



Unite response to the FSA Reforming Remuneration Consultation

This response is submitted by Unite the Union. Unite is the UK's largest trade union with 2 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 180,000 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

- Executive pay and bonus structures should be directly linked to sustainable and long-term performance. Effective regulation should encourage long term investment and reward sustainability;**
- A comprehensive review of stock option schemes which are linked to short term performance;**
- Contractual clawback should be put in place if undiscovered losses emerge after the payment of bonus has been made;**
- Increase public interest representatives on remuneration committees and risk management structures;**
- Unite has concerns over a culture which rewards high risk strategies and failure at executive level, while dispensing severe penalties for failure to those lower down the organisation;**
- It is clear that a target based business strategy which lacks both transparency and accountability is unacceptable and unsustainable as a method of reward;**
- Unite calls for a more 'holistic' approach, recognising that remuneration systems (and many other employment practices) do not work in isolation;**

- **Unite would argue for a suitable balance between reasonable pensionable pay levels and discretionary bonus schemes.**

Introduction

1. Unite has had concerns over a long period over a culture which rewards high risk strategies without due consideration of what is sustainable in the long-term. With that in mind Unite will not provide answers to the questions outlined in the CP, but rather provide a critique of the systems as they stand and recommendations for future changes.
2. It is evident to all concerned that the remuneration regime within the finance sector requires significant attention and overhaul including a review of incentive structures which should be more closely aligned with sustainability and long term performance.
3. The bonus schemes in many of the UK's largest banks have richly rewarded executive directors for taking short-term and risky decisions while having a hugely detrimental impact on workers in the industry. According to a survey by the CBI, around 15,000 jobs have already disappeared between January and March 2009, with firms expected to shed another 15,000 in the next quarter.¹

Pay structures

4. The finance sector has relied upon the use of stock options which are linked to performance to enhance both staff and executive remuneration. Within executive pay systems stock options can be a very lucrative addition to pay, particularly if executives are able to exercise their options over a very short period of time. There should therefore be a comprehensive review of stock option schemes which are linked to short term performance.
5. It is necessary to tie executive pay and bonus structures to sustainable and long-term performance. Effective regulation should encourage long term investment and reward long term sustainable performance.
6. It is apparent from recent events, that a number of executives involved in the financial crisis have contractual obligations which would not allow for monies to be reclaimed from executives for business failings. It is important to address this and where it has been identified that senior people have acted irresponsibly, contractual clawback should be put in place if undiscovered losses emerge after the payment of bonus has been made.
7. Corporate governance can gain legitimacy by providing effective independent oversight and scrutiny to the decision making process. Unite

¹ www.cbi.org.uk

is therefore disappointed with the lack of public interest representatives on remuneration committees and within risk management structures. It is important to limit any possibility of a conflict of interest by encouraging wider stakeholder engagement.

Incentive Schemes

8. Unite has had concerns over a culture which rewards high risk strategies and failure at executive level, while dispensing severe penalties for failure to those lower down the organisation.
9. While this CP focuses on remuneration policies of those who may have significant impact on the business, Unite believes that the wider incentivisation structures require review.
10. The short term based incentivisation and target driven culture associated with commission based selling and synonymous with the finance sector has faced much criticism recently. Indeed EC Internal Market Commissioner Charlie McCreevy has also stated his concerns on a more general point that *“Up to now, there have been far too many perverse incentives in place in the financial services industry. It is neither sensible nor sane that pay incentives encourage excessive risk-taking for short term gain.”*²
11. Consumer groups also believe that incentives increase the risks of mis-selling by employees in a drive to meet often unrealistic and unattainable targets, which does little for consumer confidence or a motivated and productive workforce. This type of selling can increase stress, lower morale and can lead to a conflict of interest.
12. The reward culture based on target must be reassessed and there should be a recognition by finance sector employers of the indirect consequences of a target based culture. Consumers too deserve protection from practices which clearly do not act in their best interests but rather enhance profit at a macro level and may encourage inappropriate selling at a micro level. It is clear that a target based business strategy which lacks both transparency and accountability is unacceptable and unsustainable as a method of reward.
13. Unite calls for a more ‘holistic’ approach, recognising that remuneration systems (and many other employment practices) do not work in isolation. Such an approach is necessary to provide both a response on how the industry could better serve its customers but also to deliver fairness in its treatment of employees.
14. Unite is keen to work with employers and the regulator to ensure that remuneration and incentive schemes are fair and transparent and has launched a Social Contract for Financial Services. The Contract sets out 5

² EC Recommendation on remuneration in the financial services sector MEMO/09/212

key principles which it is calling on the Government and finance sector companies to adhere to.

- Recognition of Unite as a key stakeholder;
- ensure the employment security of employees;
- protect and improve the terms and conditions of employees, including pensions;
- end to remuneration packages which reward short-termism and irresponsible risk;
- overhaul of the regulatory structures of the financial services sector to enhance accountability.

This Contract provides an opportunity to re-build a finance sector that supports long term and sustainable objectives consistent with a more transparent and accountable financial system.

Discrimination in pay systems

15. While 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. However, the Unite 2008 survey of members in the finance sector identified that 54% of respondents believed that their pay system discriminated against them.

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 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 structure 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. Unite would therefore always argue for a suitable balance between reasonable pensionable pay levels and discretionary bonus schemes.

18. The Equality and Human Rights Commission recently published research on equal pay in financial services. The report found that 70% of male employees earn above £29,400 and 70% of female employees earn below £29,500.³ 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.

³ <http://www.equalityhumanrights.com/en/newsandcomment/Pages/financialsectorreport.aspx>

19. The financial crisis has only served to highlight the inequalities which exist and which are being perpetuated by remuneration committees and a culture of greed at the very top of the industry based on short termism.
20. Unite would suggest that an open and transparent pay system would be one where decent pensionable pay is provided for a decent days work.
21. Unite has produced a Pay Systems Bargaining Guide for Officers and Workplace Representatives which seeks to deliver fair pay. This aims for a system:
- Where pay decisions are objective, rather than subjective;
 - Where principles are explicit, clear and straightforward;
 - Which is free of favouritism and treats all staff in the same way, regardless of gender, ethnicity, age, grade and so on;
 - Where outcomes can be measured.
22. Finally, and in response to question 7, history has shown from the annual accounts of many of the UK's leading high street banks over the past few years which reported profits year on year, that the reality can be hidden deep among the facts and figures. It is therefore unclear whether the publishing of an annual remuneration statement would provide the transparency necessary to avoid dubiety of the information provided.

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