

Remuneration in the Finance Sector

This section provides information on pay and incentives practice in the UK finance sector, measured by the data and information collected by our City Pay and Benefits Survey. We also provide comparisons with previous years, and track changes in pay practice and the use of the different elements of remuneration.

The participants in our survey are mainly smaller to medium sized finance sector organisations employing up to a few hundred employees in the UK, and are primarily based in central London (City, West End, and Canary Wharf). Some larger organisations also participate.

The application of ‘proportionality’ for smaller organisations within the UK Remunerations Code, has meant that pay practice in many Tier 3 organisations has not changed dramatically over the past few years. Most of our survey participants have traditionally been conservative in their remuneration policies and practices, with annual base salary making up the largest part of most employees’ remuneration packages. Annual bonus schemes are widespread in the finance sector and 95% of our survey participants operate annual bonus schemes for all employees. Measures of performance may differ by seniority or type of post. Senior management, front office, relationship management and fee earning staff tend to have the opportunity to earn higher bonuses than support/clerical staff. However, in this survey’s population, bonus awards rarely exceed 100% of base salary even at senior levels.

Reporting requirements have grown with increased regulation and the introduction of the Senior Managers and Certification Regime (SMCR). Financial organisations are now required to provide regular returns, undertake reviews of their remuneration practices, and satisfy the regulators that these are fair and meet the ever-changing requirements imposed on them. The need for robust internal data and reference to the external pay market have become essential in justifying decisions around pay and other elements of remuneration.

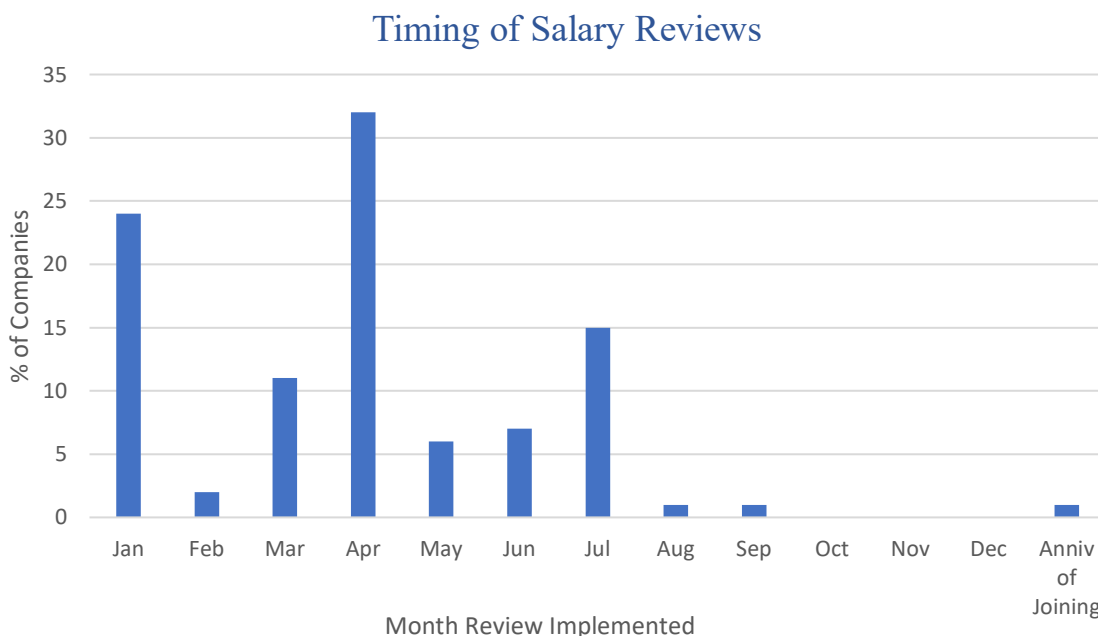
Base Salary Reviews

All participants in this survey complete an annual salary review process which includes all eligible staff. Salary increases or adjustments may occur for some at other times, such as for a promotion. A combination of factors is used to determine the level of base salary increase. Cost of living, market practice, company and individual performance are all taken into consideration when reviewing salaries for individual staff members, and when setting an overall salary budget.

Ninety-nine percent of companies participating in this survey undertake salary reviews once a year resulting in the implementation of pay increases on the same date for all eligible local employees. The remaining 1% of organisations review individual salaries during the year, on each employee’s anniversary of joining the company.

As the following chart shows January and April remain the most popular months for implementation of annual base salary reviews, though we note that April has overtaken January as the most likely month in which reviews take effect, as reported by our survey participants this year. April and January were almost equal in popularity in 2020.

Ninety-five percent of organisations implement their reviews in the first half of the year, i.e. between 1st January and 1st July.



Base Salary Reviews 2022

The majority of our survey participants reviews salaries between January and April. At the point that they were determining their pay budgets for 2022, inflationary pressures were not considered a major factor by around half of those responding to our enquiries in the first quarter of this year, though market pressures on pay for some specialisations and functions were causing some concern. For almost all of these firms, recruitment and retention of staff was becoming an increasing challenge with high demand for talented staff and their ability to match offers made by other firms was an increasing challenge. Affordability was, and remains, a key factor for our survey population of smaller to medium sized banks. Pay market pressures were certainly having an impact on salary budgets for 2022 with a focus on some key individuals and functional areas. Those indicated include risk, compliance, IT, finance, credit analysis and administration, and specialist operations staff.

Our analysis for our April edition of the City Pay Guide showed that average base salary increases for 2022 were between 3 - 3.5%, (for first quarter reviews for which we had received data at that time). However, we have found that those implementing their reviews from April onwards, following the start of the war in Ukraine, and further impacts of the energy and cost of living crises, have reacted with higher than expected pay increases, resulting in a median base salary uplift of 4.5%, based on average company increases in pay (see table below). This median percentage figure is almost double that implemented in 2021.

None of our survey participants have reported a companywide pay freeze in 2022, as was the case with 10 - 15% of these companies in the previous two years, though individual employees may have seen no increase this year.

The following table indicates inter-quartile data for base salary increases implemented in 2022 by participants in our survey. This information is based on reported average increases by company. In comparison the data is also provided for each of the previous 3 years, as published in the October editions of this Guide. Pay increases due to promotions or role changes are excluded from this data.

BASE SALARY INCREASE Company Average %	2022 %	2021 %	2020 %	2019 %
Lower Quartile	4.0	1.8	1.4	2.6
Median	4.5	2.3	2.7	3.4
Upper Quartile	5.2	2.7	3.3	4.0
Pay Freezes Implemented (% of companies)	0	11	16	3

To provide more detail, the next table indicates the median percentage increase by type of organisation, for reviews implemented since January 2022.

BASE PAY INCREASES BY TYPE OF ORGANISATION Company Average %	2022 %	2021 %	2020 %	2019 %
Commercial/retail banks	4.2	2.2	2.7	3.0
Investment banks/ companies	4.6	1.4	3.0	3.4
Private banks	4.5	1.8	1.8	3.9
Fund/asset managers	4.5	2.7	3.4	3.9
Commodity trading companies	3.0	2.1	2.8	3.5

The figures given in the previous tables are based on information on average company-wide increases in base salary, provided to us by participants in the City Pay and Benefits survey.

Non Pensionable Cash Allowances

Around 17% of participating companies pay a non-pensionable cash allowance to some or all employees, (this is down from 19% in 2020). These allowances take the form of an additional non-pensionable cash element of the package and are usually described as either a London living allowance, contributing to the additional costs associated with living and/or working in the City; a market adjustment to increase employees' earnings without impacting on pension costs or, most typically, a cash contribution in lieu of employee benefits. We exclude companies that pay allowances to expatriate employees only, and do not include car allowances, where paid, as this information is provided separately in this Guide (see section on Company Cars and Car Allowances).

Over two-thirds of those companies paying an additional cash allowance do so to all members of staff, though the amount paid usually varies by seniority. The remainder pay a non-pensionable cash allowance to selected staff only, often limited to senior and/or front office employees, increasing their pay packages without increasing pension and benefits costs to the company.

The allowance paid is usually a fixed amount by grade or is set at the same to all staff, rather than a percentage of salary. Taking the average allowance by company the median annual values for cash allowances for clerical and managerial staff, are currently £3,000 and £5,500 respectively.

Annual Bonus Schemes

Ninety-five percent of participating organisations operate some form of annual bonus scheme. This percentage is unchanged over the last 6 years. In all cases, every employee is eligible for an annual bonus, though usually not until a year's service is completed. We no longer see any companies paying bonuses solely to managerial and front office staff and excluding those at clerical grades.

Five per cent of companies participating in this survey do not operate a bonus scheme for any staff.

Timing of Bonus Payments

Every participating company with a bonus scheme reports that bonuses were paid to all eligible employees at the same point in time. Until a few years ago, a small number of companies reported paying bonus awards to clerical and front office/managerial staff at different times of the year.

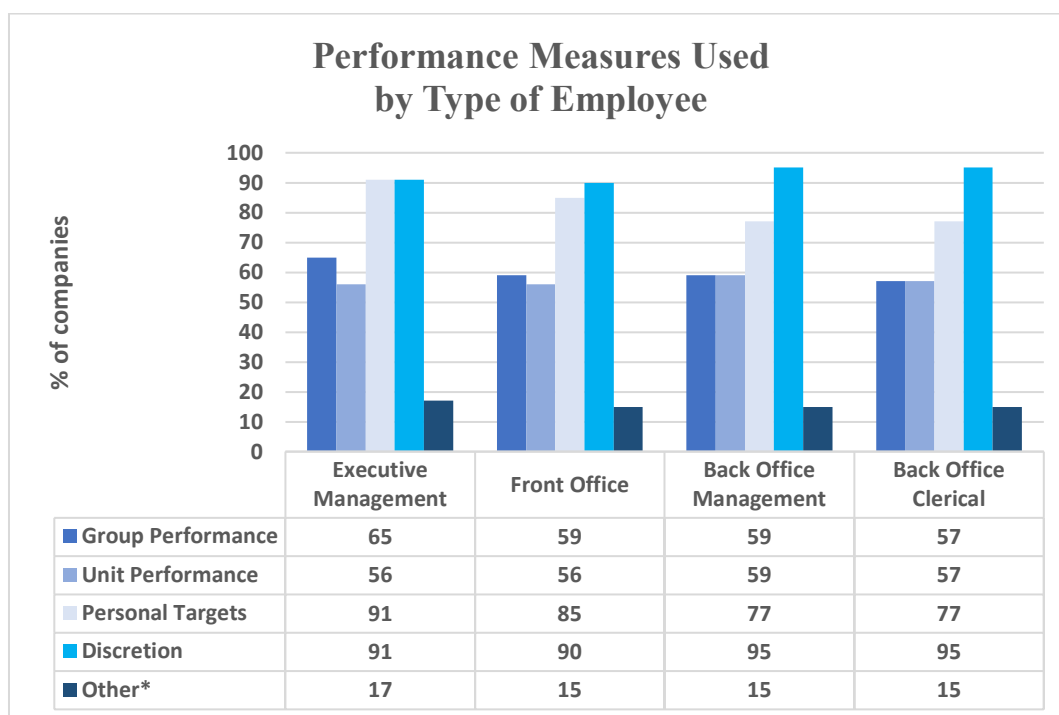
Sixty percent of companies pay their bonus awards in February or March for performance in the previous financial year. Thirty-six percent of companies pay bonus between April and July with a minority paying in December. Four percent pay bonuses twice a year on a 6 monthly basis, usually in June and December. No companies in this survey report that they pay bonuses in the period August to November.

Annual Bonus Performance Measures

Group and/or unit performance, including profit or earnings measures, are typically used to determine the overall bonus pot with personal targets used to allocate the size of bonus awarded to individuals, usually dependant on the discretion of the line manager or department head with guidance/oversight by senior management and human resources, and/or head office.

Almost a third use a combination of all of these factors with most using a combination of factors to determine bonus allocations. Some use complex formulas to determine awards which include performance appraisal scores, company performance measures and individual contribution; for others a less complex approach is used. Management discretion plays a significant part with 90% of schemes involving some level of discretion for all staff. The data provided in the following chart is based on all companies with a bonus scheme. Totals, across staff category, exceed 100% as most companies use multiple factors.

The design of bonus schemes, including the parameters used to determine the award and the level of bonus potential, will usually vary by grade of employee, with award potential for senior and front office staff being higher than for clerical employees.



*‘Other’ factors include absence/attendance, risk management, compliance with internal regulations, or consideration of other financial performance measures.

Target and Maximum Bonus Opportunity

Around 25% of the companies surveyed report that they set specific bonus levels for on-target performance and/or maximum bonus limits. It is more usual, however, for participating companies to maintain the flexibility of a discretionary scheme and not to explicitly establish defined limits on bonus opportunity. For fee earners or money-making positions, it is common for no upper limit on bonus to be set, allowing these staff to benefit from exceptional company or individual performance. In this survey population, however, we rarely see bonus awards exceeding 100% of base pay.

The table below indicates median on-target and maximum awards as a percentage of base salary where these are defined within the bonus scheme, and median and interquartile data on actual bonus awards by percentage of base salary.

ON-TARGET AND MAXIMUM BONUS % of Base Salary

	Executive Management & Front Office	Back Office Management	Clerical
Median On-Target Bonus	30%	25%	12%
Median Bonus Cap (Maximum award)	75%	70%	20%

Actual Annual Bonus Payments 2022

Annual bonus awards made in 2022, based on 2021 performance, have in general been slightly higher than those paid in 2021, and more employees were in receipt of a bonus. Last year we reported that over 25% of those eligible did not receive any bonus award, and a number of organisations paid no bonuses in that year to any staff. We have not seen this reoccur in 2022, when all respondents, with an annual bonus scheme, have made awards to the majority of staff eligible to receive one.

Awards made for clerical staff have been on a par with those made last year, with a median award of 8.5%. Those in managerial roles, both in front and back office have, typically, seen larger bonus awards this year.

The table below indicates lower, median and upper quartile values for bonuses awarded in 2022, and paid in cash, for all eligible employees for whom we have received data. This is shown by type of role: senior management or front office, back office management and clerical staff.

We also indicate the percentage of individuals receiving no bonus (though eligible). This has decreased substantially this year compared to 2021 awards.

ANNUAL BONUS AWARDS 2022

Bonus as % of base salary (all eligible staff)

	Front Office/ Senior Management	Back Office Management	Back Office Clerical
Lower Quartile	8.0	8.0	7.6
Median	18.0	14.0	8.5
Upper Quartile	32.5	20.0	15.5
Percentage receiving no bonus	5.8	6.0	8.8

Deferred Annual Bonus Schemes

Around a third of organisations participating in this survey report that they have a deferred bonus scheme though not all utilise it every bonus round. Over the past few years several schemes have been mothballed as those companies that established them immediately after the introduction of the first Remuneration Code, found that due to the inclusion of 'proportionality' in the Code, they have not been required by the UK regulator to defer a part of the annual bonus award for future payment, and have reverted to a less complicated annual bonus arrangement.

Most deferred annual bonus schemes in operation by companies participating in this survey, determine that a fixed percentage of the bonus award be deferred for later payment. For example, a scheme may require 25% of any bonus award made to employees covered by the scheme to be deferred. Alternatively, in other schemes, a percentage of bonus over a certain prescribed value or percentage of salary is deferred. For example, a deferred annual bonus scheme may require that 30% of any award exceeding £50,000 is deferred. In this instance, where an employee is awarded an annual bonus of £75,000, a sum of £7,500 (30% of £25,000) is deferred for future payment, with £67,500 being paid immediately.

Deferred annual bonus schemes are usually limited to key individuals, senior management and/or front office staff whose bonus potential is high. Only 4% of participating companies include clerical staff in a deferral scheme.

The typical deferral period for staff at any level of seniority is 3 years though we note that deferral periods can vary from 2 to 5 years from the date of the award. For schemes that include clerical staff, the median deferral period for these staff is usually shorter, i.e. 1 or 2 years from the date of the award.

In some schemes staged payments are made each year of the deferral period, i.e. a third of the award is paid after years one, two and three from the date of the award. In other schemes the whole deferred amount is retained and paid at the end of the three year deferral period.

In all schemes reported to us, the deferred element is paid in cash at the end of the deferral period. Many of the companies in this survey have no mechanism in place to pay an award in shares or, even, phantom shares.

In 2022, very few companies deferred any element of the bonus for any employees with less than 1% of individuals for whom we have data for 2022 awards, receiving any deferred element (c5% of individuals in 2020).

Long-term Incentive Schemes

Eighteen percent of participating companies (20% over the period 2018-2020), report that they operate a share option scheme and/or other form of long-term incentive plan to further reward some of their employees. Eligibility is usually limited to senior or key members of staff with only 6% of companies offering such a scheme to clerical staff.

Such schemes in operation tend to be executive share option schemes, with a minority having an all-employee share option or a phantom share option plan.

Due to the limited use of long-term incentive arrangement for this population, and in order to maintain confidentiality, we are not able to give details of these schemes nor the value of awards made.