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Job cuts in the banking sector

Are they leaving the banks vulnerable?

The disaster at JPMorgan, where "egregious" mistakes in the chief investment office resulted in US$2 billion in losses, highlights once again the issue of good risk management – right across the organisation.

The events at JPMorgan bring to mind the dire warnings issued by the Reserve Bank of Australia in May. As the Big Four banks led a wave of cost cutting the RBA warned the banks not to take on more risk as they chased profits in a market with flat credit growth. In particular, the central bank worried out loud that cost cutting could reduce risk management capabilities and lower credit standards.

It was more of a sub-prime kind of warning, but the RBA comments could also have been directed to a situation similar to that at JPMorgan, which has cut its headcount by around 1700 – or 6 percent – since the middle of 2011.

But the RBA theory needs a bit of testing against what is actually happening in the Australian market. It is an easy theory to push: that the Big Four's capabilities are being run down as they shed staff and outsource IT functions offshore, and as a result they are in some way at greater risk.

It has created some nice headlines as the commentators contrasted the record profits with the job cuts: 7-10,000 financial sector jobs to go in 2012, ANZ hiring staff in Manila on one tenth of the wages of staff they have cut in Australia, and Westpac staff training their cheaper replacements.

But a look at the actual cuts shows that perhaps any hysteria at this point might be overdone. Job cuts are always unpopular, and have a big impact on workplace culture, but could it simply be that the Big Four are responding to factors such as the weakest demand for housing credit since World War 11, a 30 percent slump since 2009 in the number of corporates with intentions to borrow, faltering demand for business banking services, and the decline of wealth management.

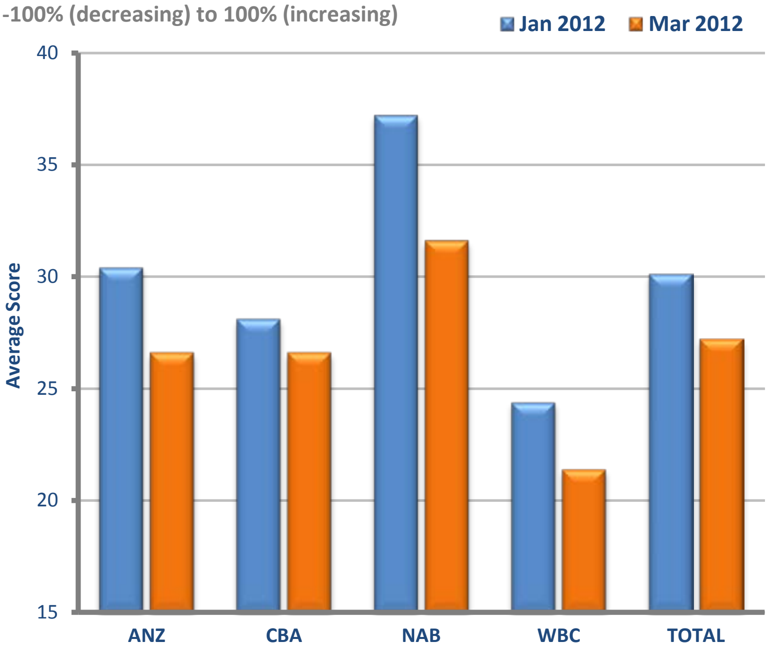
At NAB, for example, 346 jobs have been lost in business banking, 212 from personal banking, 274 from wealth management and 205 in Britain – where the subsidiaries have been hit by bad loan issues. The CBA, which has been the least aggressive, cut 100 jobs in its mortgages business this month. Macquarie has shed 1300 jobs, but profits there are down 24 percent.

The job cuts at ANZ had a big focus on the underperforming wealth management division, a sector which is struggling across the board at the moment. Westpac, which has called in the consultants McKinsey to advise on cost cutting, has an IT outsourcing strategy which will also impact on St George.

These cuts will clearly impact service across key areas. Perhaps the strangest of these are the NAB cuts in business banking: an area where the bank leads and it seeks to differentiate. How easy will it be to scale up again in this area, when needs demand? There is undoubtedly some expertise being lost.

Change in the Demand for Business Banking Services

-100% (decreasing) to 100% (increasing)



But with profit reporting season upon us, it is clear that earnings growth for the Big Banks has stalled. In that situation, what does any prudent business do? They batten down the hatches, and that means cutting costs, of which labour is one. Little wonder there has been a 19 percent fall in online job ads in the Australian financial sector in the March quarter.

We know that bad debts are likely to rise in 2012 as a result of our two-speed economy, and APRA warned the banks in December to stress test their portfolios. But to link the rise of bad debts to any perception that the job cuts are seriously impacting capabilities is premature. We all want a vibrant financial sector full of career opportunities, but we might just have to ride this one out a little bit before the banks start hiring again.