Economic Perspective 2

THE IMPACT OF 1992 ON EMPLOYMENT IN LIFE ASSURANCE AND BANKING IN LOTHIAN

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1. Introduction.

The forthcoming changes associated with "1992" will have significant implications for the provision of financial services. Depending on the nature and location of financial services, the effects will vary across the community. This study examines the likely impact that these changes will have on employment at head office and branch level in life assurance and banking in Lothian. The effects on employment are considered through the likely changes in output. The provision of banking and insurance services are focused on because of their significance for employment in the Lothian region and the general significance of the Scottish life companies in a UK context. The study utilises data and information derived from a survey of leading institutions in Lothian Financial Services and draws on the Region's database.

2. "1992" and Financial Services.

2.1 Scottish and UK Financial Services.

Although London is the centre of the UK financial services sector and recently has experienced the strongest growth, Scotland has retained and developed a distinctive financial services sector which includes a Scottish group of Clearing Banks which have retained an important degree of operational independence in the face of structural change and growth in strong external interests and notable representations in the areas of insurance and investment trusts which are of an indigenous nature. Across the financial sector, there are roles for non-Scottish equivalents through branch networks, e.g. the English Building Societies. Scotland houses important components of the UK industry, and the scale of financial expertise and funds managed in Scotland makes the country an important provider of financial services in European terms. Many of the insurance and banking institutions and much of the expertise are physically accommodated in Edinburgh with obvious benefits for employment in Lothian.

There are over 170,000 employees in insurance, banking and finance in Scotland. Table 1 presents employment data for the 1980's. Total employment increased by approximately 25% (with head office growth in Edinburgh playing an important role) while female employment accounted for an increasing share of the total. The average annual growth rate in total employment was 3.7%. Such a growth rate points to a healthy sector. However, Scotland experienced a relatively slow growth in financial sector employment vis-a-vis the UK. During the 1984-87 period, Scotland's share of UK employment in financial services declined from 7.2% to 6.9%. Tables 2 and 3 show that employment in banking and finance increased in Scotland during 1981-87, but employment in insurance fell during 1981-84 and then increased during 1984-87. In relative terms, the fortunes of Scottish employment have been mixed. During 1984-87, Scotland's share of UK employment in banking and finance fell from 7.7% to 7.5%, in the case of insurance, Scotland's share of employment remained steady at 8.7%.

2.2 "1992".

Over the last eleven years, the financial sector has been subject to dramatic changes such as the lifting of exchange and capital controls in 1979 and "big bang" in 1986, while other legislation has opened up the market for housing finance and enabled the building societies to compete in new areas. "1992" will see the creation of a single European market with the abolition of a range of

Table 1 Employment[a] in Banking, Insurance and Finance in Scotland, 1980-88

Thousands	1980	1981	1982	1983	1984	1985	1986	1987	1988
Male	64	64	66	69	69	72	76	80	81
Female	62	65	69	71	72	75	79	85	88
(of which Female part time)	15	16	16	18	17	18	19	20	20
Total	126	129	135	140	141	146	155	165	169

a. Full-time and Part-time employees are counted equally.

Source: Scottish Economic Bulletin, June 1989

Table 2 Employees in Employment in Financial Services in Scotland and the UK

	1981		1984		1987	
000s	Scot	GB	Scot	GB	Scot	GB
Banking & Finance	na	na	38.9	506.7	43.1	574.0
Banking & Bill Discounting	30	367	31.0	389.6	34.1	438.5
Insurance	22	293	19.4	223.0	20.9	239.6

Source: Data are obtained from the census of employment and were published in Department of Employment Gazette, February 1983, January 1987 and October 1989.

Table 3 Share of UK Employment Accounted for by Scotland[a]

Percentages	1981	1984	1987
Insurance, Banking, Finance, Business Services & Leasing	6.7	7.2	6.9
1. Banking & Finance	-	7.7	7.5
Banking & Bill Discounting	8.2	8.0	7.8
2. Insurance	7.5	8.7	8.7

a. Percentages for banking and finance and insurance are based on data presented in Table 2.

barriers, the harmonisation of rules and regulations, tax structures and legislations, as well as the strengthening of monetary co-operation and encouragement of EC firms to work together. The ultimate objective is that there should be no barriers to the movement of persons, goods, services and capital between member states.

Complete financial integration implies (i) a unified market in which banks and other financial institutions can establish branches and subsidiaries throughout the EC under similar regulatory regimes; and (ii) the abolition of restrictions on capital movements. Furthermore, there will be moves towards strengthening the role of the European Monetary System (EMS) and greater use of the European Currency Unit (ECU).

The timetable for the achievement of some of the objectives of "1992" is obscure, but for many specific objectives there is an intended programme incorporated in directives. The progress towards liberalising assurance services is not very far advanced due to differing levels of regional specialisation within the industry and the complexity of existing regulations. The freedom of provision of life insurance services is currently restricted to the personal sector and in particular, cross border transactions and issues of reciprocity. Currently, there are no directives for the more complex area of large scale group policies which includes such issues as pension schemes. Current regulations include minimum solvency ratios. Later regulations will concern details of insurance contracts and company accounts, capital adequacy, marketing and consumer protection.

There are approximately 300 directives proposed in the 1985 White Paper that relate to freedom of establishment in banking services across the EC. The Commission's approach towards freedom of establishment and attaining a single banking market rests on the following two main principles.

(i) Home country control- institutions operating across countries should be supervised by the regulatory authority in which their head office is located. There should be "mutual recognition" that different countries regulatory systems are equivalent;

(ii) Any bank or building society is authorised by its home regulators to provide a universal range of banking services anywhere in the EC.

The Second Banking Co-ordination Directive on Banking lists the wide range of services that any authorised bank or building society should be able to trade across the EC. Furthermore, there are provisions for minimum standards of authorisation and supervision. There is a separate directive concerning the provision of mortgage finance which will be implemented in 1993.

2.3 "1992" and Financial Services in the UK.

The UK already has a relatively liberal banking regime resulting from the 1979 Banking Act where foreign banks are free to compete in the UK market. Similarly, there is a relatively liberal regime for the provision of insurance services. Thus the completion of the single market will not worsen the competitive position of UK banks and insurance companies in their home market, and will produce opportunities for development into other European countries. Cecchini presents estimates of the percentage differences in prices of standard financial products compared with the average of the four lowest national prices.[1] Table 4 reproduces the data for banking and insurance services. Although this method of comparing costs across countries may be questioned, the table suggests that the UK has cost advantages in the provision of mortgages, travellers cheques, life insurance, motor insurance, public liability cover, and institutional equity transactions. Indeed, with the exception of travellers cheques, the UK has an outright cost advantage over all EC states in these products. On the other hand, the UK is at significant cost disadvantage in the provision of consumer credit, commercial loans, home insurance, and private transactions. The significance of these differentials is that we have an indication of how well UK financial services might fare after 1992 as we might expect UK output and employment to increase in areas such as insurance and mortgage provision where the UK price differential is most favourable.

3. Life Assurance

Edinburgh accommodates the headquarters of several major life companies with a significance for employment in Lothian financial services - it has been estimated that employment in the life companies in Scotland is at least 7000. Most of the business of the Scottish life companies is in England from where 80-90% of business originates. Only two of the Scottish offices carry out a significant proportion of their business overseas.

Table 4 Price Differentials[a] of Standard Financial Packages Across EC Banking Services

	Bel	FRG	Sp	Fr	It	Lux	Neth	UK
Consumer credit[b]	-41	136	39	na	121	-26	31	121
Credit cards[c]	79	60	26	-30	89	-12	43	16
Mortgages[d]	31	57	118	78	-4	na	-6	-20
Letters of credit[e]	22	-10	59	-7	9	27	17	8
Foreign Exchange Drafts[f]	6	31	196	56	23	33	-46	16
Travellers cheques[g]	35	-7	30	39	22	-7	33	-7
Commercial loans[h]	-5	6	19	-7	9	6	43	46
Life insurance[j]	78	5	37	33	83	66	-9	-30
Home insurance[k]	-16	3	-4	39	81	57	17	90
Motor insurance[l]	30	15	100	9	148	77	-7	-17
Commercial fire & theft[m]	-9	43	24	153	245	-15	-1	27
Public liability cover[n]	13	47	60	117	77	9	-16	-7

a. Percentage differences in prices of standard financial products compared with the average of the four lowest national prices.
b. Annual cost of consumer loan of 500 ECU. Excess interest rate over money market rates.
c. Annual cost assuming 500 ECU debit. Excess interest rate over money market rates.
d. Annual cost of home loan of 25000 ECU. Excess interest rate over money market rates.
e. Cost of letter of credit of 50000 ECU for three months.
f. Cost to a large commercial client of purchasing a commercial draft for 30000 ECU.
g. Cost for a private consumer of purchasing 100 ECU worth of travellers cheques.
h. Annual cost (including commission and charges) to a medium sized firm of a commercial loan of 250000 ECU.
j. Average annual cost of term (life) insurance.
k. Annual cost of fire and theft cover for house valued at 70000 ECU with contents valued at 28000 ECU.
l. Annual cost of comprehensive insurance, 1.6 litre care, driver 10 years experience, no claims bonus.
m. Annual cover for premises valued at 387240 ECU and stock at 232344 ECU.
n. Annual premium for engineering company with 20 employees and annual turnover of 1.29m ECU.

Source: Cecchini, P (1988) The European Challenge: 1992 - The Benefits of a Single Market, Wildwood House, pp. 38-39.

It is estimated that during the period 1984-89, the UK market for life insurance products exhibited an average annual real rate of growth of 8.5%.[2]

With one major exception, the Scottish life companies are mutual companies- owned by their policyholders and are with no shareholders. Mutual companies are unable to raise long-term capital on the capital market in order to finance the expansion of their business but must rely instead on internal resources- mainly premiums received and profits ploughed back. The mutual status of the Scottish life offices has been a key factor in accounting for their continued presence in Scotland where they have been protected from takeovers. By contrast, acquisition and merger activity has led to the loss of all but one of Scotland's propriety insurance companies. It is likely that the majority of Scottish Life companies will remain mutual as they feel that they do not need the additional capital that demutualisation will yield, and there is a high degree of importance attached to protection from takeovers.

3.1 Insurance Output and Employment.

Employment in financial services is a derived demand based on levels of output, as well as being influenced by labour costs, and technological change. Various factors have played important roles in influencing the output of the Scottish life companies in recent years.[3] Broadly speaking, we can categorise these into (i) the established reputation of Scottish output- the Scottish offices have relied on their reputation for security and money management expertise to attract new business; (ii) the performance of economic growth- with higher levels of income associated with higher levels of saving, the life assurance companies have competed with institutions providing facilities for contractual and non-contractual saving. Economic growth has further enhanced business for the life companies as home ownership expands with a complementary demand for endowment policies; (iii) product differentiation- the Scottish life companies have successfully marketed products which are aimed at different demographic groupings; and (iv) the nature of government legislation- the life assurance market is sensitive to taxation and regulatory changes which seek to influence personal savings and pensions provision, e.g. the changes in MIRAS which stimulated the mortgage endowment business, and a tax regime favouring the accumulation of savings through pensions schemes and, until 1984, life assurance policies.

In 1987, total insurance employment accounted for 12.7% of total employment in the Scottish Financial Sector. The Scottish life offices were the first to apply computers to the preparation of policies and the improvement of statistical information. The introduction of on-line, decentralised computer systems enabled the input, processing and retrieval of information from remote locations. This enabled them to cope with the strong growth in business demand, contain labour costs and launch a wider range of products onto the market. In the 1980's, the main impact of computer technology was to reduce the rate of employment growth.

3.2 "1992" and Employment in Insurance.

Currently, if an insurance company has a head office in one member state, then business can be conducted in any other member state with little additional authority. After "1992" it is intended that a company can transact business in any of the member states from an authorised establishment in any other single one. Policy holders will be able to take their business to an insurer anywhere in the EC.

The aspects of 1992 which have the greatest anticipated bearing on the output of the Scottish life companies are as follows.

(i) An anticipated tightening of the regulatory regime. Currently, the UK has a relatively liberal regime, the negotiations over future directives may lead to some degree of meeting half way with other member countries through tightening solvency margins and restrictions on the freedom to invest in equities. Such measures will result in the vetting of companies rather than products. The sound reputations of the Scottish companies should mean that these effects are limited. There is however concern over how countries will react to home country control. Essentially, a UK company should be able to sell insurance in West Germany subject to UK rules. However, West Germany has a relatively more stringent regime than the UK and therefore might object because UK firms are at an unfair advantage. The industry fears that, being the dominant member of the EC, the views of West Germany are likely to prevail and so place UK firms at a disadvantage since their success has been based on the more liberal regime.

(ii) Increased competition. Although the first directive passed several years ago permits the establishment of subsidiaries in other countries and so European, Japanese and US companies can already compete in the UK market, there is likely to be an increase in competition. Many of the larger foreign companies will adopt a "Pan-European" approach in their views on desired market share and will aim to achieve a given share of the European rather than domestic market. This state of affairs is not regarded by the Scottish companies as being a serious threat. Furthermore, the Japanese companies are already swamped with savings thus one might question their desire to accumulate even more funds.

In the short-run, increased competition is likely to have a limited impact on output as consumers will prefer to remain with companies they are familiar with. Possibly, the top 5% of wealthy consumers will "shop around" but it will take time before enough consumers feel sufficiently "European" to constitute a truly single market. One way of avoiding such problems will be for life companies to undertake joint-venture agreements with foreign institutions.

It is argued that Edinburgh has a market "niche" in the provision of life insurance based on the relatively low costs of production of services and a favourable reputation based on historical factors. Indeed, Cecchini estimates that the provision of life insurance from UK companies has a significant cost advantage over other EC states. This cost advantage has arisen as a result of greater competition in the UK market and the nature of the UK tax system. Furthermore, this cost advantage should be even greater for the Edinburgh based companies given the presence of a cost advantage, based on low wages and rents, that exists within the UK.

There are a number of other reasons why Edinburgh remains a favoured location for head office activity. Firstly, the life companies are essentially portfolio management organisations and are not substantially involved in the short-term money markets based in London. Thus historically, there was not the necessity to be in London. Secondly, they are organised on a mutual basis and are consequently protected from takeover threats. Thirdly, there is a perceived higher quality of life which is associated with Edinburgh. Factors that currently count against Edinburgh include the predominance of London as a financial centre and sterling being perceived as a weak currency.

"1992" is unlikely to have a significant impact on the above mentioned advantages associated with Edinburgh. There is however some evidence which suggests that while existing functions will remain in Edinburgh, some administrative centres for new business might be located elsewhere, e.g. Luxembourg insists that if a company wishes to sell unit trusts in Luxembourg, then the administrative centre of that operation must also be based in Luxembourg. A greater concern for the life companies is the tightness of the Edinburgh labour market which may affect the "niche" status of Edinburgh insofar as eroding its cost advantage. Demographic trends suggest that over the next five to ten years, labour shortages will arise in the Lothian region with resulting upward pressure on wages. Firms might then aim to become less labour intensive in an attempt to remain competitive, e.g. there might be changes in the relationship between company and client, i.e. disposing of agents and brokers and the increased use of direct form filling.

The relatively liberal UK regime has encouraged UK companies to be more innovative than their European counterparts and in a sense prepare them should the market become significantly more competitive. On the one hand, Scottish companies should compete abroad and this will eventually exert a positive influence on employment levels in Lothian. However, increased competition at home may result in the opposite effect. Although many of the proposals which are related to the provision of life assurance are still undecided and will not come into force until well after 1992, there are views within the financial sector that the mutual status of the life companies may not facilitate a rapid response to new market conditions. Much will depend on how clearly the companies perceive the competitive advantages to them of the opening of the European market and how aggressively they exploit the high reputation of Edinburgh as a centre for life assurance.

3.3 Summary.

Insurance companies would appear to place greater concern on factors such as demographic trends and tastes than "1992" per se when looking to the future. In general, the Scottish Life companies are adopting a "wait and see" approach. Although Edinburgh has a niche status in the provision of life assurance, the tightness of the labour market may erode the cost advantage associated with Edinburgh. Increased competition will mean that employment in Lothian may increase through the Scottish Life companies exporting more to other countries. However, this picture might be confused by greater competition at home and the introduction of new technology. The mutual status of the Scottish Life companies will offer protection against takeovers and therefore maintain the presence of head office employment. The larger mutual companies are likely to retain their status whereas the smaller mutuals may find it necessary to demutualise if they are to maintain their presence in the UK market. In this latter case, there is less certainty over the course of employment in Lothian.

4. Banking

The official definition of the Banking and Finance sector includes activity in banking and bill discounting, institutions specialising in the granting of credit, and institutions specialising in investment in securities insurance. This study focuses on Clearing Bank activity in banking and bill discounting which is by far the most significant source of employment in banking and finance in Lothian. The bulk of merchant bank business originates from England and most of the resulting employment is in London. Wholesale banking activity is relatively capital-intensive and so the demand for labour is far more limited than for retail banking. Thus any implications that 1992 has for employment in merchant banking in Lothian will be relatively minor.

The Bank of Scotland, Royal Bank of Scotland and TSB Scotland have their headquarters in Edinburgh. Much of the impact of 1992 on employment in Lothian will be through how these banks react to the changes that take place. These banks are independent in the sense that in each case there is not a majority shareholder. In the case of the Bank of Scotland, the largest shareholder is Standard Life Assurance with 38.1% of equity, while TSB shares are spread over a large number of relatively small shareholders.

The distinction between retail and wholesale banking becomes important in considering the likely impact of "1992" on employment in banking. Retail banking being concerned with the personal sector and small businesses, involves relatively small amounts of money and is reliant upon a branch network where immediate contact with the consumer is of importance in maintaining competitiveness. Current account banking generates the highest volumes of retail bank transactions and associated employment. However, this market is particularly amenable to the type of products which can be processed centrally, eg. the increased use of plastic cards, which has obvious implications for the introduction of labour-saving technologies. Wholesale banking being concerned with industrial and commercial companies and the money markets involves relatively larger amounts of money. There is less need for a branch network as telecommunications and computing facilities are of importance thus labour intensity is much lower.

4.1 Output and Employment in Banking.

The high rates of growth in the UK during the 1980's has been to the benefit of both retail and wholesale banking. However, expansion opportunities within Scotland have been relatively limited leading to a search for new opportunities and markets - most of the Scottish Clearing Bank expansion has been through the English market as Scotland is regarded as being "overbanked". In addition, the banks have expanded into ancillary activities such as merchant banking and the provision of insurance. The fluctuations in interest rates have had profound effects on the demand for loans, e.g. increases in the mortgage rate have dampened down both house price increases and housing turnover. Intense competition with other institutions has occurred in both the retail and wholesale markets. In the former, we have witnessed fierce competition from Building Societies, while in the latter there has been intense competition from local merchant banks and UK and foreign banks. Such competition has forced the banks to introduce new financial products such as HOBS (Home Office Banking System) and interest bearing cheque accounts.

Employment in the Scottish Clearing Banks accounts for approximately 80% of total banking employment in Scotland. The Banking Sector has accounted for an increasing share of Scottish Financial Sector Employment. In 1987, 20.7% of employment in the Scottish Financial Sector was in banking and bill discounting. Staff costs constitute a significant

55-60% share of the annual operating costs of the Scottish Clearing Banks. In the mid-1980's, the desire to cut costs motivated the closure of less economic branches. However, competition from Building Societies has meant that the Clearing Banks must maintain their branch levels at some minimum acceptable level. The dilemma facing the banks has thus been how rationalise branch networks while at the same time maintaining a geographic dispersal that serves both major urban and isolated communities.

In the 1980's, there were large investments in cash dispensers, counter terminals and increased use of automatic payments in the retail banking sector, spurred on by the continuing growth in money transmission and the desire to avoid a sustained growth in staff numbers. The large growth in transactions business more than counteracted the fall in employment to be expected from the introduction of electronic data processing systems.

4.2 "1992" and Employment in Banking

In 1979 the UK abolished most of its entry controls and most EC Banks are already established in London. The single market will further liberate the ability of banks to compete in other member countries. Cecchini points to an unfavourable relative price attached to the provision of certain financial products from UK banks. These products include consumer credit and commercial loans where presumably, the high UK interest rates have played a role.

The major impact from 1992 on banking employment will be through retail banking. Retail banking will be largely influenced by the success of Scottish industry and how successfully it competes in domestic and foreign markets after 1992. If successful, this will call forth a demand for services such as financing, foreign exchange etc. In some circles, it is felt that the success of local business will be adversely affected by the poor infrastructure and locational difficulties associated with getting to and from Scotland and that the Channel tunnel will not be of much benefit to the Scottish economy. If these fears are realised, we might expect a decline in retail activity and hence employment in retail banking services. This should be of particular concern to TSB Scotland which has no plans to compete in other EC countries but instead is aiming to become the "premier UK retail bank". One can thus appreciate the significance of the banks at least maintaining their share of the retail market should the size of market decline. It is anticipated that in the domestic retail market, competition between banks and other financial institutions such as building societies (for whom unsecured lending across the EC is hampered by UK legislation), insurance companies, other financial sector companies and non-financial companies such as retailers, will further intensify. This can only serve to put pressure on employment levels.

Theoretically, it might be possible for wholesale activity to compensate for the fortunes of employment in retail banking. However, it is unlikely that employment in banking in Lothian will benefit from an increase in wholesale activity but rather will be primarily determined with what happens to retail banking. The reasons for this prediction are (i) the capital intensity of wholesale banking, and (ii) the likelihood that additional employment is likely to accrue to London[4] rather than Edinburgh. The Royal Bank of Scotland conducts its wholesale activity from London and the Bank of Scotland has access to the Wholesale markets through its London office. Thus the likelihood that increased wholesale activity could compensate for a decline in Lothian retail banking employment is very limited.

Within wholesale banking, the market for medium-sized companies will be affected by firms seeking to expand their business internationally, and in doing so, seeking advice from a wider range of banks and seeking new and sophisticated international finance and hedging products. The market for large international companies will change little as many of these companies already operate on a "global" basis.

Given the anticipated changes in the regulatory environment and the increase in competition, we can categorise the types of policies that banks might pursue into (i) maintaining the status quo of policy, (ii) acquisitions, (iii) joint co-operation ventures, and (iv) "go it alone". These policies each have their relative advantages and disadvantages. The "status quo" is regarded as the policy which is most likely to fail as banks will have to adapt in some form to their change in environment. There is the daunting cost of building new branch networks from scratch, thus acquisitions, mergers and joint ventures between European banks might be more appealing. However, mergers and acquisitions can also be costly, thus joint co-operation ventures would appear to be the least cost active policy. Such a policy might entail reinforcing the home base and developing existing strengths in the EC as a whole. However, there may exist problems in agreeing to a division of returns among participants.

The Bank and Royal Bank of Scotland are embarking upon joint-venture schemes which include "product approaches" where new products are being marketed in joint ventures with other companies who will sell them. Innovations by the Bank of Scotland include HOBS and TAPS (Trans Continental Automated Payments Services) which will be applied to the European market when technical difficulties are overcome. In similar vein, the Royal Bank of Scotland has an involvement with the Bank of Santander.

The domestic retail market offers opportunities for expansion for non-indigenous banks. However, the market place is crowded being mainly serviced by domestic banks with dense networks of branches making it extremely difficult for foreign banks to penetrate this market effectively. Banks which attempt to break into the retail market will have to be innovative to gain market share and make adequate profits. Acquisitions are of particular concern to the Scottish banks where foreign banks may seek an already well established branch network from which to tap the retail market. However, in the cases of the Bank of Scotland and TSB Scotland there are factors which may allay such fears - the Bank of Scotland was created by an Act of Parliament, and TSB shares are owned across a relatively wide spectrum of investors many of whom see their investment as a long-term one and feel a sense of loyalty towards the company. For these reasons, we might expect employment to be protected from acquisitions but in the case of the Royal Bank, it is harder to justify such a degree of confidence where a stronger UK outlook might be more attractive to predators. It is interesting to note that the co-operation between the Royal Bank and the Bank of Santander includes a share-swap agreement designed to offer protection against takeovers.

As in the case of the Life companies, there are a number of cost advantages associated with locating in Edinburgh. Furthermore, the headquarters of the Bank of Scotland are likely to stay in Edinburgh because the Act of Parliament from which it was created. The Royal Bank of Scotland is likely to experience pressure for a move to London on account of its greater UK and international outlook. In the case of the TSB, a policy of rationalisation and reorganisation is already under way at UK level where, for reasons associated with costs, many functions are being moved away from London to other regions across the UK. Lothian has already benefited by housing the international lending division of the TSB and later, the West of Scotland will manage the entire mortgage lending business of the TSB.

4.3 Summary.

As with the Life companies, there are strong reasons as to why banking employment should remain in Lothian. Overall employment will be largely influenced by the nature of the retail market which in turn will be influenced by the performance of the Scottish economy and how successful the banks are in maintaining their share of business. Views on how the Scottish economy will perform are mixed thus one can only point to a high degree of uncertainty for employment. If competition in the retail market remains strong, there will be pressure to reduce labour costs and hence employment. Labour might become more specialised as a result of technological change though technological change is an ongoing exponential process and their are no plans for any dramatically differing processes as a result of 1992.

5. Conclusion.

Generally speaking the banking and insurance interests are optimistic about the future course for their businesses. Preparatory action should enable traditional institutions to retain a high proportion of their domestic market particularly in retail financial services. We envisage the likelihood of differing fortunes for Lothian employment in life assurance and banking. There is more optimism in the case of life assurance where the mutual status and sound reputations of the life companies, and the low costs of production associated with Edinburgh should lend themselves to protect employment. Indeed, export possibilities would appear to be favourable where the opportunities for expansion of Edinburgh-based concerns into Europe, and for consequent growth of head-office employment in Edinburgh, are more obvious and less dependent on other factors within the Scottish economy. In the case of banking, employment prospects are less assured. The major impact on employment will be through retail banking where employment will be largely affected by performance of the Scottish economy after 1992 as well as the extent of competition for retail business. In the latter case, there will be pressure to contain labour costs. On the export side, the banks appear to have been relatively more active than the life companies and this may yield some benefit for head office employment.

Footnotes

1. Cecchini, P., (1988), The European Challenge: 1992 - The Benefits of a Single Market, Wildwood House.

2. Mintel, (1989), Life Assurance, Special Report.

3. The relationships that exist between the performance of the Scottish and UK economies and the lending and deposit-taking activity of the Scottish Clearing Banks and Building Societies in Scotland are investigated in Holmes, M.J., (1987), The Output of the Scottish Clearing Banks, Scottish Trustee Savings Banks, and Building Societies in Scotland, 1965-82, Department of Economics, University of Dundee, Ph.D. Thesis.

4. The success of wholesale activity may in turn hinge on London maintaining its significance as a financial centre.

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