

City HR

Compensation Forum

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Introduction



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Agenda

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1. Regulation update: current areas of focus
 2. Cost of living crisis
 3. The “war for talent”
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Regulation update: current areas of focus

FCA letter to banks on remuneration (2 August 2022)

- FCA letter to RemCo Chairs of 'Level 1' banks with approach to remuneration for 2022/23.
- Relevant to all firms, as highlights FCA's current areas of focus more generally.

Culture and accountability

RemCo Chairs should hold individuals accountable through SM&CR for their conduct and competence.

Importance of clear evidence of link between behaviours and pay outcomes, with appropriate adjustments made for failings, including operational risk events.

Consumer duty

Incentives should be aligned to business strategy with regard to the treatment of and support for consumers, particularly those with characteristics of vulnerability.

Cost of living

Workforce pay is responsibility of RemCo. Should consider impact of rising cost of living on employees and the business as a whole.

Operational resilience

In the event of service disruptions, data breaches or other interruptions, firms are expected to respond appropriately, e.g. with remuneration adjustments, and to recover and learn from the experience.

ESG

Firms should review whether MRTs' incentives are aligned to wider ESG risk factors.

Firms should consider the use of incentives to link progress against green and sustainability objectives to a measurable proportion of individuals' pay.

Diversity and inclusion

Firms should build understanding and trust with employees as a way of increasing rates of declaration of diversity characteristics.

Firms should review how their remuneration policy considers the risks that an employee's working preferences negatively influence their pay.

Potential future developments

- PRA/FCA consultation proposals on Diversity and Inclusion
- New PM and Chancellor: abolition of bonus cap?
- PRA 'Strong and Simple Framework': fewer remuneration requirements for smaller banks?

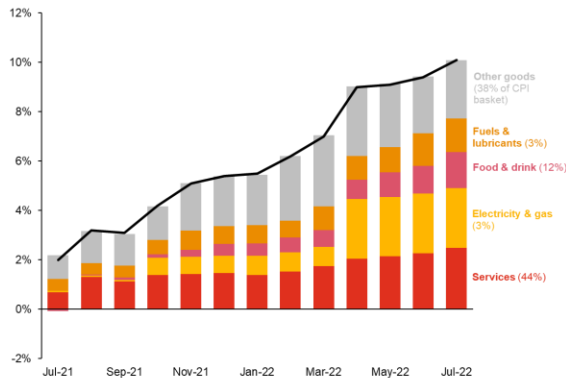
Cost of living crisis

Rising inflation combined with pressure on cost is creating both short and long-term challenges for firms to address

Rising inflation – c. 10% in August 2022

83% of firms* are considering specific interventions

Forward looking



- Focussed pay increases for essential workers
- Additional / off cycle pay reviews
- One-off bonuses
- Changing pay bands
- Non-monetary interventions

- Initial expectations of salary budgets being up v last year (c. 6%+) but constantly evolving
- Challenges with balancing needs of employees v. business

CPI inflation, by component, monthly, year-on-year

* PwC Survey of over 100 organisations

Experiences differ by sector

Performance

Cost of living actions

- Asset and wealth management
- Banking
- Insurance



Limited

Significant especially in retail

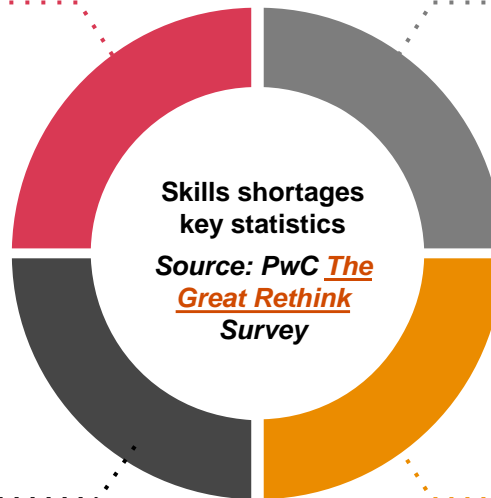
Some, particularly in retail

The “war for talent”

Competition for top talent has prompted firms to take a closer look at their employee value proposition

85% of firms are struggling with a lack of external supply

47% of firms are finding the speed required when hiring to secure candidates challenging



34% of firms view their candidate base as lacking in diversity

42% of firms are focussing on training and career pathways as a route to address skills shortages

Employee market

- Particular hotspots in tech and ESG
- Candidates having multiple offers
- Expectations above pay ranges v. internal relativity

EVP

- Expansion of equity and profit share
- Greater flexibility / International working
- Financial and personal wellbeing support / benefits
- Progression

Forward looking

- Targeted pay rounds
- Greater differentiation
- Workforce planning
- Retraining and upskilling

Thank you

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