

City HR - Remuneration considerations ahead of year-end

September 2020



1

Current regulatory
areas of focus and
what that means in
practice

Current regulatory areas of focus



Customer outcomes

COVID-19 has driven rapid change in how people work. The regulator is keen to scrutinise how firms are ensuring that **incentives ensure that business continuity is not at the expense of good customer outcomes.**



Capital strength

As the economic impact of COVID-19 intensifies the regulators want firms to ensure that **pay decisions are affordable and defensible from an external perspective.**



Accountability

Culture and driving the right behaviours is especially important in a time of crisis, where changes are being made to both the organisation and how people work at a more rapid rate than normal.



Ex-post risk adjustment

Firms are **not proactive enough** in applying risk adjustment and there is a suggestion that the size of adjustments is not reflective of the FCA's assessment of the conduct underlying the need for adjustment.



Diversity and inclusion

The FCA expect to see **material progress in achieving the long-term goals** to tackle inequalities and create an inclusive environment. The FCA also expects firms to be considering analysis from their Gender and BAME pay gap reporting to inform their actions on diversity and inclusion.

2

COVID response
so far and
approach to
variable pay for
material risk takers
in respect of 2020

COVID-19 Response so far

UK Regulators' response

Extract of letter to banks

“Thank you for our discussions of recent days in response to the exceptional circumstances caused by COVID-19. The PRA welcomes the consideration given by you and your firm to suspending dividends and buybacks on ordinary shares until the end of 2020. Should your board take such a decision the PRA would publicly welcome it. I am also writing to ask you to **cancel payments of any outstanding 2019 dividends**. The PRA also expects banks **not to pay any cash bonuses to senior staff, including all material risk takers**, and is confident that bank boards are already considering and will take any appropriate further actions with regard to the accrual, payment and vesting of variable remuneration over coming months.”

Extract of letter to insurers

“When UK insurers' boards are considering any distributions to shareholders or making decisions on variable remuneration, we expect them to **pay close attention to the need to protect policyholders and maintain safety and soundness** [.....] when deciding on distributions boards should satisfy themselves that **each distribution is prudent and consistent with their risk appetite**.”

Market response

- All of the banks who received letters from the PRA published statements confirming that they would suspend dividends and buybacks on ordinary shares until the end of 2020, and cancel payments of any outstanding 2019 dividends.
- Later statements were then made with respect to pay with the majority making temporary changes to executive fixed pay.
- Amongst the FTSE350 FS firms and equivalent:

Salary	<ul style="list-style-type: none">• 9 companies reduced salaries on a temporary basis for Executives or Executives have agreed to donate salaries to charity;• Salary reductions were typically around 20%.
Incentive in relation to prior FY	<ul style="list-style-type: none">• Majority of companies paid bonuses as normal• A small number of firms (c.10) deferred, reduced or cancelled anticipated bonus payments and others were delivered in instruments instead of cash.
LTIP grants	<ul style="list-style-type: none">• Most companies appear to have proceeded with their LTIP grants as normal, with a commitment to review outcomes at the point of vesting to remove any unjustified windfall gain at that point• 2 companies reported that their CEO / Executive Directors forfeited their 2020 LTIP awards
Incentive for current FY	<ul style="list-style-type: none">• Majority are waiting to see what happens before making any decisions

COVID-19: Considerations for remuneration

Key drivers impacting pay, or with the potential to do so, this year:

External

Mandated action (government / regulator)

- PRA / FCA / HMT instruction to all firms or a subset of firms
- Action from other regulators e.g. other local regulators or ECB / EIOPA / EBA

Direct government support

- Use of the CJRS, and
- Other support mechanisms from the government

Indirect government support

- Indirect benefits from government support measures in some form, e.g. implications on bad debt provisions

Public and political environment

- Scrutiny on executive pay, and
- Pay more generally in the financial services sector

Internal

Capital / Solvency

- Capital preservation and balance sheet strength in uncertain economy
- Focus on cash conservation

Company performance

- Scorecards or metric calibrations
- Application of judgement / discretion
- Distribution of scarce resources

Wider workforce

- Implications of COVID across the workforce e.g. headcount reductions, pay freezes
- Focus on fairness

Next steps:

There is an element of wait and see as firms wait to see what others do and whether the regulators will make further statements. FCA's request to level 1 banks asking for information about how they plan to consider COVID-19 in their year end decisions suggests they are also in the process of developing their strategy as the economic situation develops.

Thank you

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