Finance - Banking 2020

Industry Developments and Workforce Issues

Industry Overview.[1,2] The national labour market outlook[3] estimates a negative employment growth of 1.1% in the Finance Sector over the five years to 2024. Most affected is the Depository Financial Intermediation sub-sector which is set to decrease from 163,800 to 161,400 employees. Particularly affected will be bank workers due to bank closures and a shift to online channels, projected to decrease by 5.7% from 51,400 to 48,500 employees. Growth of 5.5%, 4.5% and 1.7% is anticipated in Central Banking, Non-depository Financing, and Financial Asset Investing respectively which employ smaller numbers of people. Collectively across these sub-sectors employment numbers are projected to increase from 12,200 to 12,500 over that time.

Most recent ABS figures for Western Australia[4] indicate that as of May 2020, the Finance Sector employed 9,500 with Depository Financial Intermediation employing 8,100 and Financial Asset Investing employing 1,500 people. A comparison of employment figures at the same time last year show a 17% reduction in employment in the Finance Sector. Aligned to the national trend, Depository Financial Intermediation was the most affected with a decrease of 2,400 workers (23%). Employment in Financial Asset Investing, on the other hand, grew by 328% from 300 to 1,500 people. Compared to the previous February 2020 quarter employment in this subsector grew by 102%.

Regulatory Changes and Compliance. The ongoing review of financial institutions continue to transform the Australian financial sector. The recommendations which followed the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry are driving sweeping changes to operating models in the financial services market. They are reshaping the financial advice, life insurance and superannuation sectors, and the distribution model for retail credit.

Recommendations to cease cross-selling of products and services will significantly change insurance, superannuation, and banking sales/distributions models. These will see product manufacturers and their distribution agents redesigning distribution arrangements. Companies will operate under a new regime intended to increase the transparency and accountability of financial entities in these industries and improve risk culture and governance.[5,6,7,8] In light of this, the Australian Securities and Investments Commission (ASIC) ASIC is set to reassess renumeration structures, governance and compliance

[1] Industry advice provided to the Financial, Administrative and Professional Services Training Council, 2020
[2] These figures do not take into account any impact caused by COVID-19. It reflects data collected prior to the effects of the pandemic which is having a substantial negative impact on the current labour market..
[3] Australian Government, Department of Jobs and Small Business, Labour Market Information Portal, Employment Projections, *2019 Industry Projections – five years to May 2024*.
[4] Australian Bureau of Statistics, Labour Force Australia Detailed Quarterly, *Data Cube EQ06 Employed persons by industry group of main job (ANZSIC), Sex, State and Territory*, May 2020.
[5] Insurance News, *MPs set April date for insurance scrutiny*, 10 February 2020.
[6] Clyde & Co, *Insurers operating in Australia can expect another layer of consumer protection*, 3 January 2020.
[7] Australian Securities and Investments Commission, *Corporate Governance Taskforce: Director and officer oversight of non-financial risk report*, October 2019.
[8] Mondaq, Australia, Corporate/Commercial Law, *Australia: Boards of Australian Insurance Companies To Come Under Closer Scrutiny*, 19 December 2019.

obligations in 2022.[9] Although currently delayed by COVID-19, the Federal Government has committed to address all Royal Commission recommendations requiring legislation by the end of 2020.[10]

The issues exposed through the Banking Royal Commission are unravelling the banking industry. Reports and lawsuits of Tier 1 banks (such as Westpac and NAB) continue to expose unethical practices. PwC's recent report on banking,[11] profiles the ripple effect of the Commission and the strains being experienced by Australia's major banks. This includes loss of earnings, the cost of remediation and business transformation. The challenges facing major bank performance in Australia include: competition; changing societal expectations on conduct and risk; the challenge of addressing them in a cost-effective way; and constraints on future growth (especially in the critical market for housing loans).[12]

FASEA Update. FASEA is responsible for setting the education and training standards for financial advisers and financial planners.[13] Recent changes to the educational and test requirements for financial advisers affect individuals authorised to provide personal advice to retail clients in relation to complex Tier 1 products. The new Education Standard mandates attainment of tertiary qualifications as detailed in FASEA's approved degree list.[14] This affects financial planning (superannuation, retirement, insurance and estate planning); investments (shares, derivatives, foreign exchange, options); banking; and economics. This also impacts people providing Tier 1 product advice in accounting and the legal profession (taxation, finance, business, estate). The Australian Securities and Investments Commission (ASIC) is yet to determine changes to regulatory guidelines impacted by FASEA's educational requirements.[15]

While FASEA do not recognise VET pathways for Tier 1 financial advice, vocational pathways still exist for people working in support roles who provide basic Tier 2 product advice. The requirements do not apply to individuals who provide general advice or personal advice to retail clients about less complex Tier 2 products (basic banking products, general insurance). AISC's Regulatory Guide 146 will continue to apply to Tier 2 advice. As such, changes to the educational requirements for financial planners will not affect credit licensees, including finance and mortgage brokers. Other vocational qualifications unaffected by FASEA's requirement are the Certificate IV in Finance Practice Support and Certificate IV in Financial Services. These align more closely to supporting roles in the finance sector and general advice at Tier 2 level. Likewise, FASEA's requirements do not affect the Diploma and Advanced Diploma of Accounting due to the breadth of employment outcomes and available pathways for graduates.

Financial Advisers Continue to Exit Industry. The last 12 months has seen an exodus of thousands of financial advisers from industry and this is expected to worsen in 2020. This is likely to have a flow-on effect to support staff in the sector. A recent Adviser Rating report estimated over 4,300 advisers had left the industry in 2019, bringing numbers to their lowest since 2015.[16] Articles reporting ASIC's activity and the ultimate prosecutions of non-compliant financial advisers (leading to a freezing of assets and exits from industry) have increased over the last year.[17] Others are choosing to leave the advisory space and opt for early retirement. For some this may be due to the risk associated with poor quality practices, however, many educated and highly experienced financial advisers who do not hold the approved degree(s) find the RPL arrangements limited and unappealing, and are unwilling or unable to allocate the time and cost associated with the required further study to meet FASEA's requirements, regardless of transition duration (currently 1 January 2024, with additional extension periods pending Senate vote.[18] If passed, it will see the transitional time frame for the approved degree or equivalent qualification

[9] Insurance Business Australia, *Royal Commission fallout: general insurance brokers can't rest on their laurels*, 6 February 2019.
[10] Financial Review, *Still plenty do to over royal commission reforms*, 20 August 2019.
[11] PwC, *The reality of a new era for Australian banking. Banking Matters. Major Banks Analysis Full Year*, November 2019.
[12] PwC, *The reality of a new era for Australian banking. Banking Matters. Major Banks Analysis Full Year*, November 2019.
[13] Financial Adviser Standards and Ethics Authority, *Education Standard commenced 1 January 2019*.
[14] Financial Adviser Standards and Ethics Authority, *FASEA Approved Degrees and Equivalent Qualifications and Courses to meet the Education Standard*.
[15] Australian Securities and Investments Commission, *18-378MR ASIC advice to AFS licensees about upcoming changes to education and training requirements*, December 2018.
[16] Independent Financial Adviser, *Adviser Exodus to Worsen 2020: Synchron*, February 2020.
[17] Independent Financial Adviser.
[18] Independent Financial Adviser, *Education Extension Bill Delayed*, February 2020.

deferred by two years to 1 January 2026, and the transitional time frame for the FASEA exam deferred by one year to 1 January 2022). This is exacerbated for older advisers who have extensive experience and considerable skills but no formal university qualifications. For many, studying for a degree is largely irrelevant to their day-to-day operation, other than to meet FASEA's requirements. While FASEA continues to review its approved degrees list and RPL arrangements, the recent addition of courses undertaken between 2009 and 2013 and credit recognition are unlikely to prevent people from leaving the industry. These include AFA's Fellow Chartered Financial Planner and Chartered Life Practitioner, as well as the Professional Diploma in Stockbroking.[19]

One large NSW-based dealer group, Synchron, expects a 20% decline in their adviser force this year (double that of 2019), primarily due to the demands of the new FASEA standards and exam requirements.[20] Those electing to leave the industry are primarily older risk-focused advisers. Others have had their dealer group sold or cancelled (particularly life insurance specialists) leading to a growing number of advisers exploring self-licensing.[21] This, however, requires significant resources and specialist skills to ensure business infrastructure is able to support research, compliance, technology and technical services previously provided by large institutions. The enormous regulatory reform, tougher education requirements and the potential of further changes to life insurance commissions (flagged following the Royal Commission final report) are having significant negative effects on the sector. According to the Financial Planning Association of Australia, the rising cost of regulation and time constraints are the biggest current challenge in the industry.[22] Financial planning runs the risk of becoming an elitist service accessible only to high-net-worth clients as remaining practitioners restructure their business models to accommodate the current adviser exodus and costs associated with regulatory impost.[23] This is particularly challenging for female advisers juggling work-family commitments, especially those who work part-time and flexible hours. Anecdotally, there are incidences of women needing to step down into supporting roles or seek alternative careers. This was flagged in 2018, anticipating that FASEA's proposed requirements would have a disproportionately negative impact on female advisers.[24]

Industry Workforce Priorities

Technology and New Entrants to Market. Fintech and Neobank sectors continue to grow. Fintech and neobank organisations continue to disrupt the market with their strong technology-built platforms and extremely competitive products and rates. These organisations are now established alongside more conventional lenders. It is anticipated they will continue to take more market share by launching new products into the auto finance and business sectors.[25] Advanced technologies will continue changing the banking industry over the next decade. Those with the greatest impact are already transforming both the nature of services as well as how they are delivered and consumed in the financial services industry including: artificial intelligence; blockchain; biometrics; 5G; cloud computing; internet of things; immersive experience; augmented and virtual reality; quantum computing and digital platforms. They are redefining the bank-consumer relationship. Increasing, data plays a fundamental part in this and will underpin the delivery of seamless, integrated experiences beyond banking to anticipate and satisfy customer needs. According to KPMG, in the future technology will make banking more personalised and ubiquitous across devices and applications. In the future. historic product-focused operating models will shift towards platform-based approaches.[26]

[19] Independent Financial Adviser, *FASEA Approves Additional Recognition of Prior Learning*, February 2020.
[20] Independent Financial Adviser, *Adviser Exodus to Worsen 2020: Synchron*, February 2020.
[21] Independent Financial Adviser, *Advisers Search for New Licensing Options in Wake of Dealer Group Closures*, April 2018.
[22] Independent Financial Adviser, *Concerns Soar*, March 2020.
[23] Independent Financial Adviser, *Reforms Making Advice an Elitist Service*, March 2020.
[24] Independent Financial Adviser, *FASEA Disadvantages Women and Older Advisers*, December 2018
[25] Hays, *Jobs Report – Banking, January to June 2020*.
[26] KPMG, *The Future of Digital Banking*, July 2019.

Blockchain. The Federal Government recently released the National Blockchain Roadmap,[27] a blueprint for developing blockchain applications locally and a foothold in blockchain business, which is expected to be worth US$175 billion by 2025.[28] As explained in the document, blockchain is a digital platform that records, verifies and stores transactions shared across a network of computers according to an agreed set of rules. This removes the need for verification by a central authority, such as a bank. Cryptography is used to keep transactions secure, and costs are shared among network participants. The fact the transaction history is viewable and verifiable by all network participants allows for much higher levels of transparency and auditability than is otherwise possible. Blockchain can be applied across a wide range of industries and to almost any transaction that involves a value, including: financial transactions, government services and tracing provenance of digital and physical goods. Profiled in the report, companies are increasingly investing in blockchain as a decentralised, peer-to-peer solution to deliver significant cost savings. This technology may provide an opportunity to reduce costs and to increase efficiencies in the provision of financial services, enhance the competitiveness of new market players, and support higher rates of consumer bank switching.[29] As the use of blockchain in financial technology develops beyond cryptocurrencies, it presents opportunities to enhance consumer outcomes in retail banking, including through facilitating the Know-Your-Customer[30] process. Similarly, given people's distrust in banks to act in the interests of everyday people, blockchain and other decentralised technologies may increasingly be preferred to traditional intermediaries.[31]

Learning and Development. As technological advancements and digital transformation continue to drive change, industry professionals need to adapt well to change and continue to upskill at all levels, requiring a continuous learning mindset. They need to keep pace with rapidly evolving regulatory and compliance requirements, changing marketplace and product lines, as well as client expectations to lead and guide appropriate solutions to meet consumer needs. Given the fast-paced nature of the market and level of regulatory change, where possible, organisations continue to seek experienced candidates into roles. Recent months have seen an increasing push by large financial services organisations for internal applicants, with employers valuing their knowledge of their systems, products and processes. However, secondments, development programs, learning opportunities and staff engagement are focal points for organisations wanting to attract and retain staff from competing Fintech, Neobank and non-bank lenders.[32]

Skills Demand. The latest Hays jobs report[33] point to a massive talent gap in 2020 with skills shortages in financial services, particularly across lending, risk and compliance and wealth management functions. Credit assessors are in high demand across all areas of lending, as are experienced business development and relationship managers, particularly those with a referral network, strong values and demonstrated ethical customer-centric conduct. Dispute resolution officers are likely to remain in demand for new and historical disputes. In 2019, the increase in dispute resolution activity both internally and externally saw most hires made internally. As this pool becomes exhausted, 2020 will see more external hires. Banks continue to employ tertiary graduates for entry-level lending operations roles while Fintechs offer temporary contracts during peak times. Non-bank lenders, Fintechs and Neobanks are launching new products creating mid-level job opportunities in sales support. Ideal candidates are those with both processing and sales experience gained in retail or hospitality and back office lending roles.

Outcomes of the Royal Commission, continued scrutiny on the sector and rate of regulatory change are seeing large banks increasing headcount in risk and compliance areas of their business. Banks and large financial services companies who have been hit with complaints and large remediation programs are looking to change their risk culture. They are creating new positions with new responsibilities

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[27] Department of Industry, Science, Energy and Resources, *The National Blockchain Roadmap: Progressing towards a blockchain-empowered future*, February 2020.
[28] CMO – Can Blockchain deliver on its big advertising promises
Feb 2020 https://www.cmo.com.au/article/671101/can-blockchain-deliver-its-big-advertising-promises/
[29] Deloitte, *Open Banking: Switch of Stick?* October 2019.
[30] AUSTRAC, *Customer identification and due diligence overview*.
[31] Department of Industry, Science, Energy and Resources, *The National Blockchain Roadmap: Progressing towards a blockchain-empowered future*, February 2020.
[32] Hays, *Jobs Report – Banking, January to June 2020*.
[33] Hays, *Jobs Report – Banking, January to June 2020*.

targeting risk culture, reputational risk, controls, compliance, governance frameworks and regulatory change. Demand is particularly high for operational and conduct risk managers as well as regulatory compliance managers with relevant regulatory experience and change management, and experienced compliance-related project managers. Similarly, the need to satisfy anti-money laundering obligations is driving a high demand for anti-money laundering analysts and counter-terrorism financing specialists. Privacy and data protection continue to be large areas of focus.[34,35,36] As highlighted in a recent Westpac report[37], companies are raising their game on data protection because they know that compromised data equals customer distrust.

Candidate shortages continue with experienced wealth management professionals exiting the industry in droves. Demand continues for quality personal financial advice. Advisers who lack the capacity or willingness to undertake further study are leaving the industry. Less experienced financial advisers are also leaving the industry in higher numbers to other financial services roles such as business development manager, practice development manager, remediation case manager and investment adviser. This is creating a need across the industry for client services officers and paraplanners to support client load. Remediation case managers are also highly sought after due to the high number of remediation projects being undertaken by banks and consulting firms, expected to continue moving forward as banks repay money to remediate customers.

Training. Although isolated cases exist which provide alternative pathways into employment, such as PwC's apprenticeship program, the sector does not appear to value vocational traineeships. It has a preference to recruit from tertiary qualified applicants who are then inducted and trained internally. These are directly relevant to business functions and job roles. Furthermore, the educational requirements for anyone providing financial advice as mandated by the Financial Adviser Standards and Ethics Authority and their lack of recognition of vocational education and training and related pathways has further diminished VET's relevance for the sector.

The review of the FNS Financial Services Training Package will be incorporating underwriting loss adjustment insurance and relevant technical knowledge to ensure relevant units reflect current industry needs. As a result of FASEA's education requirement for financial advisers, FNS products are also being developed towards a focus on general advice and work undertaken by paraplanners within the sector who support financial advisors. However, there is minimal uptake of FNS qualification in WA.

COVID-19

As lockdown restrictions ease, the strategic focus within the banking, insurance, super funds and asset management sectors is on how to succeed in a post-crisis world and what role the industry plays in the Australian economy. According to PwC,[38] things such as digitisation, workforce transformation, innovation of offer, business model and collaborative operating platforms will be fundamental to reinvigorate growth and keep pace with rapidly evolving market expectations. COVID-19 will accelerate longstanding drivers of change and heighten unresolved issues.

Shift Away from Face-to-Face and Cash Transactions. Their report into the impact of COVID-19 highlights that the crisis has accelerated pressures on traditional channels for sales and service. In Australia 7% of bank branches had been closed temporarily (approximately 400 nationally). Globally, up to 70% of branches had been closed and, in many instances, converted into distributed operations centres, calling into question both the need for branches, as well as their ongoing role relative to centralised and high-cost real estate. The restrictions due to the pandemic has seen a move online and away from cash (reducing withdrawals from ATMs, and increasing contactless payments), which now

[34] Australian Government, AUSTRAC overview.
[35] Australian Government, AUSTRAC, FATF updates on global AML/CTF compliance, 12 December 2019.
[36] Australian Government, AUSTRAC, It's time to start your 2019 compliance report, 2 January 2020.
[37] Westpac, Smart Industry Report: Emerging Industries. Towards 2030: A special report from Westpac.
[38] PwC, Where next for financial services? How Australian financial services can reboot and help reboot Australia, 2020.

includes senior citizens. As a result of the Government's social distancing advice, self-isolation and the push for cashless payments had seen the issuing of a record number of debit cards to customers who didn't have them (particularly older Australians) to ensure they could continue to pay for their goods and services online, over the phone or at retail outlets which were not accepting cash throughout the COVID-19 pandemic.[39] ASIC fast tracked approvals process for issuance of cards, aligned to advice by Council on the Ageing.[40]

Fundamental Role During COVID-19. Although currently on hold, the impacts of industry scrutiny, royal commissions, reports and recommendations will continue to fundamentally transform industry including people, culture, operations, technology and infrastructure. Prior to COVID-19, changes included lower interest rates, margin compression, increased regulatory intervention, a progressive opening of the sector to new competitors, changes in technology and a pivotal focus on clients and their needs. The pandemic is accelerating change. So far in this crisis, the financial services industry has been working with the government to support vulnerable customers and providing a credit lifeline for businesses. Industry's response to the needs of others is re-establishing its role in society and rebuilding trust.[41,42,43,44,45,46,47]

Professionals working across the sector have had to very quickly adapt, not just their working environments, their adoption of technology and applications or the way they deliver services. They have had to be flexible and agile, enabling their organisations to reallocate people to hot spot areas of activity in response to COVID-19 driven initiatives supporting people in financial difficulty. Over the past 3 months, banks, asset managers, superfunds and insurance providers have played a critical role in the orderly reallocation of capital and credit, providing stewardship over savings and other assets, facilitating transactions, insuring against risk and providing counsel and advice. The industry has delivered a range of support to small businesses affected by COVID19, including six-month deferrals on loans attached to the business, extending existing lines of credit and waiving fees and charges.[48]

Australia's banks have remained open for business throughout the COVID-19 pandemic with call centres, online support and branches available to service customers. Some local branches have needed to close temporarily (due to significant drop in traffic, protective measures for staff based on social distancing advice by the government, and health concerns/requirements by staff). This has resulted in more people utilising available technology and online applications to conduct their banking activities. Call centres provided support to customers, helping them understand how to use the different channels to carry out their banking: digital/online banking (via website or smart phone), telephone banking, use of ATMS or at another nearby branch that may be open.

Across the industry, banks have increased resources to call centres in order to meet the exponential increase in customer enquiries. CBA increased their local call centre capability through more call centre staff. Offshore call centres lacked suitable infrastructure and technology to cope with the levels of demand. Many were shut down due to the pandemic in their own countries and unable to service customer enquiries. Banks with offshore call centres had to bring the function back into Australia at a great expense to ensure customer needs were met. The future of offshoring this function by banks and other affected service providers (such as insurance) is yet to be determined.

Industry Growth. According to IbisWorld,[49] the national and regional commercial banks industry is projected to decline by 4.7% in 2019-20, primarily driven by five cash rate cuts by the RBA since June 2019 and the COVID-19 outbreak, despite growth in lending volumes over the first half of the year.

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[39] Australian Banking Association, *Options for customers if a branch temporarily closes due to COVID-19*, 6 April 2020.
[40] Australian Banking Association, *Record issuance of debit cards to help isolated or vulnerable customers*, 29 April 2020.
[41] Australian Banking Association, *Banks defer repayment of 429,000 mortgages due to COVID-19*, 16 May 2020.
[42] Australian Banking Association, *Australian banks step up to support customers and the economy*, 3 May 2020.
[43] Australian Banking Association, *Dedicated hotlines for JobKeeper loans now live*, 24 April 2020.
[44] Australian Banking Association, *New Code provides welcome clarity for retail landlords, tenants and banks*, 7 April 2020.
[45] Australian Banking Association, *SME Loan Guarantee scheme a lifeline to struggling small businesses*, 9 April 2020.
[46] Australian Banking Association, *Banks announce Small Business Relief Package*, 20 March 2020.
[47] Australian Banking Association, *Coronavirus Assistance Available*, 14 February 2020.
[48] PwC, *Where next for financial services? How Australian financial services can reboot and help reboot Australia*, 2020.
[49] IbisWorld, *National and Regional Commercial Banks in Australia - Market Research Report. COVID-19 Impact Updatet, June 2020*.

Industry profitability is projected to fall over the current year due to customer remediation costs breaches in anti-money laundering laws and associated regulatory costs. Similarly, lenders are expected to incur credit losses as households and businesses run into financial difficulty during the COVID-19 outbreak. Several major players have made announcements downgrading their earnings forecasts for the current financial year[50,51] due to increased customer remediation costs, provisions relating to alleged anti-money laundering breaches and potential credit losses incurred from the COVID-19 outbreak. Even prior to the pandemic, banks felt financial strains following changes due to the recommendations set by the Royal Commission. As detailed in a report by PwC[52] for major banks in Australia, full-year cash earnings from continuing operations for 2019 fell to their lowest level since 2012 and return on equity (ROE) to its lowest level since the 1990s. This was especially notable in the second half, where cash earnings fell to $12.4b and ROE almost dropped into single digits. This was largely due to the costs of remediation and reshaping the business.

More broadly, their COVID-19 impact update anticipates that the finance subdivision will be indirectly affected by movements in the financial markets and changes to the cash rate. They point to the risks posed by the COVID-19 outbreak to both domestic and global economy growth as a deciding factor in RBA's latest decision to lower the cash rate in March. Lowered interest rates and government announcements of stimulus packages to protect the economy from the outbreak will affect the revenue earned by banks and other lenders as they pass on the rate cuts to borrowers. Furthermore, the profitability and net interest margins of lenders are likely to be squeezed. According to IbisWorld, volatility in financial markets has also affected operators in the Financial Asset Investing industry. Share markets both locally and abroad reached record highs before posting some of the largest declines in the last week of February since the global financial crisis. Many local companies releasing half year results downgraded their forecasts and warned of the impact to their earnings, especially those with high exposure to Chinese demand. Investors have rushed towards safer assets like bonds and this trend is expected to weigh on the returns of operators over the current year.[53]

[50] ABC News, ANZ sets aside $1b for coronavirus recession losses, defers dividend, 30 April 2020.
[51] NAB, *Half Year Results 2020*.
[52] PwC, *The reality of a new era for Australian banking. Banking Matters. Major Banks Analysis Full Year*, November 2019.
[53] IBISWorld, *Finance in Australia – Market Research Report. COVID-19 Impact Update*.