



**Unite response to Treasury Select Committee  
evidence session on  
incentive structures and executive remuneration  
in the banking sector**

**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 manufacturing, financial services, print, media, construction, transport and local government, education, health and not for profit sectors.**

**Introduction**

1. Unite is keen to respond to the Committee's request for written evidence on the issue of incentive structures and executive remuneration having campaigned around these issues for some time.
2. Unite represents around 180,000 members in the finance sector many of whom are increasingly working in organisations who apply performance based pay systems and target driven incentive schemes.
3. Despite media headlines which have tarnished workers in the sector, the reality for the majority of employees who have been instrumental in creating billions of pounds of profits over the years, is unpaid overtime, targets and performance based pay. Some workers in the industry even rely on tax credits and state benefits to top up their salaries to provide a decent income for their families.
4. A Unite survey of finance sector members in 2008, found that 43 per cent of respondents earn less than £20,000 per annum and 60 per cent of respondents work unpaid overtime.<sup>1</sup>

**Incentive schemes**

5. Unite has had concerns over a culture which rewards high risk strategies and failure at the top level by awarding executives who have managed the decline of their organisation with enhanced pensions, generous bonuses and huge pay offs, while dispensing severe penalties for failure at lower levels of the organisation.

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<sup>1</sup> Unite Finance Sector Members Survey 2008

6. For our members failure to reach targets is seen as a performance management issue within the sector and therefore the individual can be subject to disciplinary action, have their bonus withheld or even removed completely and could be dismissed.
7. These targets are often imposed on employees, not agreed through two way dialogue and there is little opportunity to challenge them. Targets and the pressure placed on our members to reach them can result in a situation where inappropriate products may be sold to customers.
8. While Unite does not condone mis-selling, greater attention needs to be given to the conditions under which mis-selling can occur.
9. The reward culture based on targets must be reassessed and there should be a recognition by the finance sector of the indirect consequences of a target based culture. Consumers 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 does not treat customers fairly and lacks both transparency and accountability.
10. The focus for reward should be on decent pensionable salaries driven by fair pay for a fair days work. This would provide real and sustainable incentives to staff.

## **Remuneration**

11. Executive pay awards must also be tied to sustainability and long term performance and achievement.
12. Unsurprisingly a survey by the global HR Consultants Watson Wyatt, reports that since the turmoil in the global financial markets there is 'no sign of a rush to make significant changes to executive packages'.<sup>2</sup> It would appear 'business as usual' for executives including those executives who have sought public money to shore up their flawed business decisions.
13. It would also appear that short-term risky behaviour in the finance sector will remain, bringing rich rewards for senior executives and significant job losses affecting thousands of finance sector workers and having a huge impact on the wider UK economy.
14. The 2008 survey of Unite members in the finance sector identified that 54% of respondents believed that their pay system discriminated

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<sup>2</sup> [www.watsonwyatt.com](http://www.watsonwyatt.com)

against them. This is the same pay system which is supposed to encourage, motivate and reward.

15. It is time for a complete overhaul of the pay systems, remuneration policies and incentive structures within the finance sector.
16. The financial crisis has only served to highlight the inequities 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.

## **Regulation**

17. Up until now the Financial Services Authority (FSA) has adopted a hands off approach to remuneration. However, it is evident that many of the short term, high risk decisions made by executive directors which richly rewarded them have proven to be extremely detrimental to the sector.
18. The FSA has a duty to ensure fair remuneration and this may require a more interventionist approach. However, it is evident that the industry is unable to regulate itself without intervention. The future credibility of the UK finance sector is at stake if we let it be run by those whose own self interests is what drives them.
19. Unite is keen to work with employers on implementing cultural changes on remuneration and incentive schemes which are fair, non-discriminatory and transparent.
20. Unite is not opposed to reward, but reward must be shared fairly across the organisation and not distributed unequally to those at the top, leaving others lower down an unfair share.
21. Let us not forget that the taxpayer is picking up the tab for risky business decisions in the finance sector, either through government financial intervention or in state benefits to the increasing number of finance sector workers losing their jobs.

## **Social Contract**

22. Unite has recently launched a Social Contract for Financial Services. The Contract sets out 5 key demands which it is calling on the Government and finance sector companies to adhere to. Of these, two refer specifically to remuneration and accountability.
23. Unite wishes to see an end to the remuneration packages of senior executives which reward short-termism and irresponsible risk taking. The Contract also calls for an overhaul of the regulatory structures of the sector to enhance the accountability of finance institutions. This would include trade union and other stakeholder participation on the

boards and committee's of all regulatory organisations who have responsibility to oversee the finance industry. This would provide for true corporate democracy where the interests of all stakeholders are heard.

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