



**Unite the Union response to the  
FSA Consultation paper 10/27 Implementing CRD3 requirements on  
disclosure of remuneration**

**This response is submitted by Unite the Union. Unite is the UK's largest trade union with 1.5 million members across the private and public sectors. The union's members work in a range of industries including financial services, manufacturing, print, media, construction, transport, local government, education, health and not for profit sectors.**

**Unite is the largest trade union in the finance sector representing some 150,000 workers in all grades and all occupations, not only in the major English and Scottish banks, but also in investment banks, the Bank of England, insurance companies, building societies, finance houses and business services companies.**

**Executive Summary**

- Unite recognises that commission and bonuses are an important component of the reward system in the finance sector and has called for decent pensionable pay and for the link between sales and reward to be removed and greater emphasis placed on the delivery of a professional service;
- Unite has also raised concerns regarding the unequal distribution of reward within the finance sector where those at the highest level of some organisations are paid more than 100 times the pay of those at the lowest level of the company;
- Unite is keen to work with employers and regulatory agencies to ensure that remuneration systems and incentive schemes are fair and transparent and act to motivate the workforce in a positive way;
- It is important to ensure that remuneration reports serve a useful purpose, are a reliable indication of the true extent of the incentive structure and can be used and understood by those they are intended to inform.

## **Introduction**

1. Unite welcomes the opportunity to provide feedback to this consultation paper on enhanced disclosure of remuneration systems. Unite has commented on the issue of transparency in remuneration in response to a number of previous calls for evidence, discussion papers and consultation documents from the FSA, HM Treasury, the OFT and the European Commission.<sup>1</sup>
2. This response will provide a more general response to the points raised in the consultation document focusing specifically on transparency in remuneration and the review of the link between pay and performance which Unite has highlighted previously can be unfair and discriminatory and would argue that Treating Customers Fairly (TCF) principles have been marginalised by some individuals in order to achieve sales performance targets to avoid being disciplined on grounds of capability.

## **Remuneration and reward**

3. The issue of remuneration within the finance sector has faced considerable scrutiny in recent times partly due to the excessive pay awards and bonuses of senior executives. The link between rewards and short term high risk behaviour has been acknowledged as contributing to the financial crisis. It is therefore right that this issue should be examined.
4. It is also important that remuneration systems are as transparent as possible to reassure consumers and investors that the products and services provided are supported by effective risk management structures in order that confidence in the sector can be rebuilt.
5. Unite accepts that pay and reward packages within the finance sector are increasingly complicated recognising that remuneration systems (and many other employment practices) do not work in isolation. Research indicates that other factors, such as work organisation, ethical concerns, motivation and job satisfaction are all factors in determining performance.<sup>2</sup> However it is the link between performance and targets that Unite has concerns with and which can work against positive engagement and for some can lead to low morale, demotivation and increasing stress and absenteeism. This is supported by anecdotal evidence from Unite members and representatives and an increase in the level of performance based disciplinary hearings which Unite has been involved with.

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<sup>1</sup> See Unite website responses to consultation papers - <http://www.epolitix.com/members/member-page/sites/unite-amicus-section/pages/responses-to-government-consultations-and-evidence-to-select-committees/>

<sup>2</sup> The Good Work Commission: 'The Meaning of Work 2009

6. Compensation packages for very senior managers can include bonuses of 100% or more of basic salary. This can be a very lucrative method of reward for some. However for many Unite members the bonus levels are considerably smaller and it therefore becomes vital to achieve the desired target based performance levels in order to receive bonus and top up basic pay levels or face disciplinary action for under-performance. This may lead to inappropriate selling.
7. It is evident that remuneration systems and the practices which determine reward can impact significantly on decisions which can result in undue risk and inappropriate behaviour and can create a culture within organisations where excessive risk becomes acceptable. This is especially evident when risk, which is associated with reward, is combined with unashamed greed or for those at lower levels of the organisation, the fear of disciplinary action, both of which can over-ride sound financial advice and judgement and may act against consumer or investor interests.
8. This is magnified when those individuals with significant influence or whose decisions can have a material impact on the business take risks which can have the potential to lead a company to near collapse.
9. The Financial Services Consumer Panel Retail Banking Position Paper has highlighted the 'Flawed Reward System' and identified that:

*"a culture of excessive profits and bonuses is arguably not conducive to high standards of customer service on the retail side."*<sup>3</sup>
10. The Which organisation has produced a Banking Manifesto including a 10 point plan which aims to address key aspects of the failings in the banking system. One of the recommendations includes a ban on sales incentives and commission for sales staff.<sup>4</sup>
11. Whilst we recognise that commission and bonuses are an important component of the reward system in the finance sector, Unite has called for decent pensionable pay and for the link between sales and reward to be removed and greater emphasis placed on the delivery of a professional service.

### **Discrimination in pay systems**

12. Whilst it is accepted that there are many pay systems operating across the economy, many companies within the finance sector have adopted performance or competency based pay systems as the preferred method. Employers argue that this system encourages, motivates and rewards employees.

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<sup>3</sup> FSCP Retail Banking Position Paper October 2010

<sup>4</sup> <http://www.which.co.uk/documents/pdf/the-which-banking-manifesto-217594.pdf>

13. Performance based pay systems and a lack of transparency can leave the system open to criticism due to perceived or real discrimination, bias or personal favouritism. The Equality and Human Rights Commission (EHRC) conducted an Inquiry in 2009 into pay in financial services which identified that pay transparency was poor and in particular in relation to performance pay criteria.<sup>5</sup>
14. A survey of members in the finance sector carried out by Unite in 2008 also identified that 54% of respondents believed that their pay system discriminated against them.<sup>6</sup>
15. Unite has raised concerns regarding the unequal distribution of reward within the finance sector where those at the highest level of some organisations are paid more than 100 times the pay of those at the lowest level of the company.<sup>7</sup> Pay disparity within the sector resulted in a motion being passed at the 2010 Unite Policy Conference which agreed to support the creation of a High Pay Commission to review and consider proposals to restrict disproportionate remuneration such as maximum wage ratios and bonus taxation across both the private and public sectors.
16. Bonuses, which form part of performance based pay schemes, are a key feature of the pay systems operating within the finance sector. Bonuses can be contractual or discretionary. Contractual bonuses are negotiable, however these are rare in the sector with anecdotal estimates of around 5% of all bonus awards paid in this way. It is the discretionary bonus which is, by far, the most prevalent method used.
17. However, discretionary bonus structures can be subject to criticism over the lack of transparency; are open to discrimination and can harbour claims of favouritism in the distribution of bonus.
18. The issue of equal pay and the gender pay gap has also dogged the finance sector for many years, with the sector having the highest gender pay gap of all industrial sectors at around 55% based on mean full-time earnings according to the EHRC Inquiry report.<sup>8</sup> A report by the Treasury Select Committee also found that 70% of male employees earn above £29,400 and 70% of female employees earn below £29,500.<sup>9</sup> Given that the male/female ratio is around 50:50 this shows a stark difference in the pay of men and women within the sector even taking into account the number of part time, mostly female, workers in the industry.

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<sup>5</sup> EHRC Financial Services Inquiry Sex discrimination and gender pay gap 2009

<sup>6</sup> Unite Finance Sector Members Survey 2008

<sup>7</sup> Stephen Hester CEO RBS – basic pay in 2009 was £1.2 million. The basic pay of the lowest grade in RBS was £11,144 (equates to 108 times highest to lowest pay).

<sup>8</sup> Ibid. EHRC Financial Services Inquiry

<sup>9</sup> Treasury Select Committee: Women and the City

19. This gender difference in pay is an indication of a wider lack of transparency in pay distribution which while not included in the consultation paper requires further investigation.
20. It should be stressed that Unite is not opposed to reward, but reward must be distributed fairly. Unite is therefore keen to work with employers on implementing cultural changes on remuneration and incentives schemes which are fair, non-discriminatory and transparent.

### **Remuneration committees**

21. Unite is keen to work with employers and regulatory agencies to ensure that remuneration systems and incentive schemes are fair and transparent and act to motivate the workforce in a positive way. Unite would therefore welcome the opportunity to have an employee representative on the remuneration committee (RemCo) where one exists.

22. The consultation paper expects that:

*“...the Chair and members of the RemCo to be non-executive directors, although executive staff may attend meetings in a non-voting capacity”.*

23. Unite would recommend that an independent voice representing the interests of the majority of employees as well as consumers are also given membership of the RemCo to address the democratic deficit in remuneration decisions. Unite would not see this as compromising the company's competitive position.

24. Remuneration policies developed in partnership with trade unions and which deliver wider stakeholder engagement will also help to ensure a more robust and fair system of reward through providing better treatment of customers but also by delivering fairness in its treatment of employees.

### **Publishing remuneration reports**

25. It is apparent from the financial crisis that a number of large finance sector companies had published audited annual financial reports which showed healthy and profitable organisations. It became apparent that the reality was quite different for some, with the true level of debt hidden deep in the report.

26. It would therefore be important to ensure that the publishing of a remuneration report would be a reliable indication of the true extent of the incentive structure and not a report providing information that masks the reality. As stated previously in this paper trade union involvement on remuneration committees would ensure sufficient independent oversight has been provided and would give validity to

such reports. It would however be important to ensure that this report serves a useful purpose and can be used and understood by those it is intended to inform.

27. Unite recognises that additional regulatory burdens surrounding improved transparency will effectively involve increasing the workload for our members. However Unite believes that removing any ambiguity over reward is a proportionate measure that is necessary to reduce the unfair pressures on members to achieve sales targets and reach bonus.
28. If Government, regulators and other stakeholders want pay systems to not threaten fairness to customers, they must also be, and be seen to be, fair to staff.

### **Improved engagement**

29. Whilst engagement through the publication of consultation papers is perhaps one method of obtaining views of interested parties, the previous Government had proposed to set up a working group which would investigate how staff targets and incentives within banks lead to poor outcomes for consumers.
30. This would have involved input from key stakeholders including representatives from the financial services industry, consumer groups, regulators, government and trade unions. The Coalition Government has not stated how it intends to engage with such a wide group of stakeholders on this issue and Unite would call on the FSA to press the Government to ensure that a proper review is undertaken and that wide engagement in a format similar to that proposed is carried out.

Rob MacGregor  
**National Officer**

Cath Speight  
**National Officer**

Siobhan Endean  
**National Officer**

For further information on this submission please contact:

Liz Cairns  
**Research Officer**  
Unite the Union

[Elizabeth.cairns@unitetheunion.org](mailto:Elizabeth.cairns@unitetheunion.org)

Telephone: 0845 604 4384

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