

A resurrection of bank branches without workplace stability

A report prepared for UNI Finance



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Executive Summary

Banks in Australia and New Zealand reduced branch and staff numbers significantly during the 1990s and downgraded the role and status of bank branch managers. While financial deregulation, technological change, and increased competition contributed to this trend, the banks also misjudged the willingness of customers to accept a banking business model in which direct personal relationships were downplayed. Bank reputations suffered, as did the social standing of branch managers whose roles had been changed towards operational managers and sales leaders without the financial decision-making authority of previous years.

In the last few years, the Australian banks (which also dominate the New Zealand market) have retreated somewhat from this strategy. The merits of, and need for, a relationship approach to finance which is complemented by, rather than replaced by, an electronic transactions based approach, appear to be now well recognized. There are signs that branch numbers have stabilized, and more delegation of financial decision making authority to branch managers.

However, the internal labour markets in banks have been changed permanently by this experience. There is less job security and more opportunities for career progression by shifting to a different bank. There is greater emphasis on university qualifications, with internal training more focused on firm specific, rather than general financial, skills. Salary structures have changed accordingly. Employment opportunities have also been affected by ongoing changes in methods of delivering financial services, including outsourcing, contracting, consulting and franchising. While bank employment numbers have fallen, the number of individuals negotiating with banks over the provision of labour services through such arrangements looks likely to continue to increase. These changes create significant opportunities and challenges for labour unions.

Introduction

Since the early 1990s, banks in Australia and New Zealand have reduced employment and branch numbers substantially, even though the importance of banks, measured (for example) by bank assets relative to GDP has grown over that time. Bank profitability has also increased markedly since the early 1990s. These trends have had significant impacts upon customers and upon bank employees, and evoked substantial public interest and concern. Resulting government inquiriesⁱ have focused primarily upon reductions in access to banking services for rural communities, but the consequences for bank employees and career paths in banking have been equally profound.

The experience of the 1990s was associated with some dramatic changes affecting banking markets in Australia (and world-wide). These included financial deregulation, rapid technological and telecommunications advances, increased competition, structural changes in banking markets, and emerging demographic trends (and resulting customer financial services requirements). As will be discussed subsequently, these were among the factors contributing to the observed changes in bank business models and internal bank labour markets during the 1990s.

There is, however, some evidence (including public statements by some of the banks) that the downward trend in bank branches has declined in recent years and that the banks are

retreating from an approach which had initially downgraded the status, responsibilities and independence of branch managerial staff.

Banks also misjudged the willingness of customers to accept the new service delivery and business acquisition/ product selling models imposed upon them. News of apparently ever-increasing bank profitability had also helped contribute to a significant decline in the social reputation of banks (and their management) as did public recognition of strategies aimed at discouraging “non-premium” customers. Customer satisfaction ratings of the banks plummeted from between 70 to 80 percent to 60 per cent or below between mid 1997 and mid 2001.ⁱⁱ In contrast, outstanding stock market returns (in the order of 20% p.a. for the major banks between 1995 and 2005) reflected investment market approval of the changes in business models and resulting profitability.

Although some small recovery in the number and importance attached to branches may be underway, many of the changes which occurred in bank employment arrangements and conditions look to be substantially more permanent. Substantial redundancy programs led to the end of the perception of the bank as providing a “life-long” career. Technological change has led to demands for different employee skill sets and removed the need for (or enabled outsourcing of) many functions previously undertaken internally by bank employees. Hierarchical devolution of and allocation of responsibilities has altered in line with changes in product delivery models and perceived benefits of centralized information acquisition and decision making models.

The traditional perception that the branch manager had a comparative advantage in terms of information about customers and bank products, which led to significant delegation of, and emphasis on, financial decision making, suffered badly during the 1990s. Customer information can be centralized in data-bases for management and marketing purposes. Specialised, non-branch, personnel can be assigned to manage accounts of valued customers. Product specialists were viewed as better able to advise customers on the relative merits of the large range of complex products which began to emerge in the late 1980’s. Transfer pricing and activity based costing systems drive resource allocation and pricing decisions across the entire bank and identify activities and customers which create or destroy value for the bank. In this environment, the branch manager’s role was changed to involve a greater emphasis on operational management, and generation of new business opportunities from the customer base.

Whereas the branch manager might once have been thought of as running a “mini-bank” subject to some limitations on discretion imposed by head office, the role became more one of operational management and sales leader with some smaller level of delegated authority. Given the changes in product complexity, information management, costing and pricing ability, the merit in such changes in terms of direct impacts on profits, costs and risk taking are relatively clear.

However, the downside risks were substantial. One was the potential adverse effect on the human interface between customer and bank – which may have substantial indirect effects on attracting or retaining customer business and loyalty. A second was in the effect on incentives and engagement of branch staff, again with adverse implications for attracting and retaining customers.

It is finding the correct balance of those competing effects with which banks are currently engaged, and which will delineate the role of branch managers in the future. In that regard, the push of the 1990's to transfer customer loyalty from the individual branch to the bank is being reconsidered.

In the following section, a brief overview of developments in the structure of Australian and New Zealand banking markets is provided as background for the subsequent analysis. Then, statistical information is provided about the trends in employment and branching in Australian and New Zealand banking markets. That is followed by a review of the strategies followed by the major banks in terms of distribution/product delivery models. Implications for internal labour markets in banking are then considered, based partly on interviews with participants in, and observers of, this experience.

Australian and New Zealand Banking markets: a brief overview

The Australian banking market has long been dominated by the four "majors" (ANZ, CBA, NAB, Westpac) which at June 2005 had 73% of total banking sector assets. (Other authorized deposit taking institutions (ADI's) are credit unions and building societies with assets less than 3% those of banks). Foreign bank entry has been permitted since 1983 and this has increased the number of banks and made a small positive contribution to aggregate bank branch numbers, as also did the conversion to bank status of many regional building societies during the 1980s and early 1990s. Counteracting those effects, several medium sized state government owned banks made massive losses in the early 1990s and were taken over by major banks (leading to branch rationalizations). Many of the new regional banks were also subsequently involved in mergers or takeovers (amongst themselves or with the majors).

The size of the Australian banking sector has increased significantly since deregulation began at the turn of the 1980s. (Bank assets, as a ratio to GDP p.a., grew from 15% in 1980, to 61% in 1990, and were 147% at June 2005. Similarly the share of GDP attributed to finance and insurance grew from just over 5% at the start of the 1980s to almost 7% in 2005). In the 1980s this reflected excessive lending in the newly deregulated market, leading to a banking crisis at the start of the 1990s when two of the majors were in a parlous state due to significant losses. In the 1990s, bank balance sheets were strengthened through emphasis on cost reduction and (initially) increased fees and interest rate margins (reflecting the existence of products, such as housing lending, where banks still had a significant degree of market power), leading to high profit rates and accumulation (and raising) of capital.

While profit rates have remained high, several factors have led to a return of interest margins to more usual levels. Competition from the emergence and growth of mortgage originators (brokers) is one example, which is of particular relevance to the changed role of bank branches (with some banks sourcing over one-third of mortgages in this way). Also important has been the growth of competitive securities markets (including mortgage backed securities arising from activities of mortgage originators) responding to an enormous growth in funds under management as a result of the introduction of compulsory superannuation (pension) contributions in 1993. An increased emphasis on wealth management and need by customers for specialist advice (including complex tax and pension eligibility requirements) from financial advisers/planners, is also relevant to the changed role of branch managers.

Maintenance of high profit rates in banking in the face of lower interest margins reflects several factors. One is a greater emphasis on fee income, including from an explosion in the provision

of electronic payments services (again relevant to the role of branches). A second is the containment of costs, arising from reductions in labour costs from outsourcing and use of new technologies.

The New Zealand banking market has experienced similar developments to Australia, partly reflecting the fact that the market has become increasingly dominated by branches or subsidiaries of the major Australian banks. At the start of 2006 there were 16 registered banks, with the four largest (owned by the four Australian majors) holding around 85 per cent of total banking sector assets. Following deregulation in the 1980s, the Australian banks (who had been longstanding players in the NZ market) took over a number of local banks, and in December 2003 ANZ acquired one of the four largest banks, National Bank of New Zealand, from Lloyds TSB. Three small retail banks (TSB, Kiwibank (owned by NZ Post Ltd) and the Australian owned St George NZ (Superbank) operate in addition to foreign banks involved in wholesale markets.

As in Australia, net interest margins have declined (from around 3.5% in the early 1990s to around 2.5% in 2005), while operating costs have fallen from around 70% of income to below 50% over the same period. Although average bank profitability has declined from the peak of over 1.4% of assets in 2003, it remains relatively high at around 1.1% of assets in 2005.ⁱⁱⁱ

Branch and Employment Trends: What the Numbers Show

The evidence about declining branch numbers and employment in Australia is unequivocal. Figure 1 shows that bank branch numbers have declined substantially since the early 1990s. Prior to that time, the 1980s had involved some expansion in branch numbers, reflecting primarily the creation of new banks by conversions of building societies and entry of foreign banks. Nevertheless, there had been a generally steady downward trend in branches per capita since the early 1970s.^{iv}

Figure 1
Bank and other Authorised Deposit Taking Institutions (ADIs)
Branches, Australia: 1987 – 2005^a



(a) Prior to 1989, Banks operated separate Trading and Savings banks but typically with shared branch offices. Break in series at 2001 due to change in collection. Source: Reserve Bank of Australia

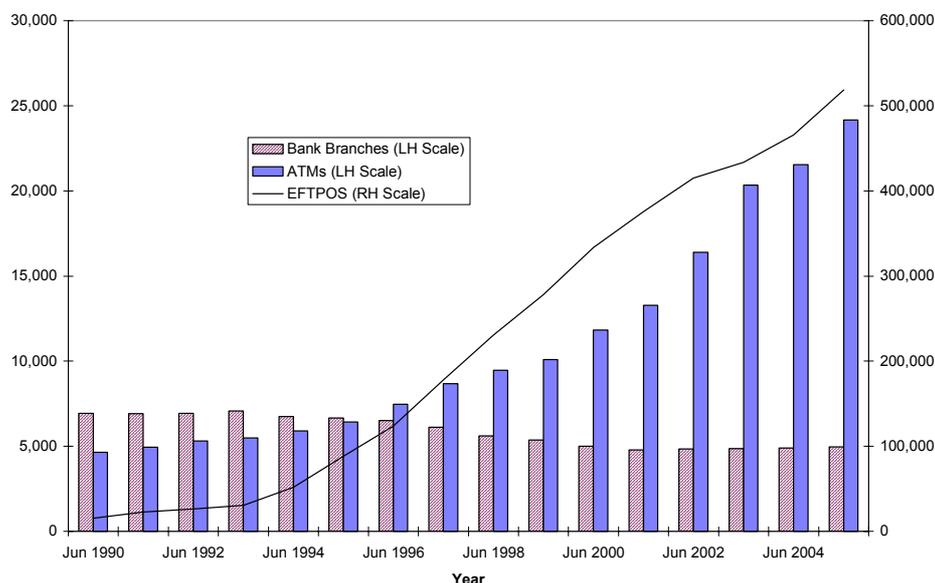
<http://www.rba.gov.au/Statistics/OP8ExcelFiles/3-7c.xls>

<http://www.rba.gov.au/Statistics/Bulletin/C07hist.xls>

One major development affecting the economic significance of bank branches has been the growth of alternative, electronic, methods of accessing payments since the early 1990s. ATMs and EFTPOS terminals have become all pervasive, as Figure 2 shows.

The experience since 2000 is of particular interest. As Table 1 shows, the decline in branch numbers of the four majors continued until 2004, but appears to have ceased (and in some cases branch numbers have increased slightly) since then. In contrast, Bendigo Bank (through its “community banking” model, to be discussed later) has had a very significant increase in branch numbers which has more than offset the decline in branches of other banks. Also noticeable is some increase in “non-branch” outlets (through agency arrangements etc) as banks have responded to widespread public criticism of the withdrawal of services associated with branch closures.

Figure 2
Points of Access to the Payments System Australia: 1990-2005



Source: <http://www.rba.gov.au/Statistics/Bulletin/C07hist.xls>

Table 1
Bank Branch Numbers since 2001

Bank	30/06/2001	30/06/2002	30/06/2003	30/06/2004	30/06/2005
ANZ	755	728	729	730	734
Bendigo	180	329	353	390	407
CBA	1053	1008	1004	1003	1006
NAB	896	841	793	787	786
St George	387	383	381	364	340
Westpac	806	820	820	816	814
All Banks					
Branches	4789	4843	4858	4888	4960
Face to Face Outlets	n.a.	n.a.	7873	7975	8225

Source: APRA: ADI Points of Presence (various issues)
<http://www.apra.gov.au/Statistics/Points-of-Presence.cfm>

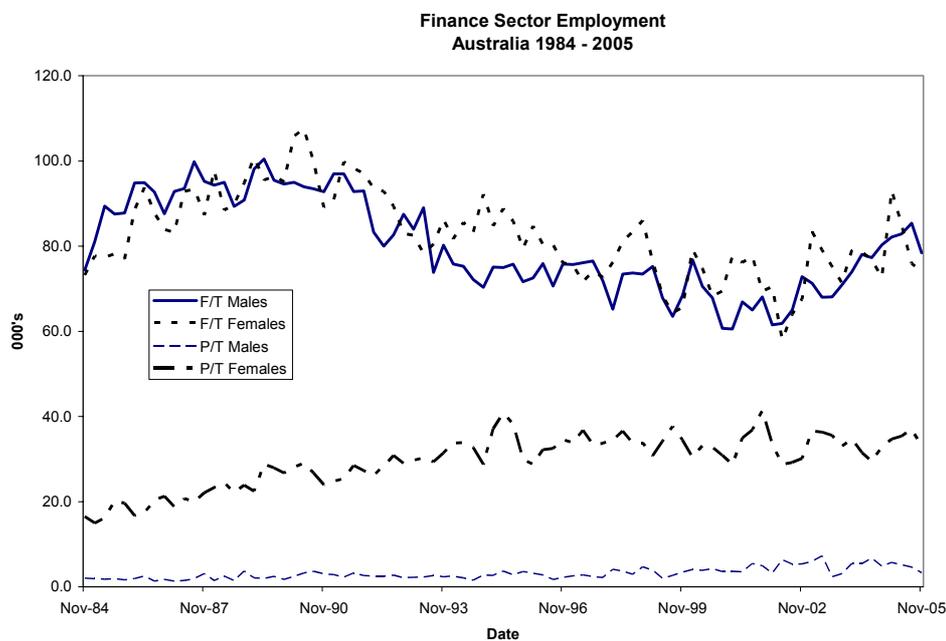
Similar trends can be found in New Zealand. Matthews reports that “the number of bank branches has fallen from 1510 in 1993 to 976 as at the end of 1998, and it is continuing to fall”.^v This decline continued until 2002 when there was a significant rise primarily “attributable to Kiwibank, which had established about 280 branches by the end of the year”.^{vi} Overall, between 1994 and 2004 branch numbers of the unionised major NZ banks (accounting for 70% of banking assets) fell by 50 per cent (from 1360 to 678). There now appears to be some stability in branch numbers with at least one bank publicizing a commitment to opening new

branches as a way of “responding to demand from customers to have better access to branches and to our staff”.^{vii}

Interpreting employment trends in Antipodean banking is complicated by an absence of good data. Data on full time equivalent employees for the four major banks is available from annual reports, but includes both local and international employees. Australian Bureau of Statistics data shows finance sector employment by sex and by full and part time division, but includes finance sector employees other than those of banks.

Figure 3 shows the aggregate employment data for the finance sector in Australia, from 1984 to 2005. Several trends are apparent. First is the reliance of the sector on part time female employees. Second is the decline in full time employment from the start of the 1990s until the recovery of the early 2000’s.

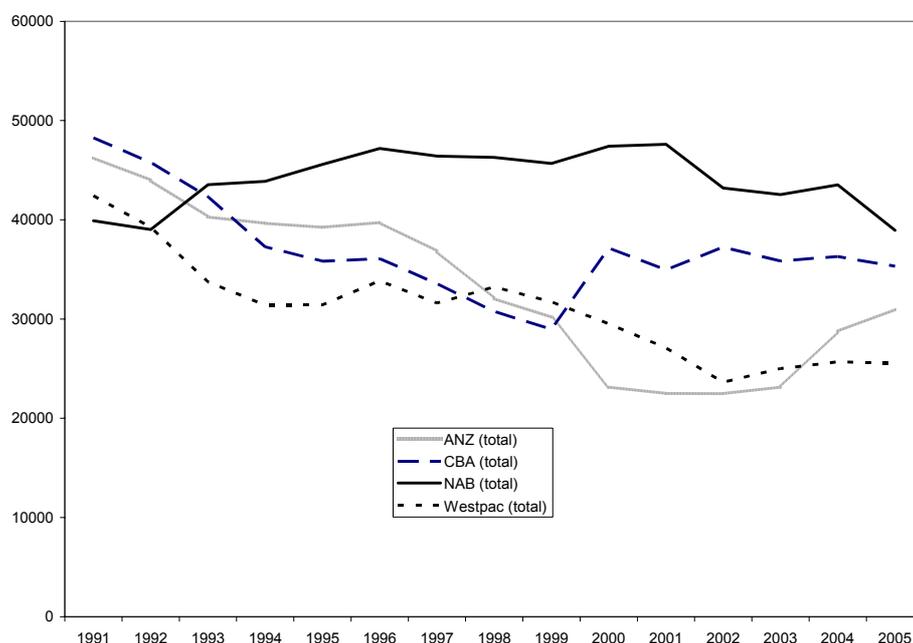
Figure 3
Finance Sector Employment



Source: ABS. 6291.0.55.001 Labour Force, Australia, Table 06.

Figure 4 shows full time equivalent employees of the major banks. These figures are consistent with the decline in finance sector employment in Australia during the 1990s once the effects of acquisitions and changes in overseas activities are taken into consideration.

Figure 4
Major Bank Employment Trends: 1991-2005



Source: Bank Annual Reports and KPMG Financial Institutions Performance survey.

The New Zealand experience is similar, with staff numbers in the unionized Major NZ banks falling by a third (from 27,708 to 18,667) between 1989 and 2004.

It is instructive to compare the Australian and New Zealand experience with that overseas. The Reserve Bank of Australia^{viii} noted that, in comparison with 12 developed countries, Australia ranked third in bank branches per inhabitant in both 1983 and 2004, (well behind Belgium and Switzerland). In terms of entry points to the payments system (which also reflects other savings institutions and post offices), Australia ranked fifth. Matthews^{ix} collected data for nine developed countries for 1998, and found that Australia and New Zealand ranked 4th and 5th respectively in bank branches per head (behind Belgium, Sweden, and Switzerland). Including branches of other savings institutions, New Zealand slipped to 8th (and Australia's rank increased marginally to 3rd) reflecting the dominance of banks in the New Zealand financial system relative to other savings institutions.

Among a group of 11 developed countries between 1995 and 1999, Australia moved from 7th to 1st in EFTPOS (electronic funds transfer – point of sale) outlets per inhabitant and from 8th to 7th in ATM/Cash dispensers per head.^x In particular, EFTPOS outlets per head increased from 4684 to 13,998 for Australia compared to a change in the average for the other countries from 5161 to 9509.

Again, reliable data is hard to come by, but the impression exists that branch numbers in other countries have also declined over time, but not to the same extent as in Australia and New Zealand.

Possible Explanations

What has been the cause of these developments, and how have they impacted upon banking culture and organizations?

There are several factors which contributed to the phenomenon of branch closures and bank employment declines experienced in Australia in the 1990s and through the early 2000's.

Some commentators have pointed to the effects of financial deregulation. Australia embarked on massive deregulation of banking in the early 1980s which led to increased competition – and a focus on cost cutting via labour shedding as one competitive response. During the regulated era (when interest rates and services were constrained, and the explicit interest cost of deposits was low), one of the competitive responses of banks had been to build up large branch networks (providing convenience services to customers in lieu of better interest rates) which were no longer rational in the deregulated environment. When regulated, 'banks competed for business through the provision of extra services such as extensive branch networks, rather than on price'.^{xi} In the 1980s, Australian banks invested heavily in costing systems (such as Activity Based Costing systems) which enabled them to identify major cost drivers and allocate costs throughout the bank, as a prerequisite for making profit increasing cost reductions.

Deregulation also played a role by allowing or inducing changes in the organizational structure of the banking industry. Lax credit standards in the 1980s led to significant problems in Australian banking at the start of the 1990s. Cost-cutting measures such as branch closures and redundancies were one response to the resulting problem of low profitability, and mergers involving several distressed State Government owned banks led to branch rationalizations and redundancies.

The overall effect of these bank mergers / takeovers was hidden for some years in the aggregate figures because of the conversion of a number of building societies into regional banks during the 1980s and early 1990s. Subsequent takeovers and mergers involving these regional banks led to further branch closures and redundancies.

Demographic change is also partly relevant. Over the past two decades there has been a significant shift in the geographic distribution of Australian population from rural towns to urban centres. Given the significant fixed costs associated with branches, profit maximizing banks would be expected to close unprofitable branches in areas of declining population and expand the size (but not necessarily the number) of branches in growing, densely populated, areas. And they did, but not without aggravating many local communities and their politicians, to the extent that several government inquiries were conducted into whether regional Australia had become "underbanked".^{xii}

Technological advance has also played a role, in two ways. One obvious effect has been the emergence of alternative delivery mechanisms for customer services. Payments services can be more cost effectively delivered by electronic means such as ATMs, EFTPOS, and Phone and Internet banking. Perhaps less obvious has been the development of automated techniques such as those for lending decisions. Improved information gathering and increased availability of information about customer characteristics (such as available through credit bureaus) have facilitated the development of automated loan approval techniques which may

have reduced the value of the intellectual capital and specialized customer knowledge of branch managers.

New technology has also assisted the development of new methods of attracting business, such as the advent of mortgage brokers, who have reduced the relevance of branches and branch managers as loan originators. While banks have, themselves, embraced the use of mortgage originators, a major factor driving the development of this sector was the dramatic increase in funds under management through the introduction of compulsory superannuation and demand for investment securities such as the mortgage backed securities using loans originated by mortgage originators. The ability of competitors to raise funds in wholesale markets (and more recently by electronic means in retail markets), eschewing the need for the costs of a branch network, has significantly diminished the benefits of a branch network as a fund (deposit) raising mechanism.

Perhaps, also, it was a time for a “changing of the guard” to a new breed of banker. Long-serving employees had much experience in a regulated banking system, had learnt on-the-job, but may not have had the technical expertise (derived for example from higher education) which was necessary for coping with a rapidly changing and increasingly sophisticated financial system. Changing customer needs, involving a greater focus on wealth management and financial planning advice, may also have reduced the ability of the bank manager to act as a financial adviser in an increasingly complex financial world. Competition and deregulation also meant that the long standing managerial role of rationing credit to customers who met criteria based on length of association and savings records was no longer relevant.

Also relevant in this regard has been the Australian government’s imposition of licensing requirements for financial advisers as part of its Financial Services Reform Act of 2001. This Act required banks and other financial service providers to ensure that all staff engaged in selling financial products (including deposits) were appropriately trained and certified. For older bank staff, with years of experience in providing financial services, the combination of an increased sales culture emphasis and requirement to be trained and certified as accredited “salespeople” may have contributed to decisions to look for alternative careers.

More generally, changes in technology have altered the most effective way of providing some of the economic functions which banking has traditionally performed. The new economics means that minimization of customer transactions costs associated with payments services and accessing depository and loan services is no longer best met by the bricks and mortar approach of the branch network. At the same time, availability of information to individuals about financial opportunities available to them (previously a “quasi-monopoly” of the local branch manager) has increased dramatically, as has the need for access to specialist advice about the risks and suitability of financial products given individual circumstances.

But there are some aspects of banking services, where the optimal delivery model still appears to involve personal interaction between a customer and an empowered bank representative who has the ability to appreciate the personal circumstances of the customer and authority to act appropriately in response. Misjudging that customer need, and the demoralization of “disenfranchised” staff, by implementing business models focused upon alternative payments/ transactions services delivery mechanisms, alternative fund raising mechanisms, and alternative credit approval mechanisms, was the common error of Australian banks in the 1990s.

Banking Strategies and Branch Networks

As noted above, the Australian Banks have struggled to come to grips with the appropriate business model to apply in a deregulated, competitive financial sector subject to ongoing and rapid technological change. As large organizations, spread across a wide range of activities, they have had to address questions such as: whether to have divisional structures based on geography versus product or based on customer type (retail, commercial, corporate etc.); what is the appropriate mix of centralized versus decentralized decision-making and delegations of authority; what are the best service delivery models for a wide range of customer requirements and needs?

If profitability is any guide, it would appear that the Australian banks have learnt some of the answers to these questions as a result of considerable experimentation with organizational structures over the past twenty years. Aided by management consulting firms, the major banks have undergone a large number of changes to organizational structures (divisional arrangements, reporting structures, etc.) since the start of the 1980s. Compounding the impression of constant change has been the changing attitudes of bank decision makers as to whether (and if so how) international expansion should be pursued in preference to a domestic market focus.

Tracking the changes in individual bank strategies and organizational structures over the past two decades, and the motives behind them is well beyond the scope of this paper.^{xiii} But they are clearly important for understanding the changing role of bank branches and branch managers in service delivery and bank hierarchical structures. And the changes which did occur had dramatic impacts for bank employees – both those directly affected at the time of change as well as future generations of bank employees entering a very different type of internal labour market.

An overview of how a “new style” of delivery channels was replacing the “old style”, is shown in table 2. The Australian banks are ultimately converging upon such a model, but not before taking some unsuitable detours, particularly in terms of decision making delegation. Kavanagh^{xiv} provided a brief overview of developments in Australian branch banking, noting the trend towards the branch being viewed as a “money shop” and the branch manager as a marketing manager. Some banks (ANZ in particular) moved in this direction earlier than others, reflecting earlier development of the centralized systems necessary for such a change.

Table 2
Changing Banking Delivery Models

"New Style"	"Old Style"
<ul style="list-style-type: none"> • Market-led organization emphasizing customer relationship management and branding skills 	<ul style="list-style-type: none"> • Emphasis on traditional "banking skills"
<ul style="list-style-type: none"> • Differential pricing based on value of the customer to the organization 	<ul style="list-style-type: none"> • Authority determined by grade and function
<ul style="list-style-type: none"> • Delegation of decision making to the "front-line" 	<ul style="list-style-type: none"> • Hierarchical and functionally based structures
<ul style="list-style-type: none"> • Flexible, team-based organizational structures 	<ul style="list-style-type: none"> • Multiple interfaces, several points of relationship management
<ul style="list-style-type: none"> • Multiple customer interfaces, single point of customer relationship management 	<ul style="list-style-type: none"> • Primary measurement and management by channel and/or product
<ul style="list-style-type: none"> • Primary profit measurement and management by customer and customer segment 	
<i>Source: KPMG Financial Institutions Performance Survey, 1997, p 22</i>	

Driving these changing styles of service delivery and organizational structure was the information technology revolution. Banks were able, once they migrated from old information systems and processes, to accumulate and analyze information about customers. This had both retrospective and prospective elements. Analysis of customer transactions, allied with information about bank cost drivers, enabled banks to assess the profitability of a relationship with that customer and adjust prices charged accordingly. Improved ability to compare a customer's use (or non-use) of bank products with that of a peer group provided enhanced opportunities for marketing other products to that customer. Centralization of information processing meant that a reorientation of branch activities away from data processing to customer sales and service could be undertaken. Automation of credit approvals, made possible by new technologies and credit assessment software tools, has also had the lasting effect of reducing decision making autonomy required at branch manager level, with consequent implications for salary levels offered.

Also driving these changes were perceived changes in customer preferences and demands. Technology had opened up the possibility of alternative electronic delivery channels, and banks were aggressive in pricing electronic versus traditional transactions to encourage take up of the new methods and to attract profitable customers. Deregulation and competition meant that customers could "cherry-pick" subsidized services and, with alternative sources of finance and services available, had a much improved bargaining position relative to the previously all-powerful branch manager who rationed credit at a centrally determined price to "loyal" customers. In such an environment, an organizational structure in which some-one had an overall view of the customer's worth to the bank, was delegated some authority to negotiate with the customer, but was subject to performance appraisal against that delegated authority was clearly necessary. Banks introduced specialist credit managers, as well as personal and business bankers in an attempt to achieve this outcome, but in a method emphasizing electronic communications perhaps better termed as providing an "impersonal" banker. Customers used to being able to get answers from visit to a branch felt increasingly alienated

from the entity. Rather than loyalty switching from the branch to the bank more generally, the outcome was a decline in customer satisfaction.

Notably, however, declining satisfaction appears to have had relatively small effect in terms of customer's switching banks, partly because the transactional and administrative costs of switching are high and a perception at the time that no banks were customer friendly. As one major bank noted, "People don't like banks. This is an unarguable fact."^{xv}

There were several strategic shifts in service delivery methods undertaken by Australian banks throughout this period. The dawning recognition that the strategy pursued in the 1990s of branch reductions and "de-skilling" of branch staff was counterproductive is easy to observe in Annual Report discussion, particularly for several of the banks. The banks had come to the correct view that routine transactions and services (payments, fund raising, credit management) could be undertaken outside of branches and without the involvement of a recognizable and trusted human face, but incorrectly assumed that a "relationship" was not a fundamental characteristic of a successful full service bank model. (This increase in emphasis on transactional rather than relationship banking also occurred in dealings with their corporate and institutional clients). The concurrence of interests of bank staff and customers inherent in a "relationship" model (community unionism) formed the basis of the Finance Sector Union's campaign against branch closures over this period.^{xvi}

It would be seriously deficient to conclude this discussion without some reference to the case of Bendigo Bank which has followed an innovative strategy directly contrary to that of the major banks. Bendigo Bank was a regional building society which converted to bank status in 1995. Perhaps more attuned to community needs than its monolithic competitors, it embarked on an ambitious strategy to tap community anti-bank feelings and financial capital to build a branch network initially covering areas where the major banks had closed branches.^{xvii}

This strategy involved the creation of "community banks" operating as a franchise operation with management and financing of the physical capital for the franchise undertaken by a group (typically 200-300) of local investor-shareholders in the franchise. Bendigo Bank products are sold by the community bank (which has its own distinguishing name) acting as a branch of Bendigo Bank which provides product prices and branch management services. Limits on the distribution of profits from the community bank to shareholders versus support of community activities are incorporated in the bank's charter.

The strategy has been outstandingly successful. Within five years, over 170 community bank branches have been established. Demand for, and creation of, community banks has also occurred in urban communities where other banks are well located. While some other banks have experimented with alternative organisational structures involving franchising, none have yet progressed far down this route (which involves significant implications for employee relations and control over branding and service delivery quality).

The implication of the Bendigo Bank experience is that the major banks overestimated the willingness of customers to accept the depersonalisation of banking which initially underpinned their strategies. As discussed above, those strategies have subsequently evolved. Branch numbers have tended to stabilise, but with a different type of branch – and with significant implications for bank employees operating therein.

Bank Managers and Internal Labour Markets

The changes outlined above have had far reaching implications for bank employees.

The Branch Manager was once regarded as a 'pillar of the community' as a provider of advice, a confidant, a conservative guardian of funds. More recently the comparison made is often with real estate agents and used car salespeople, reflecting a changed role emphasising sales and business development, and declining trust in the quality and unbiasedness of advice.

Surveys confirm the trend (if not the extent of the decline) in public opinion. In 1985, bank managers ranked third (just behind doctors and dentists) amongst 28 professions in a survey of public perceptions of ethics and honesty, with 58 per cent of respondents giving them a rating of "very high" or "high".^{xviii} By 1995, the rating of bank managers had slumped to 39 per cent, and a ranking of 10th, (while ratings of other professions were generally improving). In 2005, the rating had dipped further to 35 per cent, similar to lawyers and public opinion pollsters (by whom, incidentally, this data is gathered), but far above the public perceptions of ethics and honesty of real estate agents and car salespeople.

The career path has changed. Banks used to offer a job for life, many older bankers had entered branch banking directly from high school and careers were 'managed' by the bank. This no longer happens. Expectations of a one-employer career with progression through the ranks have disappeared. Career development became increasingly self driven during the 1990s, and banks moved towards more appointments at senior levels being based on qualifications and experience gained outside the bank. The aspirations "model" illustrated by several recent bank CEO's of a lifetime's work within the one bank commencing at teller level and progressing through the managerial ranks to the top job, seems unlikely to be replicated. Indeed, experience outside the bank seems to becoming a pre-requisite for executive level positions, and thus indirectly encouraging mobility of ambitious employees. The "traditional model of company security, vertical career paths, promotional layers and associated rewards has given way to the new order of business. Today's Financial Service organisations are flatter, have varied career paths and do not offer assumptions as to career progression, security and subsequent rewards".^{xix}

At the same time, banks are investing large sums in skills training and instillation of a "unique" culture in employees – recognizing that the major differentiating feature between banks is not products, but the quality and organisational loyalty of staff and consequent customer service and satisfaction and public image. Behind that observation is recognition that in a competitive financial system, product innovation provides at best "first mover" advantages due to the speed of imitation. And sustainable differences in pricing are hard to achieve when all competitors have access to the same technology and can copy successful innovations in organizational arrangements.

Major training and development programs with suggestive labels such as "Breakout" and "Breakthrough" are common and aim to both empower bank staff to manage their own careers and develop leadership skills and instil organizational loyalty. The challenge of having internal bank labour markets in which outsiders are viewed highly as candidates for senior positions, and encouraging organizational loyalty is one with which banks continue to struggle.

There is, indeed, something of a tension in the current structure of bank training programs and labour markets. Traditionally, banks provided primarily general (transportable) industry wide

skills training to employees who anticipated life-long careers with the one employer. Currently, the emphasis is on firm specific (non-transportable) skills to employees who have more mobility and less job security.

One consequence of these changes has been in terms of salary structures. Under the “old style” banking provided security of employment but paid less than comparable positions in other industries. Salaries were based on age, seniority and responsibility.

Changes in remuneration policies may have occurred anyway given the deregulation of the Australian labour market over the last two decades. And the ability of old style salary structures to survive was unlikely given the increasing opportunities elsewhere in a deregulated finance sector for qualified, knowledgeable staff.

During the 1990s banks increasingly made salaries performance related – although finding the optimal performance measures has been a challenge. At the branch level, performance against sales targets has the potential to create a disjunction between staff incentives and customer needs. In specialist roles, where the effects of decisions may take several years to become apparent, performance is particularly hard to judge. The banks have increasingly resorted to performance measures such as economic value added applied throughout the bank, although the ability of such measures to deal with the “long tail” nature of decision outcomes remains problematic. Also important has been the encouragement for employees to participate in employee share schemes to align their incentives with long term bank performance.

A lasting effect of the changes in the 1990s is that bank employees need different skill sets to be more competitive in internal bank labour markets. University qualifications (and more) are needed to progress beyond a branch manager role, and more emphasis is being placed on recruitment of graduates. Specialist ‘customer relationship’ and decision making roles now have salaries competitive with other industries involving part fixed salary and part performance bonuses.

Although banking has long been a significant employer of females, this employment has been concentrated in part-time, clerical, back-room and customer-service roles. The industry has been characterised as more conservative than the rest of society in rectifying gender imbalances in employment outcomes. There still remains minimal representation of women among senior management and executives. Most branch staff are now women.

The change in the branch manager role to one (perhaps described as an office administrator) with a focus on “operational” rather than “financial” management (credit approval, financial advice, customer relationship), has had cosmetic effects on female representation in the managerial ranks. With the “deskilling” of the branch manager role in the 1990s there has been an increase in women in that role, but as noted it became a more a supervisory / leadership role rather than a financial management role.

Looking forward, banks face further challenges in redefining the role of branches and branch managers. There has been a recognition that some devolution of authority to those interacting with customers at a personal level is necessary to create a differentiated banking product. Modern information systems may provide the raw data for marketing programs, but marketing of financial products is to some degree relationship based, where customers need to trust and respect the advice of the counterparty with which they deal. Branch managers are, to some extent, being “re-empowered” by Australian banks, but in a performance based environment rather than the “command and control” structure of the “old style” banking.

The following quotes from the Annual Reports of some major Australian banks provide perhaps as good a perspective as any on the change which has occurred.

“Each suburban branch is now essentially a customer service centre... lending, administrative and accounting functions have been centralised...application of strict time management principles to branch staffing” (ANZ Annual Report, 1992)

“Recent developments in technology have made extensive processing at branches unnecessary and inefficient. It is better for branch staff to focus exclusively on customer service and sales....The introduction of new processing arrangements, necessary to preserve the Bank's long-term competitiveness, involves a significant reduction in staff.” (CBA Annual report, 1993)

“A critical analysis ...resulted in branch closures where the provision of services was either uneconomic or unnecessarily duplicated.... A deliberate strategy to focus all managers in Westpac on their accountability to manage people has been initiated” (Westpac Annual Report, 1993)

“Achieving the goals of the new agenda [customer advocacy of bank to friends] will see a fundamental shift in power from head office and support areas to the branches. It also means the creation of a new kind of branch with new motivations, new mindsets and new approaches.” (ANZ Annual Report, 2001)

“... an organisation review to reinforce managerial authorities, reduce unnecessary layers of control, and delegate the authorities required for more responsive customer service” (CBA Annual Report 2002)

“...the branch is well and truly backwe have reinstated the power of the branch manager and will be treating them again like a franchise owner” (Westpac Annual Report, 2002)

Such new approaches to delivery of financial services extend well beyond the banks, and have some far reaching implications for the structure of employment relations and finance sector unions. As shown in Figures 3 and 4, finance sector employment has increased in recent years while bank employee numbers have declined. The disparity would be even more pronounced once outsourcing (to other industries and countries) of functions previously undertaken within banks is included.

Growth of new delivery and contracting arrangements, such as franchising, consultancies, external contractors, have led to a decline in the relative importance of wage and salary employees in the finance sector, which appears set to continue. Such contractors face some of the same problems as traditional employees in negotiating contract terms with large organisations such as banks which have substantially greater economic power. Their growing importance and collective need for advisory and advocate services in dealing with large financial sector institutions creates new opportunities and challenges for the future development of labour unions.

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END NOTES

ⁱ SCEFPA (1999), PJCCFS(2004)

ⁱⁱ Moullakis (2006)

ⁱⁱⁱ RBNZ (2005)

^{iv} RBA (1996)

^v Matthews (2000, p3)

^{vi} Rodgers (2003, p5-6)

^{vii} ANZ (2004)

^{viii} RBA (1996)

^{ix} Matthews (2000)

^x PJCCFS (2004, table 11.2)

^{xi} Kent and Debelle (1999, p11)

^{xii} SCEFPA (1999), PJCCFS (2004)

^{xiii} See O'Connell (1999) for a review of the 1990's experience and Sikora (2001) for an analysis of bank strategy changes at the end of that decade.

^{xiv} Kavanagh (1994)

^{xv} Westpac Annual Report (2001)

^{xvi} See Cutcher (2004)

^{xvii} Thomson and Abbott (2000) provide an overview

^{xviii} Roy Morgan Research reported in Kazi (2006)

^{xix} Waite (1997)