Conclusions of the European Bank Social Partners' project on:

The impact of banking regulation on employment: Analysing best practice at European, national and company level and developing joint approaches through European Social Dialogue

(VS/2019/0005)

Preamble

Since 2007, many national and European regulations and a general trend towards austerity have impacted the banking sector across the EU28.

The European Social Partners (UNI Europa Finance, EBF-BCESA, ESBG and EACB) therefore intended to analyse the positive and negative Impacts of Regulation on Employment in the European Banking Industry in a two-phase project.

The first project (2017-2018) consisted of an initial mapping of the employment situation as well as the regulatory status quo in Europe's banking sector since the start of the 2008 financial crisis. The main findings of this first phase were that the financial crisis, the growth of digitalisation, market changes, and a continuously increasing and complex EU regulatory regime have all created new trends in banking sector employment.

The key aim for the follow-up project (phase II – 2019-2020) was to further evaluate whether increasing regulation has led to positive or negative developments for Europe's banking sector and its workers.

Another aim was to exchange and collect good European, national and company/group practices on how banks and their workers deal with the impact of regulation and to develop and present a joint European Social Partner approach on how to commonly benefit from regulation whilst mitigating any possible negative impacts, ensuring a sustainable European banking sector.

Furthermore, although not initially envisaged for obvious reasons, it is impossible to neglect the exceptional circumstances that have characterised recent months due to the spread of the Covid-19 pandemic. Also, in these challenging circumstances, the European Social Partners recognise the importance of speaking with one voice and have signed on 30 March 2020 the "Joint Statement on the COVID-19 Emergency Crisis". The objective is to preserve the safety and well-being of employees and ensure the continued provision of essential banking services.

Employers' and employees' representatives are fully committed to engage in the best way possible with regulatory requirements, whilst taking into consideration and, where possible, mitigating their negative impact on various employment-related aspects.

Part 1: General Recommendations concerning Banking Regulation

European regulators should put in place strong regulatory foresight and an impact assessment prior to the introduction of new regulations. Exchange of experiences and best practices between organisations and associations on how to effectively implement regulation can help to facilitate compliance with new standards.

The Social Partners would welcome that regulators, as a matter of principle, allow them to provide input on future regulation (both in the drafting and implementing phases) in order to

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mitigate adverse work-place related impacts. On that basis, a stronger coordination between different authorities involved in the banking sector regulatory process should be in place. This coordination could encompass a number of different aspects of the regulatory requirements which may include the time of intervention, the presence of established standards and adequate impact assessment, taking into consideration the ongoing introduction of digitalised processes.

The Social Partners regard social dialogue as a primary testing area for regulatory proposals, where their involvement can add value by making regulation fit for purpose before being proposed.

The signatories to this declaration explicitly welcome and appreciate the possibility to work together with the EU regulators and other legislative bodies to achieve the best possible regulation to foster the economic development of the EU, the security of banks and investments, of workplaces, working conditions and employment, and to alleviate the possible negative consequences resulting from the implementation of new rules.

Therefore, we, as Social Partners, continue to welcome cooperation with EU institutions concerning future regulation and the impact it might have on employment.

Part 2: Key findings and Social Partners' policy recommendations

Following the 2008 financial crisis, the EU has issued numerous new regulations and directives to improve risk management practices among financial institutions and to protect the investments of consumers and investors. To analyse the impact of banking regulation and supervision on employment in the banking industry, qualitative interviews were carried out by the chosen experts of this Phase II project in 8 European countries (France, Germany, Italy, Malta, the Netherlands, Romania, Spain, Sweden) with representatives of the banking industry on the employer and trade union sides. In addition, two workshops were held in Romania and Malta.

The results showed that since 2008, companies' cost-cutting led to significant job losses and changes to employment figures. Reasons were tightening of the economic environment and of banking regulation, digitalisation, the entry of new competitors and concentration of banks. At the same time, according to the study, regulation itself had effects on employment: it led to an increase in personnel in compliance but mainly to a decrease in commercial functions. A change in business models and job profiles, decided by companies and other drivers of change, also negatively affected employment levels. In two Member States the research demonstrated a different situation with an increase in employment due to national specific characteristics.

1. The direct and indirect impact of regulation on employment

The results show both a direct and indirect impact of regulation on employment. EU regulation has had, in particular, a direct impact on new positions in compliance, data protection and IT departments. The main area where regulation has had an indirect impact is on the downsizing of (mainly) commercial functions as a result of increased regulatory capital requirements, leading to pressure on profitability and, indirectly, on jobs and collective bargaining agreements. The Social Partners also see an increase in workload due to reporting requirements (more work with fewer employees) and the need for specific IT and consulting support.

2. The impact of regulation on changes to job profiles (incl. compliance)

The Social Partners agree that key consequences of regulation on employment are changes to job profiles. There was a significant decrease of jobs in retail banking, administration, lending (e.g. jobs related to non-performing loans-NPL) and management.

IT is necessary but personnel is often outsourced. Downsizing also takes place due to digitalisation, closure of branches and changing consumer habits. The introduction of digitalised systems and processes demands major transformations of work organisation. One challenge is finding working methods that combine the expertise with creativity, social interaction and flexibility. New forms of work are needed, including flexible working hours and teleworking. They can be in the common interest of both employers and employees. Various aspects have already been highlighted in the Joint Declaration signed by both parties in November 2018.

There was a significant increase in staff in compliance and supervision and related areas such as controlling, legal, risk, IT (where not outsourced) and HR. Regulation changed the content of tasks, due to an increase in documentation requirements, as well as the focus of trainings and created the need for certain skills' certificates and accreditation requirements as outlined by Financial Services Authorities and Institutions, with employees needing to be able to cope with increased bank transparency and accountability requests.

3. The impact of regulation on costs

Regulations have increased the costs (including compliance costs, capital requirements, etc.) of doing business, rendering banks less competitive, especially in comparison with U.S. banks. Higher regulation and compliance costs have created a downward pressure on earnings, indirectly leading banks to achieve cost reductions mostly through downsizing. Resulting disadvantages are varied but were generally more significant for smaller compared to larger businesses. Additional compliance costs derive from the risk monitoring practices mandated by law. The Principle of Proportionality, looking at a bank's size, risks, business model and complexity, should be taken into account here. Without hampering the level playing field, the implementation of regulations should avoid imposing overly complex rules or creating a disproportionate administrative burden.

Following the 2008 financial crisis, it was imperative for stricter regulatory and supervisory rules to be introduced. To ensure their correct and effective implementation, employees need to be trained and possibly re-skilled in these new rules and highly specialised staff is especially needed in legal and IT departments. These necessary additional costs can be significant for certain institutions[1].

As a result, the European Social Partners, while acknowledging the relevance and the purpose of EU banking sector regulations, support and encourage a comprehensive pre-regulatory assessment of the different types of costs (both financial and societal) that may result from banks' implementation of regulations. This includes providing enough time needed to implement and operationalise new regulation so that resources can be allocated in the best way possible for the good of the bank, its employees and society as a whole.

4. The impact of regulation on banking models and other structural changes

The Social Partners of the banking industry assess that business models have changed rapidly since 2008. PSD (Payment Services Directive) II opened the sector for third parties (FinTechs, BigTechs) and unregulated banking (shadow banks). This caused an evolution of banking models, especially in the payment business, with an increased presence of FinTechs.

[1] See European Bank Social Partners' joint declaration of 7 May 2020 on "Employment Aspects Of Providing Financial Services Including Guidance"

As jointly indicated by the Social Partners in their Joint Declarations on Telework and Digitalisation, IT takes over technical and operational tasks, with the potential to further decrease staff numbers. The “universal banking model” compensated the impact of the financial crisis in some Member States. Regulation made high risk banking unattractive, affecting the competitiveness of banks. There was a massive decrease in bank branches not only due to regulatory requirements but also driven by digitalisation, consolidation, mergers & acquisitions and increased costs. Regulation-driven profitability problems and disadvantages of European banks compared to those in the United States lead to a renewed strategic approach and structural changes including those of the banking model itself.

Whilst bank business models should be taken into account in the development of new regulation, these models should also be adapted, where necessary.

5. The impact of regulation on a level playing field

The European Social Partners of the banking industry point out that there is an uneven playing field, as a result of competition from shadow banks, FinTechs and BigTechs such as Google and Apple, which are not subject to the same rules and regulations as traditional banks. These companies do not face the same regulation/compliance costs as traditional European banks do. For employers providing high quality and well-paid jobs in a European social model and for employees performing those tasks, it is key that EU banks remain globally competitive. The Social Partners would like to recall that the European banking sector - from January 2021 - will have an additional competitor very close by with the potential to increase already existing adverse effects.

6. The impact of regulation on a future world of work

Regulation such as PSD II has helped to foster an increase of FinTechs and accelerated the digitalisation of the banking industry, e.g. by verification tools, automation, information exchange, data protection, among others. This will shape the future world of work in addition to regulation.

The Social Partners highlight that increased cost pressure should not be the main driver for introducing more agile working and desk sharing. Changes in the future world of work are also driven by other factors such as digitalisation, new technologies and globalisation. Digitalisation can be accelerated by regulation but is also a separate trigger.

As digital technology is reaching higher degrees of maturity, the Social Partners recognise that digitalisation – by way of social dialogue (amongst others, collective agreements) – can be helpful to boost productivity, improve customer service and support a better work-life balance[2].

In the view of the Social Partners, regulation should work as a facilitator and not as an obstacle for strategies that will enable employers and employees to make the best use of what modern technologies offer in this respect, providing new opportunities in the process.

7. The impact of regulation on changes to sales practices and customer relation requirements

Regulation - including compliance - caused a multiplication of processes and formalisation as well as an increase in documentation, which makes the provision of financial services more complex while at the same time limiting employees’ possibilities to honour more than regulatorily-accepted factors in their decision making. Consequently, regulation has changed

[2] See European Bank Social Partners’ joint declaration of 30 November 2018 on “The Impact of Digitalisation on Employment”

job profiles and increased digital interaction with customers. The Social Partners' Joint Declaration of May 2020 on the Employment Aspects of Providing Financial Services including Guidance focuses on further aspects of those and other factors significantly impacting the client/employee interface.

The Social Partners are well aware that the European finance sector plays an important role in the national, European and global economy, going much further than merely the stability of financial institutions. The sector is responsible for ensuring stable markets, supporting job creation and stimulating local growth and development. Thus, one of the main functions of financial institutions and its employees is to provide reliable and sustainable financial services including guidance, to support long-term social and economic development for the benefit of our societies.

8. The impact of regulation on workload and work-related stress

The social partners assess that regulation and the reduction in staff numbers have increased the workload in nearly all areas, e.g. in administration, documentation, testing, training, organising business practices, implementing regulations, controls and processes, risk and technologies, know your customer ("KYC") etc. Reductions in staff numbers have the effect of increasing the pressure on the remaining employees.

Digitalisation, on the one hand, reduces the workload but on the other, also generates extra work. Work-related stress is triggered by the complexity and lack of clarity of regulations, the fear of violating rules that could result in sanctions, in combination with increased pressure from customers and a loss of autonomy.

It remains necessary to assess burden on an individual basis in order to clarify whether negative stress results or not. While stress has been highlighted as a possible collateral effect of the increased regulatory burden, there are many other factors at play[3].

Social Partners firmly believe in mitigating the stress caused by regulation through a proper pace of implementation and adaptation and therefore encourage the EU regulators to ensure realistic deadlines for the implementation of regulations.

The Social Partners discourage situations in which a burdensome amount of regulation has to be implemented in a short period of time, without sufficient time to adapt.

9. The impact of regulation on competence needs and amount of trainings

The Social Partners' framework of continuous learning, which allows employees to keep up with innovation and changes in the sector, was laid out in the 2003 bank social partners declaration on Lifelong Learning in the Banking Sector (updated in 2015).

Increased competences are required, especially for employees working in the area of compliance, but also the in the areas of advisory, securities and risk, IT and behavioural science. Target groups are all levels of employees from upper management, 2nd and 3rd line to client-facing employees. Training in compliance issues and all other areas of regulation has increased significantly. Cooperation between the Social Partners, regulators and the educational and professional development system is vital to maintain a high level of skills, competences and innovation in the sector while implementing regulation in the best possible way.

Social Partners call on regulators to keep in mind that adequate training is the key factor for regulation to be effective and also that adequate training not only takes time and costs money but that regulators should provide support by allowing adequate time to do so before regulation

[3] See European Bank Social Partners' joint declaration of 7 May 2020 on "Employment Aspects Of Providing Financial Services Including Guidance"

takes effect. Required certifications are important and must be constantly renewed. The Social Partners therefore encourage a relevant allocation of time per year to ensure necessary training.

Employers support and continue to provide access to employee training, as competence needs arise from the regulation. Lifelong learning also has to be tailored to the respective competences of the digitalisation process.

Part 3: Next steps

On this basis, the European Social Partners in the Banking sector are committed to working together with the European Commission and all other relevant actors to achieve the common goal of supporting the European economy and maintaining its competitiveness on a global level. Social dialogue, joint declarations and projects are crucial testimony of the quality of the Social Partner relations in the banking sector and show their commitment to working on solutions together with the EU institutions.

The European Social Partners will continue to monitor and assess, through surveys, questionnaires and other means, the impact of regulation on employment in the banking sector, identify new trends and best practices to mitigate any negative impact and address any opportunities and challenges that may arise.

The Social Partners call for a better system of regulation that secures the high standards of the European banking model for the benefit of employers, employees and society.