Australian bank merger signals a new round of job cuts and branch closures

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The Commonwealth Bank of Australia (CBA) announced a $A9.4 billion takeover bid for Colonial Mutual earlier this month. If it proceeds, the merger will be the biggest in the country's corporate history and is likely to trigger a new round of bank restructuring as Australian banks scramble to expand in order to survive on the world market.

Justifying the merger with Colonial, CBA's management spoke of the dangers of being left behind their far larger rivals in Europe, the US and Japan. CBA chief executive David Murray warned that Australian banks were in danger of becoming “a branch office for the rest of the world” if government restrictions on further mergers were maintained.

“With global convergence and limitations in the long term for growth in Australia, it's important for us to converge further the activities of banking and financial services and to do more outside Australia. This merger will enable us to accelerate our growth rate and to use our capital better. It will diversify our revenue both globally and domestically.”

The CBA was willing to pay a high premium for these benefits. To outbid rival offers from the National Australia Bank (NAB) and ANZ, the CBA increased its offer four times in the matter of a few days and ended up paying an amount 16 times Colonial's forecasted annual earnings.

The newly-merged entity will have 10.5 million customers, assets worth $220 billion and $83 billion in funds management. The CBA gains a footing in 12 new countries throughout Asia and Europe and will now replace the NAB as Australia's largest domestic bank. It will control over 30 percent of the domestic banking market and also become the country's second biggest insurer.

What made Colonial attractive was its substantial international network combined with a strong presence in fund management and insurance. Traditional branch banking is no longer sufficiently profitable. To be competitive banks are seeking to expand into more lucrative fields servicing the needs of large corporations or wealthy individuals.

If the merger goes ahead, the CBA will earn 58 percent of its revenue from traditional banking rather than the current 92 percent. Revenue from life insurance and funds management will increase from 3 percent to 36 percent.

The merger is likely to spark a flurry of takeovers by leading Australian banks on a far more extensive scale than that of 1981, when most of the current major banks were established through mergers of smaller institutions.

Already there is speculation that NAB is preparing a merger deal with leading insurance and finance company AMP, which would create a bank three times larger than the CBA-Colonial merger. Other likely targets for take-over include the Bank of Western Australia, Suncorp-Metway and St. George. The ANZ and NAB have stakes of 8 percent and 9 percent respectively in St. George.

But these mergers are small compared to amalgamations taking place internationally. The recent Deutsche-Dresdner Bank merger created the world's largest bank, with a balance-sheet total of nearly 2.5 trillion marks [$A2 trillion] and a stock market value of around 150 billion marks ($A120 billion). Japan's Tokai and Asahi Banks amalgamated to form Japan's second, and the world's third largest bank, with assets of 107 trillion yen ($A1.65 trillion).

As a result, the Australian government's “four pillars” policy—prohibiting mergers between the “Big Four” banks—is increasingly coming under pressure. Put in place supposedly to encourage competition on a national level, it is viewed as irrational by Australian banks that now have to compete on an international level.

But if the Howard government ditches the "four pillars" policy it faces a voter backlash, particularly among its supporters in rural areas where it is already under pressure over the loss of jobs and services. A number of smaller towns no longer have any bank branches, forcing residents to travel substantial distances. Mergers between the "big four" would certainly lead to a new round of bank branch closures.

Over the past decade, cost-cutting has already led to substantial job shedding. More than 7,000 jobs were slashed and 400 branches closed after the merger of the State Bank of Victoria with the CBA in 1991. Similarly, when Westpac took over the Bank of Melbourne in 1997, 30 branches were shut in Victoria and 1,000 jobs destroyed.

The CBA has closed down 660 branches since 1994 and at the end of last year announced that it would close a further 500 branches. Bank management indicated this month that after the takeover of Colonial a further 2,500 jobs and 300 branches would go, to make an annual saving of $300 million. The main areas affected would be rural and regional New South Wales and Tasmania.

The Finance Sector Union (FSU) estimates that impending mergers could result in the slashing of 10,000 jobs and the closure of a further 1,000 branches over the next few years. It can safely be predicted, however, that the FSU will mount no campaign to defend jobs. Its previous responses have always been to declare that job losses were "inevitable" and to issue pleas for "voluntary redundancies" and "natural wastage".

Following the announcement of the Commonwealth-Colonial deal, FSU secretary Tony Beck issued a hollow appeal to the Howard government to "stand up and be counted" and "to act in the interests of the community and jobs by stopping this merger". Even if Howard did "stand up" and stop the merger for electoral purposes, the relentless drive for bank restructuring would continue.

It is not mergers and large banks as such that are the problem, but the fact that they are privately owned. Economies of scale could provide both decent working conditions for bank workers and proper services for ordinary people. But under a social system based on the market and the drive for profit exactly the opposite takes place.