that elected worker representatives have had the right to act alongside union representatives. In Estonia, the rights of worker representatives are defined by law (employee representatives have been able to be elected since 2007), whereas in the UK this is left to negotiated agreements.

In the fourth case, the representative bodies are essentially unions even though workplace union representatives are often elected by all employees. Italy and Sweden belong to this group. In Italy, due to the strong presence of autonomous trade unions and the heritage of industrial relations in the former public banks, each of the nine trade unions in the banking sector has its own, plant-level union structure – the so-called *Rappresentanza Sindacale Aziendale* (RSA). On the initiative of the employees, a plant-level union structure can be formed within every work/production unit for each of the trade unions which belong to the most representative confederations at national level, or which are signatories to collective agreements applied in the unit. In the banking sector, RSA have therefore not been transformed into a unitary workplace union structure (*Rappresentanza Sindacale Unitaria*, RSU) as agreed in the tripartite agreement on industrial relations concluded in 1993.

Table 10: *Workplace representation*

Type	List of countries
Works council elected by employees	Germany and the Netherlands
Both union and works council	France, Hungary, Spain
Union + additional options	Estonia and United Kingdom
Union primacy	Italy and Sweden

Source: *Fulton, 2010*

In the majority of the countries studied there are arrangements for employee representation at board level. Only Estonia, Italy and the UK do not have this form of worker representation.

Industrial relations dealing with the crisis 3

Company strategies to tackle the crisis

Due to the sector's economic importance, employment in the banking sector has traditionally been well protected in most of the analysed countries. Working conditions were said to be good and levels of remuneration have always been above the national average. However, following the crisis these characteristics have been challenged in nearly all the nine countries analysed.

One important strategy of banks in dealing with the crisis is to reduce costs. Labour costs have been reduced by:

- wage moderation or wage reduction;
- increasing labour productivity through changes in work organisation and work intensification;
- making internal labour markets more flexible and segmented.

In nearly all the countries analysed, banking groups had begun implementing cost-saving programmes before the crisis.

In the Netherlands, banks introduced measures between 2000 and 2006 to achieve 'flexibilisation' of their workforce on a large scale. This process consisted of three components:

- creation of a pool of staff for functions requiring fewer qualifications (such as call centres and administrative functions);
- outsourcing of non-core business parts of the company, especially in the area of information communication technology (ICT);
- use of self-employed staff.

Some of the strategies intensified after the crisis. Employment contracts were flexibilised, fixed-term contracts were not renewed, and temporary workers were fired. In the case of ABN Amro, for instance, the strict conditions for flexibilisation were loosened during the crisis (that is, during the period of restructuring) – a measure that will last until 2012. One can assume that the cut in flexible jobs (mainly involving fixed-term and temporary workers) also resulted in work intensification. In Italy, the trend towards contractual flexibilisation seems to be similar. The latest available data, for 2009, show that new employees in the banking sector are increasingly hired with temporary contracts.

In Spain, the second biggest bank, BBVA, took an innovative cost-cutting initiative in the summer of 2009 by offering its employees sabbaticals for up to five years during which they would be paid nearly a third of their usual salary and have a job guarantee on their return. The measure can be characterised as an original flexicurity programme, trying to combine cost-cutting with flexibility for the employees, offering them the possibility of reconciling family and working life. From the point of view of labour cost reduction in Spain, flexibilisation strategies have entailed a growing difference between remuneration and working conditions in the banks, and in the increasing use of subcontractors and outsourcing. In general, the remuneration and employment conditions for employees in outsourced firms are below the standards laid down in the banking sector's collective agreement.

In the UK, there has also been a marked increase in offshoring (that is, outsourcing work to another country). At the Royal Bank of Scotland, it is reported that whereas, prior to the crisis, only lower skilled work with limited specifications was being offshored to India, today skilled work is also affected by offshoring processes. Many development projects with high-grade analytical content are now being offshored, resulting in significant cost savings. The greater use of offshoring of IT work was also reported in the case of the Lloyds Banking Group. Trade unions expect that more than

10% of jobs in the banking sector will be offshored to India. Within the EU, companies such as the Italian-based UniCredit are offshoring activities to NMS.

In France and the Netherlands, it is reported that the crisis management has accelerated existing cost reduction strategies. These strategies are focused on changes in working conditions and their regulation, with the aim of reducing unit labour costs through productivity increases.

In the UK, strategies are also focused on remuneration and working time.

It is reported that most UK finance workers have had to sign papers opting out from the EU Working Time Directive, or have been issued with employment contracts in which the opt-out is included. Many quite low-paid bank staff have seen the performance element of their wages reduced. The Lloyds Banking Group, for instance, has decided to cut bonuses for lower paid staff and/or increase the targets they have to reach in order to achieve them. In Germany, the measures used to reduce labour costs included reduced wage increases for senior employees exempt from collective agreements and reduction of variable wages.

The developments in most of the analysed countries show that cost reduction strategies put forward by management entail an intensification of work and a cut in pay. These trends contribute to changing the traditional characteristics of good remuneration, working and employment conditions.

Negotiations on the impact of restructuring processes

Employment reduction in the banking sector is not only a result of closing branches but is also the result of greater outsourcing and offshoring. In some of the analysed cases, mergers and acquisitions have also led to a reduction in employment levels.

Reduction of employment levels

In the Netherlands, the first dismissal processes started at the end of 2008. According to a trade union assessment, about half the people who lost their jobs were able to transfer to another job in the banking sector. The other half left the sector, partly through early retirement and partly by finding a job outside banking. Administration shrank the most – a downsizing operation involving some 10,000–12,000 employees.

In France, Germany, Italy and the Netherlands, it is common in the case of major restructuring processes due to mergers, acquisitions, divestments and outsourcing for unions and management to negotiate specific agreements. In some countries these are known as social plans. The agreements focus on the consequences of restructuring and on ways to mitigate these consequences such as outplacement, training, assistance to find a new job and redundancy payments. In the Netherlands, social plans are common in larger companies and have the same legal status as other collective agreements. They have been signed, for example, at Fortis and Rabobank.

In the social plan signed at ING, the existing redundancy payment scheme is maintained for those employees who have not yet found alternative employment. For employees who have succeeded in finding another job, the redundancy payment is reduced. A special taskforce has been created to pay even more attention to employability. In the case of the merger between ABN Amro and Fortis, the social plan includes a premium for leaving voluntarily. Another important feature of the social plan is the setting up of a redeployment centre and the right for employees to get help from this centre for a year. The centre has contracts with temporary work agencies and organises job fairs. Moreover, ABN Amro personnel have a virtually unlimited right to training and education. If after a year of making use of the services of the redeployment centre, employees have not found another job, they still receive 75% of the voluntary leave premium.

In the countries in which specific agreements on restructuring processes have been signed, these agreements often include the possibility of voluntary redundancies based on high severance payments. In the UK, an important reason for the ease with which job losses have taken place has been the relatively high levels of compensation on offer to those who left voluntarily.

In Hungary, banks also concluded agreements with trade unions on the regulation of dismissals. The Budapest Bank, for instance, signed a collective agreement in November 2010 dealing, among other things, with the employer's information and consultation obligations in case of dismissals. Moreover, the works council took part in shaping assistance measures to support employees facing dismissal or the transition from full-time to part-time work.

Another important topic dealt with in the context of restructuring processes is the harmonisation of remuneration, working and employment conditions. Over the past six years, social partners in the Italian Monte dei Paschi Group have concluded three protocols on industrial relations, work organisation and trade policies in order to favour a convergence of restructuring processes affecting the group's banks. In the case of the merger between Lloyds TSB and HBOS in the UK, the harmonisation of terms and conditions became a point of contention between management and trade unions. The issue of harmonisation is a real prospect also in the case of the merger between the Britannia Building Society and the Co-operative Bank. Harmonisation was a major topic for negotiation in the merger between ABN Amro and Fortis in the Netherlands, particularly with regard to issues such as the variable component of pay and pensions.

Measures to safeguard jobs

In Germany, sectoral collective bargaining also provides for instruments to safeguard employment levels. Measures intended as a response to the crisis were extended from the earlier crisis in 2002–2004. In particular, these include:

- an agreement on protection from collective redundancies that sets out measures (such as internal mobility and further education) that must be applied before resorting to dismissals;
- a partial retirement scheme that provides for the possibility of part-time employment prior to retirement;
- the possibility of reducing working hours without full wage compensation (the 31-hour scheme).

In Italy, the Redundancy Fund has played a crucial role in maintaining employment levels in the banking sector. This fund was set up through social dialogue at sectoral level in 1998 to deal with the restructuring of the banking sector, and is financed by a contribution of 0.5% of the total wage bill, paid partly by employers and partly by employees. In the absence of public measures, the fund represents a private form of a social 'shock absorber' in the banking sector. Since its introduction, the fund has been used mainly to support early retirement. Employees close to retirement age may qualify for a seniority pension from the fund, which consists of a payment equal to 50–60% of their previous wage for up to five years. In 2009, 30% of employees in the banking sector who lost their job benefited from the fund. The latest report on labour market developments in the Italian banking sector published by the Italian banking association, Associazione Bancaria Italiana (ABI, 2010), shows that the majority (67%) of the fund's recipients are male and that almost half are 56–57 years old. The social partners in the banking sector signed a 'protocol on labour market and employment' in December 2009 to extend the use of the fund to include the promotion of training measures, the support of incomes in cases of temporary work stoppages, and the extension of its application in cases of emergency.

Thanks to extensive use of the Redundancy Fund, employment levels decreased only by about 2% in 2010, and the social impact of restructuring has been lessened. Interviewees, however, stress that the intensive use of the fund in recent years is due to restructuring processes that had already started before the crisis.

In Spain, the main employment reduction scheme in the banking sector is also based on early retirement. The Spanish government, however, has become more and more opposed to this and refuses to subsidise those programmes where banks are making a profit.

Comments

Interviewees in various countries pointed out that, if the crisis had not occurred, a large downsizing process would have taken place anyway. The only element of the crisis that has probably influenced this downsizing process is the more cautious attitude of consumers to taking out loans and mortgages.

It has also to be stressed that job reductions were partially compensated for by the creation of new employment. This job reduction and creation entailed a change in the structure of the workforce from the point of view of age, labour contracts and, partly, qualifications.

Collective bargaining in times of crisis

In times of crisis, collective bargaining becomes more difficult. However, changes have been negotiated through collective bargaining in most of the countries analysed. Recent developments also show that collective bargaining is still dynamic in the sector.

Effect of the crisis on wage negotiations

As seen above, one of the most important topics of company-level collective bargaining in times of crisis is the negotiation of social plans in downsizing processes. Agreements have also been signed on employment creation.

In the case of the Italian banking group, Banca Intesa Sanpaolo, management and trade unions, with the exception of Fisac-Cgil (the most representative trade union at group level), concluded an employment agreement signed at the beginning of 2010. The agreement provides for the creation of four back-office posts in areas of the group strongly affected by the crisis, employing a total of around 600 people and the transformation of about 400 fixed-term contracts into open-ended contracts. In exchange for employment creation, management and trade unions agreed on a wage reduction over four years for the newly hired employees. Their wages will remain 20% under the wage levels laid down in the sectoral collective agreement. Fisac-Cgil did not sign the agreement as it disagreed with new employees being treated differently from the terms set out in the national collective agreement.

In October 2010, another important agreement on restructuring and employment creation was signed at the Italian UniCredit group. In this case, all trade union organisations signed the ‘Agreement on the Reorganisation Plan’ along with management. Trade unions and management agreed on 3,000 voluntary dismissals for the period 2011–2013. The employees affected are those meeting the requirements for retirement. A further 1,700 employees are expected to leave between 2014 and 2015. The agreement also provides for the protection of jobs for 1,077 apprentices, the hiring of 1,000 new employees by 2013 and the hiring of 121 employees as already set out in a previous agreement. In the case of UniCredit, Fisac-Cgil signed the agreement as the newly hired employees are not subject to derogations from the national collective agreement. However, this agreement does contain a derogation clause (from the company-level collective agreement), which will be applied to the newly hired employees for only four years. For this period they will remain excluded from wage increases provided for by the company-level agreement.

In these two cases of concession bargaining, the trade unions agreed on an exchange between employment creation and a reduction of wage levels, contributing in this way to a segmentation of the internal labour market.

Not surprisingly, the crisis has also affected industrial relations in wage negotiations. Both governments and employers' associations emphasise the importance of wage moderation, while banks have stressed that the room for manoeuvre has been reduced by the crisis. As a result, wage increases have generally been low.

Moderate wage increases are reported in France, Germany, Italy, Sweden and the UK (see below). Agreements providing for higher wage increases were reached in Hungary, with OTP Bank, for example, agreeing a wage increase of 5% from 1 July 2009.

France

The 2010 wage negotiation round in France demonstrated differing interpretations of the crisis and its impact on employment in the banking sector. Unions demanded a pay increase of 1.5% to compensate for a deterioration in working conditions under the effect of higher productivity requirements. This claim was opposed by employers, who stressed the general economic downturn. However, strikes in several banks led employers to climb down. Pay increases are different between banks in France. Among private banks, BNP Paribas and Société Générale offered the highest pay increase (1% plus a bonus) though this was considered insufficient by unions. In general, unions consider collective bargaining on wages and working conditions more difficult since the outbreak of the financial crisis.

Germany

As response to the crisis the German employers' association of cooperative banks asked for a variation of wages linking part of the collectively agreed wages to the enterprise's economic results. This request was introduced in the latest collective agreement for cooperative banks. The agreement provides for the possibility of transforming up to 14% of the collectively agreed wages into variable remuneration by linking it to the performance of the enterprise. The banking services union, ver.di, refused to sign the agreement saying it was too unfavourable to employees. For the first time, a collective agreement in the banking sector was signed only by the two other trade unions, DBV and DHV.

Sweden

The Employers' Association of the Swedish Banking Institutions (BAO) goes beyond the German approach by asking for a reduction of the importance of agreed wage increases in central agreements in favour of completely decentralised and in some cases even individualised negotiations.

> *The organisation argues that a higher degree of individualised wage negotiations would increase the flexibility of the system and enable a higher degree of 'downward' as well as 'upward' flexibility in times of economic hardship or economic prosperity for specific companies.*
>
> (Brunk et al, 2009)

United Kingdom

Most large banks, building societies and insurance companies in the UK continue to recognise formally and to negotiate directly at company level with one or more trade unions or staff associations. In some building societies and banks, the combination of job losses and falling revenues in 2009 created a readiness to accept pay restraint.

Comments

On the whole collective bargaining has produced moderate wage increases. Although wage increases have been low, only a few examples of concession bargaining were reported in the nine analysed countries.

Other collective bargaining issues

In Germany, the collective bargaining rounds of the past two years were clearly shaped by the financial crisis. The services union ver.di decided, for example, to introduce the need to regulate different aspects of selling products and advising clients as an issue in sectoral collective bargaining. Ver.di argued for a 'fair trade' agreement containing clear rules to prevent a situation where employees have to sell risky and incomprehensible financial products in order to fulfil performance standards. In order to introduce this issue in collective bargaining, ver.di treated the question as a health issue with the argument that a 'fair trade' agreement also serves to prevent stress at work. Thus, the latest collective agreement for private and large public banks of June 2010 contains a common declaration on health protection in which it is laid down that targets in general should be fair, achievable and specific. Furthermore, targets should be formulated by taking into consideration client requirements.

In 2010, employers and unions in France agreed through collective bargaining with the need to adapt job definitions so that they fit current work organisation better. Social partners introduced new employment categories according to front- and back-office jobs, both in retail and investment banking. Unions, however, stress that the translation of these categories into wage levels remains open for negotiation. There has also been healthy activity in collective bargaining at company level, as well as at sector level. In 2009, 92% of the companies in the banking sector engaged in collective bargaining against an average of 83% in other sectors. Also, in Italy, the private sector agreement provides for a more extensive decentralised bargaining that covers not only bonuses and working conditions, but also healthcare and supplementary pensions.

Negotiation on rights has continued to represent an issue for collective bargaining. Gender, in particular, has been dealt with in various countries. In France, women make up the majority of banking employees; in 2008, 56% of employees were women. They also represent almost 58% of newly recruited employees. A sector agreement in 2006 aimed to reach a 40% rate of women among 'cadres'[4] in 2010, a target achieved in 2008.

In Spain, BBVA was one of the first big companies to agree on a specific gender equality plan in 2005. After legal measures on effective gender equality in 2007, an updated agreement was signed by the bank and the trade unions in May 2010. Besides the general commitment to non-discrimination in all areas, the company establishes several specific gender equality policies, some going beyond what is required by law. Banco Santander has also been pioneering gender equality and conciliation programmes. These programmes include:

- allowing mothers time off for breast-feeding;
- parental leave;
- exemption from mortgage pay during parental leave;
- childcare subsidies.

Cajamar, the biggest Spanish credit cooperative, is also promoting gender equality. It has established a permanent commission on gender equality and is developing several initiatives to increase the number of women in leadership positions. In 2009, 40% of the workforce and 24% of the management were female.

Conclusions

In general, collective bargaining has been shown to be an important tool in dealing with the impact of the crisis. The most important issues it has covered include restructuring and safeguarding employment, wages and working conditions. However, it has also dealt with other issues regarding change.

[4] A term with official recognition in France; a category of professional and managerial employees (see Eurofound EMIRE database under France)

In most of the analysed countries, collective bargaining has taken place at company as well as at sectoral level. The exceptions are Estonia, Hungary and the UK. The Estonian banking sector has little collective bargaining because there are no trade unions representing workers either at company or at sectoral level. In Hungary the main level of collective bargaining has also been at company level, with all attempts to promote sectoral collective bargaining failing to achieve sustained success. In the UK there are no longer any employer organisations mandated to negotiate on social or employment issues. Therefore, collective bargaining has been limited to company level.

Sectoral and company-level social dialogue

Activities at the level of social dialogue are reported only in the case of France. Here social partners set up a special ad hoc discussion body at sector level to improve information on the crisis. According to CFDT, these meetings ensured a better understanding of the issues, both on the union side where there was a need to become familiar with the financial mechanisms that led to the crisis, and on the employers' side where management showed interest in employees' opinions, especially on the retail part of the business. French trade unions also want a sector dialogue that aims to anticipate the management of employment developments.

The crisis has put banking and finance into the public spotlight. Consumers' associations have denounced illegally high banking fees, which are considered even less justified in the context of high business profits. Recently, the French government set up a discussion body where unions are represented next to employers' and consumers' associations. But it is not clear whether this new form of civil dialogue could have an impact on industrial relations in banking.

In Hungary, the Federation of Finance Sector Unions (BBDSZ) and the Hungarian Banking Association signed an agreement in 2007 to set up a sectoral social dialogue committee with the aim of implementing a permanent consultation forum. The committee is expected to deal with issues such as the future of the sector, professional reconciliation, information and consultation. Apart from this sectoral social dialogue, a dialogue also seems to have developed at company level. As indicated by the company case studies gathered as part of this study, employers are relying more on an exchange with trade unions.

In most other countries dialogue is taking place at company level. In the UK, where banking sector social dialogue is rather weak, one of the unexpected outcomes of the crisis is that, in at least two of the major banks, RBS and Lloyds Banking Group, senior management seems to be more ready for dialogue than before. In the case of HBOS, which is part of Lloyds Banking Group, a partnership agreement was signed. This negotiation was sparked by a government policy encouraging partnership arrangements and by the strong support for it among senior human response managers. The assessments by both management and union interviewees is that the HBOS partnership approach has proved its value and is now influencing management practice within parts of the former Lloyds TSB.

The interest in social dialogue at company level can probably be explained by management's need to have legitimate employee representatives in place in order to implement a coherent and rational downsizing. That means that, in these cases, the crisis has increased the volume and deepened the content of social dialogue at company level.

Centralisation of workplace representation

The importance of information and consultation also became apparent during the crisis. Generally, European and national legislation on information and consultation while restructuring seems to have been well respected.

In the UK information and consultation requirements on redundancies have been respected in all the analysed banking groups. In the case of HBOS it has even been agreed to extend trade union recognition to first-level managers, in order to encourage their structured involvement in consultation and negotiations. According to the agreement, union representatives are expected ‘to represent members’ views in a balanced and constructive manner through active and early dialogue with managers and HR colleagues’ (Jameson, 2010, p. 6).

Even in the Estonian banking sector, which is characterised by the absence of workplace representation, information and consultation procedures in the sector are reported to be well established. In addition to information and consultation procedures in the national context, Estonian employees are also involved in the activities of European works councils at international banks, which in many cases have their headquarters in Scandinavian countries.

In general, the Directive 2002/14/EC establishing a general framework for informing and consulting employees has not had a major impact on information and consultation processes in the analysed countries. This is not surprising as, in most of the analysed countries, the directive was not expected to entail major changes in already existing arrangements (Carley and Hall, 2009). But even in a country such as Italy the directive did not have any impact (Telljohann, 2010). This is because the directive was only transposed in 2007, and the sectoral collective agreement signed in 2007 did not include its provisions. Thus, clear definitions of the concepts *information* and *consultation* are still missing. Therefore, a real impact of the directive in Italy can only be expected with the renewal of the collective agreement.

Although the directive did not have a major impact on information and consultation at national level in the analysed countries, restructuring processes seem to have led to new trends in interest representation at company level.

In the past, banking sector industrial relations were characterised by a process of decentralisation. In countries such as the Netherlands, this meant that large banks opted out of sector agreements and negotiated at company level. This process was more or less completed before the outbreak of the crisis. But despite this decentralisation, a process of centralisation can be observed due to major banks centralising management functions to benefit from economies of scale. This was confirmed by Estonian management representatives working for foreign banking groups, who pointed out that several principles of human resource (HR) development or staff policies (such as pay systems) have been agreed at the level of central management.

Evidence also suggests that there is a trend towards centralisation of information and consultation in several countries. However, these centralisation processes do not always flow smoothly as they imply the need for a re-balancing the relationship between centralised and decentralised levels of interest representation.

In Italy the trend towards centralisation of both collective bargaining and information and consultation procedures is a consequence of merger and acquisition processes. In the Italian banking sector, merger and acquisitions led to the setting up of representative bodies at group level, with management aiming to simplify and streamline the complex structures of industrial relations in large banking groups. In 2010, the social partners at the sectoral level concluded an agreement on union rights, representing the first step towards the renewal of the sectoral collective agreement. The agreement favours negotiations, at group level, to modify the provisions of the 2007 sectoral agreement. The agreement states that decisions made by the steering committee at group level have immediate effect for the banking group, without waiting for the consent of the structures of interest representation in single banks belonging to the group. The rationale for this is given by management’s interest in rationalising industrial relations and having only one central reference point at group level. The underlying objective of centralisation processes in industrial relations is saving time and costs and, thus, in increasing efficiency of industrial relations. These objectives may, however, contrast with consolidated forms of trade union and industrial democracy. In the case of the UniCredit Group, local trade union branches complain that employee representatives at plant level are increasingly excluded from information and consultation procedures due to the centralisation of industrial relations.

In the UK, centralisation processes are reported to be caused by the harmonisation of industrial relations owing to mergers and acquisitions. Also, in the case of the French banking group Société Générale, the role of the centralised level of information and consultation has gained importance. The central works council which, in the past met only twice a year, now meets at least 65 days a year. However, company restructuring in France is challenging the ability of employee representatives to use their information and consultation rights. And because the concentration of back-office activities at regional level has resulted in fewer works councils, representatives tend to be farther away from the employees they represent.

In France and Spain, as banks centralise various services and create special companies to provide them, entire business units are becoming excluded from representation. This dislocation between the legal structure and the business units of the company undermines the representatives' capacity to have a voice at the relevant decision-making level. In France, employee representatives have developed strategies to combat this. They have negotiated new rules and bodies of representation in order to strengthen their impact on company decision-making. These so-called method agreements, which organise the procedure of information and consultation, have helped adapt representation structures not only to the company's legal boundaries but also to the work organisation, thus rebuilding its economic and social unity.

Industrial action

During the crisis only smaller industrial conflicts have been reported. Such conflicts were linked in Spain to redundancy procedures in the case of the forced mergers of Fortis with BNP Paribas, and similarly in the UK with the case of Lloyds Bank TSB and Halifax Bank of Scotland (HBOS) at the end of 2009. In the UK, the continued disagreement on harmonisation after the merger resulted in Lloyds and the unions going to the independent state-funded conciliation body, Acas, where an agreement was reached.

In France, unions claimed a pay increase of 1.5% in the 2010 wage negotiation round to compensate for a deterioration in working conditions under the effect of higher productivity requirements. Employers opposed this, citing the general economic downturn. However, strikes in several banks have led employers to make concessions.

There have been no reports of strikes or other forms of industrial action in the banking sector due to the crisis in the other countries analysed.

Response of social partner organisations

Trade union strategies to deal with companies' lack of cash and limited room for manoeuvre in the crisis reflect their different histories and cultures. In the UK, for example, Unite has raised general issues about the weakness of social dialogue in the sector and about the huge pay inequalities. Independent company-based unions such as the Lloyds Trade Union (LTU) focused on protesting against foreign workers taking UK jobs and on 'sell-outs' by other unions as terms and conditions were harmonised across the Lloyds Banking Group. Most of the smaller unions, which reflect strong company cultures, made few if any policy statements, preferring to show a willingness to help jointly solve problems.

In Italy, trade union responses to restructuring processes were equally divergent. In February 2010, management and unions at Banca Intesa Sanpaolo, with the exception of the most representative trade union at group level, Fisac-Cgil, concluded an 'agreement to support employment'. As noted above, Fisac-Cgil did not sign the agreement as it included what it thought was an unfair derogation from the national collective agreement.

In Germany, 2008 marked the first time that a collective agreement (for cooperative banks) in the banking sector was not signed by ver.di, the most representative trade union in the German banking sector, but only by the two other trade unions DBV and DHV. Ver-di did not sign because it said the agreement's variabilisation of wages was too disadvantageous for employees. Competition between the three trade unions has also led to two collective agreements at company level signed by one of the two smaller trade unions. As for Germany's employer associations, AVR left the joint sectoral bargaining commission and negotiated a separate collective agreement for the cooperative sector.

These developments show that, in recent years, the group of collective bargaining actors has become more complex and that competition for members, especially among trade union organisations, is increasing.

The fact that sectoral and company-level collective agreements have not been signed in Germany and Italy by the most representative trade unions in the banking sector reveals a lack of regulation of the assessment of the representativeness of the actors involved in collective bargaining and the linked validity of collective agreements.

European-level developments 4

Positions of European social partners

The crisis and its impact on employment led the European industry federation union, UNI Europa Finance, to ask for significant changes to the way the European banking sector is governed and to develop specific suggestions for re-shaping the financial system and overcoming the crisis (UNI Finance Global Union, 2009). Its main proposals cover:

- the role of employees in developing a sustainable finance industry;
- the role of supervision and transparency;
- links between restructuring and remuneration;
- the strategy of stabilising and reforming the financial system;
- the need for financial education.

UNI Finance is convinced that employees can provide a complementary bottom–up perspective in assessing the impact and effectiveness of regulation. It considers employees' knowledge an essential element in getting a comprehensive picture of the financial sector's dysfunction and in designing measures that can help to avoid a similar crisis in the future.

The union wants the role of employees and their working conditions to be taken into account when new EU legislation is developed to regulate different aspects of selling products and advising clients. It points out that the fact that employees have to meet sales targets set by the banks may restrain them from giving good advice. Therefore, UNI Finance sees the need for employees to be guaranteed the right to give good advice. The union, its affiliates and European works councils want charters to be adopted to ensure the responsible sale of financial products at company level. UNI Finance is also preparing a joint collective bargaining initiative about sales and advice so that finance unions across Europe put this theme on the agenda of collective bargaining at national level. In Germany, ver.di has already introduced this issue in sectoral collective bargaining.

UNI Europa Finance's proposals focus mainly on regulatory and supervisory approaches. They are based on a major involvement of employees and their representatives, which implies an effect on industrial relations at various levels. However, the proposals of the employers' associations do not seem to envisage any form of involvement of employees or their representatives. As a consequence, their positions would not impact on industrial relations or participation practices (Vogler-Ludwig et al, 2010).

Developments in European-level industrial relations

Role of European works councils

In nearly all the analysed countries, European-level industrial relations do not seem to have played a significant role in addressing the consequences of the crisis, either at sectoral or company level.

At company level, European works councils (EWCs) have rarely gone beyond their statutory right to be informed and consulted. In Germany, only the two major national banks Deutsche Bank and Commerzbank have so far set up a European works council. The majority of EWCs relevant to the national banking sector belong to foreign companies (ABN Amro, Barclays Group, Citibank, Credit Suisse, HSBC, KBC-Bank, SEB and UniCredit). In most cases, EWC meetings are limited to information procedures. In the analysed countries, the EWCs in UK-based banking groups are considered ineffective as they did not play any role in dealing with the consequences of the crisis.

In all analysed cases there have been no attempts to develop a transnational coordination about the social regulation of the impacts of the crisis. That means that there have been no European-level responses to cross-border restructuring processes. All relevant negotiations and consultations on restructuring measures took place within national contexts.

Only in the case of UniCredit has there been an initial attempt at developing a cross-border system of industrial relations. So far, the UniCredit EWC is the only one set up in the Italian banking sector. The activities of the UniCredit EWC have focused on the following three aspects.

- In 2008, the EWC and the management signed a joint declaration on training, learning and professional development to give a common framework for all training initiatives promoted within the group.
- In 2009, the EWC and the management signed a joint declaration on equal opportunities and non-discrimination with the aim of supporting corporate culture on this issue and improving working and living conditions.
- A common strategy for managing restructuring processes in all countries, with the active involvement of trade unions and favouring voluntary exits and early-retirement, has been developed. Management and the EWC agreed on applying a common approach to managing restructuring processes that guarantees the involvement of the employee side in the respective countries.

These activities have been possible as the UniCredit management has also shown itself to be interested in harmonising specific issues in the field of labour policies at transnational level. And, for the first time, joint declarations have been transposed in the context of collective bargaining in NMS.

The UniCredit EWC has also started negotiations with central management on a global framework agreement that should be valid for all countries where the UniCredit Group operates. Until now the global framework agreement, which should define minimum labour standards, has not been signed as there is no agreement on which actors can negotiate and sign the agreement.

In the case of Estonia, which has no employee representation in the banking sector, EWCs of foreign banking groups with affiliates in Estonia are the only form of institutionalised interest representation. Most of these banking groups are headquartered in the Nordic countries. The involvement in EWCs activities has, however, not led to the setting up of bodies of interest representation in the national context.

In summary, EWCs have played a rather limited role in the social regulation of the impacts of the crisis.

Role of transnational framework agreements

As the UniCredit case shows, the framework for industrial relations at company level in the banking sector is in a state of flux. As in other sectors, the major enterprises aim at becoming European or even global companies with integrated transnational operations. In these centrally managed banks, business is no longer organised on country lines but on business lines. This might imply a growing tendency towards the signing of joint declarations, as in the case of UniCredit, or the negotiation of transnational framework agreements as in the case of Danske Bank (Eurofound EIRO, 2008).

In general, more and more companies in the sector are responding to increasing internationalisation by pursuing more international HR and business strategies. Therefore, an increasing number of companies seem to be interested in establishing transnational dialogue structures as a means of introducing international policies, for example, in the areas of diversity management, performance assessment, or training. In this context UNI Finance’s main focus is the establishment of a transnational industrial relations framework that links the national and the international level of industrial relations and which pursues commercial success without losing sight of employees’ interests. Thus, the union is striving for transnational agreements for multinational companies that set basic labour standards and define a company-wide dialogue between management and UNI Finance and its affiliates. On such a basis, the parties can jointly tackle transnational issues.

For companies, the advantage of a transnational framework of industrial relations is that they get a partner for dialogue and negotiations at central level, which facilitates the introduction of transnational policies. By negotiating at central level, they can avoid the often time-consuming process of conducting multiple negotiations in each individual country (Telljohann et al, 2009). Thus, management could consider transnational framework agreements a tool for rationalising industrial relations at group level.

European sectoral social dialogue committee in the banking sector

The European sectoral social dialogue committee (SSDC) in the banking sector started as an informal structure in 1990 and became a formal SSDC in 1999. The participants in the SSDC are:

- on the employees' side, UNI Europa Finance;
- on the employers' side, the European Banking Federation (EBF), the European Saving Banks Group (ESBG) and the European Association of Cooperative Banks (EACB).

The Banking Committee for European Social Affairs (BCESA) is a specialised standing committee set up to assist in the preparation of EBF common positions and social policies. Thus, BCESA represents the united voice of European commercial banks on social policy issues. BCESA-related working groups have been set up to work on the following topics:

- a review of the sectoral social dialogue;
- EU enlargement;
- financial turmoil.

So far, social dialogue in the banking sector has had various outcomes.

On 29 November 2002, the social partners signed a joint declaration on lifelong training in the banking sector. In 2005, they adopted guidelines on aspects of employment and social affairs related to corporate social responsibility (CSR). The following year, their focus was on research into the impact of demographic change on human resource management policies. In addition, with a view to enlargement, the social partners have carried out various projects over a number of years with their opposite numbers in the candidate countries, particularly Cyprus, Hungary, Lithuania, Malta, Poland, Slovakia and Slovenia. These projects sought to improve awareness of industrial relations and European social dialogue in the NMS. The aim of more recent projects, carried out in 2007–2008 and 2008–2009, was to encourage the participation of social partner organisations in selected NMS in the European social dialogue (Ongaro, 2010).

According to the European Commission (2010d, p. 21), in 2009 the SSDC '… made efforts to re-launch its activities, after a de facto suspension of its work in 2007–2008'. As a result, a joint text on reassessing social dialogue was signed on 13 May 2009 by the social partner organisations at European level.

In the context of the crisis there has only been one extraordinary high-level meeting in January 2009, which took place between the European industry federation (UNI Europa Finance) and the three employers' associations. On that occasion social partners agreed to share information about the impact of the financial crisis and to monitor its further development.

They also agreed to collect and share data on employment trends in the sector.

However, the fact that no joint texts have been signed within the European social dialogue with regard to the financial and economic crisis means that the role of European social dialogue has been rather limited in the context of the crisis. This could prompt the sectoral social dialogue committee to face up to the need to adapt to new challenges.

EACB provides an explanation for the limited role of European-level social dialogue; it is convinced that addressing the social consequences of the crisis is best done at company or national level. EACB also believes the impact of the crisis has not been addressed by social dialogue at EU level because co-operative banks have been less affected by the crisis and, secondly, the regulatory effects of the crisis have been borne mainly by board members and risk takers.

One of the major obstacles to achieving results in the context of European social dialogue seems to be the follow-up at national level which, so far, has remained weak (Observatoire Social Européen, 2010). Joint texts commit signatories and their national affiliates to implementation through national arrangements such as legislation, collective agreements and joint promotion of tools. The trade unions and employers' organisations in the banking sector have different positions on the transposition of EU-level outcomes into national provisions. While UNI Europa Finance is asking for a binding implementation of joint texts at national level, the employers' associations think it is necessary to respect the autonomy of national level actors and, therefore, that transposition has to take place on a voluntary basis.

Another challenge when following up national level of dialogue at the European level is the need to:

- involve national sectoral social partners effectively in EU dialogue;
- guarantee the interaction between the EU social dialogue mechanisms and various national industrial relations systems.

In this context, one challenge is the question of how to engage in activities at European level that are relevant to the national participants in industrial relations. This study found that the outcomes of the European social dialogue do not play a major role in industrial relations in the analysed countries. In the view of national actors, European social dialogue is of symbolic relevance. This is particularly true for countries with no, or only weak, sectoral industrial relations (such as Estonia, Hungary and the UK), but also for countries characterised by developed industrial relations such as Germany. Although German social partners do not see any impact of European social dialogue on national industrial relations, they find it useful to exchange good practice examples, as happened for instance in the application of the joint declaration on lifelong training in the banking sector.

Another challenge, especially in NMS, is the involvement of national social partner organisations in European sectoral social dialogue. According to the European Commission (2010d), the share of participants from NMS is an indicator of the successful integration of the NMS social partners into existing social dialogue structures. In the banking sector the involvement of national social partner organisations in European sectoral social dialogue seems to be a particular problem in some NMS where social partners, for various reasons, are not always involved in the European social dialogue. In the banking sector the share of participants from NMS is less than 10% (European Commission, 2010d).

A lack of involvement of national organisations may also have a negative impact on the transposition of European-level outcomes into national provisions as national actors who are not involved at European level may not be interested in implementing provisions that they did not contribute to (European Commission, 2010e). As effective follow-up at national level is also clearly linked to the representativeness of social partners, low representativeness may entail insufficient follow-up at national level.

As emphasised by the European Commission (2010e) in its general assessment of the European social dialogue, there seems to be a need in the banking sector for more detailed follow-up and reporting provisions to monitor the impact of outcomes of European sectoral social dialogue. According to the European Commission, there is a direct correlation between the effectiveness of national social dialogue and effectiveness at European level.

Future challenges 5

In nearly all the analysed countries, the crisis has challenged the concept that the banking sector is traditionally highly protected, with good working conditions and above-average levels of remuneration. Research has shown that cost reduction strategies put forward by management entail work intensification and a reduction in wages, changing the sector's traditional characteristics of good remuneration, working and employment conditions.

Cost reduction strategies have also led to outsourcing and offshoring processes. In some of the analysed cases, mergers and acquisitions led to a cut in staff. With the exception of France, employee representatives have not been able to get effectively involved in the social regulation of these restructuring processes. In France it has been possible to negotiate so-called method agreements, which provide for new rules and bodies of interest representation in order to strengthen their capacity to have an impact on company decision-making.

As for transnational restructuring processes, none of these has been dealt with at the level of EWCs by developing a European-level response. Only in the case of the UniCredit EWC has it been possible to define, at least general, principles to be applied when dealing with restructuring at national level.

In the case of dismissals, active labour policies including education, training and the setting up of deployment centres seem to be crucial in fostering workers' employability. But even these measures are of a reactive character as they are put in place once restructuring decisions have been taken. A proactive strategy based on the anticipation of change might be more effective as shown in the cases of French multinational metal companies such as Areva, Schneider Electric and Thales.[5] A step in this direction has been made so far only by the UniCredit EWC with its joint declaration on training, learning and professional development.

In various cases, job reductions have been at least partly compensated for by the creation of new employment. In two Italian banking groups, these processes of job reduction and job creation implied a turnover in the workforce and entailed a change in the structure of the workforce from the point of view of age and labour contracts, and partly also qualification. In these two cases of concession bargaining, trade unions agreed on an exchange between employment creation and reduction of wage levels, contributing in this way to a segmentation of the internal labour market. Although employment creation is desirable, the differentiation in treatment of the newly hired employees entails a segmentation of the internal labour market. From a trade union point of view, the application of differentiated terms and conditions for comparable jobs might lead to difficulties in unionising newly hired employees and in the long run to a reduction in representativeness.

As the research results of this study have shown, collective bargaining has become more difficult in times of crisis. In most of the analysed countries, however, the implementation of change has been negotiated through collective bargaining. Thus, collective bargaining has shown itself to be an important tool in the social regulation of the impact of the crisis. Apart from restructuring and safeguarding employment, wages and working conditions have been shown to be the most important issues of collective bargaining. However, other issues on processes of change have also been subject to negotiations. In some cases it has been possible to negotiate innovative issues, as in the German case where the need to regulate different aspects of selling products and advising clients has been introduced, at least indirectly, as an issue in sectoral collective bargaining.

In most countries, collective bargaining has taken place at company as well as at sectoral level. Exceptions are Estonia, Hungary and the UK. The Estonian banking sector is generally characterised by an absence of collective bargaining practices. This is because there are no trade unions represented in the banking sector either at company or sectoral level.

[5] See Eurofound EIRO updates EU0701039I, EU0709019I and EU0908019I respectively.

In Hungary the main level of collective bargaining has also been at company level and, so far, all attempts to promote sectoral collective bargaining have not achieved sustained success. In the UK there are no employer organisations mandated to negotiate on social or employment issues. Therefore, collective bargaining has been limited to company level.

There seem, therefore, to be fewer experiences of negotiated responses to the crisis in the NMS. However, collective bargaining systems characterised by coordination between sectoral and decentralised levels as found in France, Italy, Spain and Sweden – and to a certain extent also in Germany and the Netherlands – represent at least in theory the most effective collective bargaining model.

The efficacy of the different systems is, however, often undermined by an increasing competition between trade union organisations. The limited resources and the reduced room for manoeuvre have led, especially on the trade union side, to divergent responses in times of crisis. One outcome of this is agreements that are signed by only some of the relevant trade unions which, in some cases, represent only a minority of employees. These cases of so-called separate agreements reveal a lack of regulation of the assessment of representativeness of the actors involved in collective bargaining.

Another important trend at the level of company-level industrial relations is the process of centralisation. The underlying objective of centralisation is saving time and costs and thus increasing the efficiency of industrial relations. These objectives may, however, contrast with consolidated forms of trade union and industrial democracy. In the case of the Italian UniCredit Group, local trade union branches complain that employee representatives at plant level are increasingly excluded from information and consultation procedures due to this centralisation.

Nonetheless, the crisis has not resulted in a major shift in the industrial relations climate. In most countries, the crisis has had no qualitative effects on industrial relations. The existing structure and mechanisms have remained basically unchanged, with sector and company dialogue proving useful in facing difficulties caused by the crisis.

There are also innovative experiences, as seen in the extension of dialogue to new participants. In France, consumers' associations have loudly criticised illegally high banking fees. When the government set up a discussion body, unions were represented next to employers' and consumers' associations. However, it remains to be seen whether this new form of civil dialogue could have an impact on industrial relations in banking.

It is also interesting to note that, in Hungary and the UK, the two countries in this study which have probably suffered the greatest impact from the crisis, industrial relations have become more important. It is important to observe that in a country such as the UK, which is characterised by a liberal market economy, it is possible – at least in the analysed cases – that the crisis has increased the amount and depth of social dialogue at company level. The interest in social dialogue at company level is probably due to the need of management to deal with legitimate employee representatives in order to implement a coherent and rational downsizing.

There are, however, also cases that show opposite trends. In the German case, which was traditionally characterised by a culture of consensus and high wage levels, employee representatives interviewed for this study state that both characteristics are vanishing 'like snow in the sun'.

There seems to be a need in European sectoral social dialogue for better coordination between European and national levels. According to the European Commission, more detailed follow-up and reporting provisions to monitor the impact of outcomes of European sectoral social dialogue need to be developed. The European Commission also sees the need for a better involvement of national social partner organisations in NMS in European sectoral social dialogue.

Conclusions 6

The significant structural changes in the world economy during the past 30 years, in particular those due to globalisation processes and technological development, have led to a modification of the banking sector at global level. On top of this, the European banking system has faced new challenges brought about by the European integration process and the creation of a European Single Market.

As a consequence of the liberalisation process, European banks have adapted their strategies in order to compete in a larger-scale market. Banks have gone through significant processes of mergers and acquisitions, diversified their products and benefited from technological changes. These key evolutions determined different trends in employment across European countries. The average figure of 6.5% growth in employment in the banking sector between 2004 and 2008 is generated by different dynamics between European countries. In line with the diverse increase in the number of branches transnationally, employment levels have been rising significantly in a number of NMS, with Bulgaria, Estonia, Latvia, Lithuania and Romania experiencing the highest increases in employment in credit institutions. However, as a consequence of the same trends, other countries saw a decline of employment in credit institutions, with the German banking sector for example, losing over 26,000 employees between 2004 and 2008.

According to the results of this research project, the economic and financial crisis had a differentiated impact across European countries. Looking at the nine chosen countries, the banking sectors of Hungary and the UK seem to have been particularly affected, in terms of both banks' profitability and employment. The main source of Hungary's vulnerability has been the excessive borrowing by both the public and private sectors while, in the UK, the finance sector was particularly exposed because of its greater deregulation of investment banking and of trading stocks and securities. One immediate result in both cases was to impose downsizing upon banks. However, the impact was moderate in the large majority of the countries analysed in this study. In Estonia, France, Germany, the Netherlands and Sweden, in particular, the impact of the crisis in the banking sector differed depending on the characteristics of the individual banks. As a consequence, only some banks in these countries experienced a reduction in profitability and portfolio quality, and a contraction of employment, whereas others did not perceive significant consequences. In Sweden, there was a sharp downturn in the economy, leading to a recession, but the severe loan losses came in foreign countries where Swedish banks operated. Swedbank and SEB had the largest exposure to the Baltic States, which were hit very hard by the economic downturn. Finally, in Italy and Spain, the impact of the financial crisis on the banking sector was almost non-existent.

Despite the differentiated impact across the analysed countries, the actions put in place by national governments have been similar. In all countries, governments sought to increase the confidence of both consumers and investors, and to ensure liquidity by means of guarantee funds or by the provision of affordable credit to banks. In the most affected countries, such as Hungary and the UK, and for some banks in the Netherlands, governments intervened with bail-outs where the state took control of banks in full or in part. The interventions on the labour market side have been rather poor. Even in the most affected countries, the interventions to reduce the impact on employment in the banking sector were the traditional, pre-existing ones.

Sector and company dialogue proved useful in facing difficulties caused by the crisis in the relationship between unions and employers. Changes have been largely addressed through collective bargaining, both at sector and company level. It is also interesting to note that, in Hungary and the UK, which among the analysed countries probably suffered most, industrial relations have become more important in recent years.

The main issues addressed at the level of company-level and sectoral bargaining included measures to safeguard jobs, the impact of restructuring processes on employment, and the reduction of labour costs. Cost reduction strategies put forward by management entailed, in most cases, an intensification of work. Finally, European-level industrial relations did not seem to play a significant role in addressing the consequences of the crisis, either at sectoral or at company level.

Expectations for the sector are that the key structural trends developed over the last two decades will continue in the coming years, in particular those related to further M&As and restructuring processes in advanced economies and expansion in eastern Europe. However, according to the IMF (2010c), after the collapse of Lehman Brothers and the consequent financial crisis, the more recent volatility of the sovereign bond market exposed the weaknesses of the European banking sector. In the euro area, banks' holdings of government securities tightly link perceived sovereign and financial sector risks, limiting access to interbank lending for some institutions. In addition, banks face the anticipated increase in regulatory capital, continued problems of low profitability, high loan loss provisions, low capital ratios and lack of confidence in the overall system (EBF, 2010; IMF, 2010c). These factors increase concerns about a credit crunch. The stress tests conducted on European banks last summer provide a road map for the possible interventions and, according to the IMF (2010c) and EBF (2009), the next step for the strengthening of the sector is the restructuring and capitalisation of those banks identified as vulnerable and the rebuilding of confidence in the system. Overall, the expectation is that the sector will keep developing along previous trends, given that international and national institutions will take the required action to reduce the vulnerability still in the system.

One of the major challenges for the future in industrial relations is more effective regulation of restructuring processes at European level. As restructuring processes are expected to continue, especially at large banking groups, better information and consultation processes at European level need to be developed. However, the real challenge will be in developing and implementing proactive strategies based on the anticipation of change. In this context transnational framework agreements may be a useful tool. As large banks are also pursuing international HR and business strategies, there might be a growing number of companies interested in the establishment of transnational dialogue structures as a means of facilitating the introduction of international policies, for example, in the areas of diversity management, performance assessment and training.

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