


AON

CityHR Reward Roundtable

Aon Update

8 June 2023





Review of year-end process & learnings

2022 Incentives Varied Greatly by Division; Strong Salary Round

2022 Performance

- Profits down from record '21, but 2nd highest year of industry profits for banks
- Interest rate increases lift top-line revenues, but higher expenses as well at most banks
- Business mix benefits Universal and Regional Banks vs. IB-focused firms
 - Investment Banking wallet down 40%+ from record '21; lower asset valuations impact AM and Wealth divisions
- Market volatility lifts Fixed Income revenues 20% YOY among the largest global banks
- Moderate loan growth and credit quality holds up (some increases in provisions in 2nd half)

2022 Pay

- Significant declines in pay for I-Banking and Asset Mgmt vs increases for Fixed Income, Corporate/ Commercial and Retail Banking
- Infrastructure compensation trends driven largely by salaries
- Limited changes in deferrals / pay mix (exceptions only)
- Continued journey towards pay transparency – structured pay for juniors; pay disclosure requirements
- '23 salary increases ~5-6% for most core locations

2023 Outlook

Volatile start for banks in 2023

2023 Performance

- **March 2023 warning from IMF of increasing risk** to financial stability following SVB collapse and CS takeover by UBS
- Generally strong earnings for Universal banks in 1Q (not for IB-aligned), but:
 - Outlook = tightening credit standards, lower loan growth, increasing cost of deposits/funding, decreasing NIM and minor decline in credit quality
 - Slow start for I-Banking (revs down 20%+ YOY) and Equities. Fixed Income flattish
- Asset prices level off following 2020/2021 run-up and 2022 decline (well above '18/'19 levels)
- Geo-political pressures and impact of continuing Ukraine war remain a wildcard

2023 People and Pay

- Tight labor market remains, but **low voluntary turnover** following pay round
- **Cost focus / select headcount reductions** following post-Covid growth & '23 outlook – rightsizing
- Less competition for talent from non-FS, especially Tech firms that are downsizing
- ESG and DE&I initiatives imbedded in HR and talent strategies
- Environment drives continued focus on **total rewards, wellbeing, career needs, re-skilling**
- **Pay transparency journey** continues – NYC law and now Eu directive



Remuneration
Committee
scope &
current activity

Financial Reporting Council Consultation

Revising the UK Corporate Governance Code - Remuneration Considerations

Proposed revisions to the code – Specific actions on director’s and workforce remuneration reporting

Malus & Clawback



- Directors’ Remuneration Report should describe:
- malus and clawback provisions, including the minimum circumstances in which could be used
- description of the minimum period for provision and why this selected period is best suited to the organisation
- whether the provisions have been used in the last reporting period; if so a clear explanation of the reason in the annual report

Director remuneration policy



- To be clear, identify and mitigate risks associated with remuneration
- Should ensure outcomes are proportionate and do not reward poor performance

Description of work of remuneration committees



- Explain how the strategic rationale for executive directors’ remuneration policies, structures and performance metrics support company strategy and ESG objectives
- Detail engagement with shareholders and the workforce, and what impact this has had on remuneration policy/outcomes, including the alignment of executive remuneration and the overall company pay policy

Workforce remuneration



- Annual report to include explanation of company’s approach to investing in and rewarding its workforce

Proposed revisions to the UK Corporate Governance Code to take effect for accounting periods beginning on or after 1 January 2025

The top 5 workforce priorities today

In delivering a new equilibrium, our clients are looking towards these 5 areas to build workforce resilience

01

COST OPTIMISATION

People Costs are continuing to rise in the wake of 2022 that saw a mix of rising inflation, persistent people turnover and economic uncertainty. Married with shrinking budgets, what is the best use now of our tighter spend?

02

WELLBEING

Wellbeing will continue to remain a key priority forming an essential sustainability component amid a growing awareness of the need to integrate into broader DEI & ESG strategies

03

PAY PARITY

Pay compression will be become increasingly problematic for organisations that paid a premium for talent with upcoming legislation on pay transparency

04

SKILLS

Defining, aligning and hiring for future skills to better align with people/ HR strategies.

05

PERSONALISING THE FUTURE OF WORK

A “one-size-fits-all” approach to EVP no longer works as we see a move away from blanket policies to the personalising of EX becoming increasingly popular

The Human Sustainability Index (HSI) – Critical Component for Leader Success



Leadership resiliency is a critical component of any successful company transition to stabilise top leadership. Aon's HSI builds a baseline of data by which we can understand a leader's (and the C-team) sustainability across the pathways below. We then layer in targeted coaching and facilitate alignment on goals for the path forward.




Leadership Alignment

01 Conduct HSI Wellbeing **assessment of top 20 leaders** involved in driving culture and strategy

02 **Interactive group workshop** around diagnostic results, Aon provides analysis of critical wellbeing pathways (focus areas) for groups as well as **resiliency action plans**

03 After awareness has been built through HSI assessment, then focus on creation of **strategic team objectives** with coaching on sustaining strong leaders



DEI - pay
transparency
& pay gap
reporting

The EU Directive on Pay Transparency Requirements

Employers with at least **100 employees** will have to publish information on the pay gap between female and male workers.

4 years after the implementation of the directive:

- Employers with 250 employees+ will report every year relating to the previous calendar year
- Employers with between 150 and 249 employees will report every three years.

8 years after the implementation of the directive:

- Employers with between 100 and 149 employees will also have to report every three years..

Workers representatives will have access to the methodologies used by the employer

Aon advice to employers: Don't delay. Conduct a readiness assessment



Employees have a right to clear and complete information on an individual basis including information on their job and/ or similar functions in the company as well as on the GPG in their business.



“Workers have the right to request and receive in writing, Information on their individual pay level and the average pay levels broken down by sex, for categories of workers performing the same work as them or work of equal value to theirs.”



If a pay gap (related to Gender) exists of more than 5.0% then employers must work with their worker's representatives to conduct a joint pay assessment and develop a gender action plan



Any pay differences must be related to objective criteria, not related to gender (e.g. performance track record/ market premia)



Tools to compare and assess pay levels must be based on gender-neutral criteria and include gender-neutral job evaluation/ classification systems

Spotlight: Pay Parity

Equitable pay for equal roles

Creating a long-term holistic people and reward strategy with a view to diagnose and address inequality across pay and embed goals into organisational ESG targets, Total Rewards, pay bands in addition to how they attract, hire, retain and sustain people.



Regulatory & Compliance



Organisational Transparency



Talent Competitiveness



Social Movements, Activism & Risk Mitigation



Investor Relations & Board Focus [ESG]



Because it's the right thing to do!



The Educated Gender Gap

The pay gap between men and women tend to widen with more education. The OECD suggest women earn 1/3 less than male graduates and in the US, women with a bachelor's degree earn 74 cents for every dollar earned by their male counterparts with the same level of education.



NEW HIRE PREMIUM

Salaries for new hires are, **on average, 7% higher than what current employees earn** in similar positions. For in-demand jobs in tech and finance, **the pay gap can stretch to as much as 20%.**



ECONOMIC UNCERTAINTY

Women lost more than 1.4 million net jobs between February 2020 and March 2022 and made up nearly 70% of workers who lost jobs since the start of the crisis.

Pay Equity – A Comprehensive Approach

Different phases of the pay equity process

01 | Pay Equity Audit

- Is there any evidence of gender or race / ethnicity-based gaps in pay?
- What is the size of the gender or race / ethnicity pay gap?
- Which, if any, pockets of the organisation may pose the greatest pay equity risk / concern?
- What are the key drivers of pay in the organisation?

02 | Remediation Strategy

- How does your pay, hiring, and promotion policies relate to pay equity?
- How does the workforce representation relate to pay equity?
- What policy changes might be appropriate?
- Who are outliers (i.e., paid quite differently from the level of pay we'd expect)?
- Who might receive pay adjustments and what would be the cost?

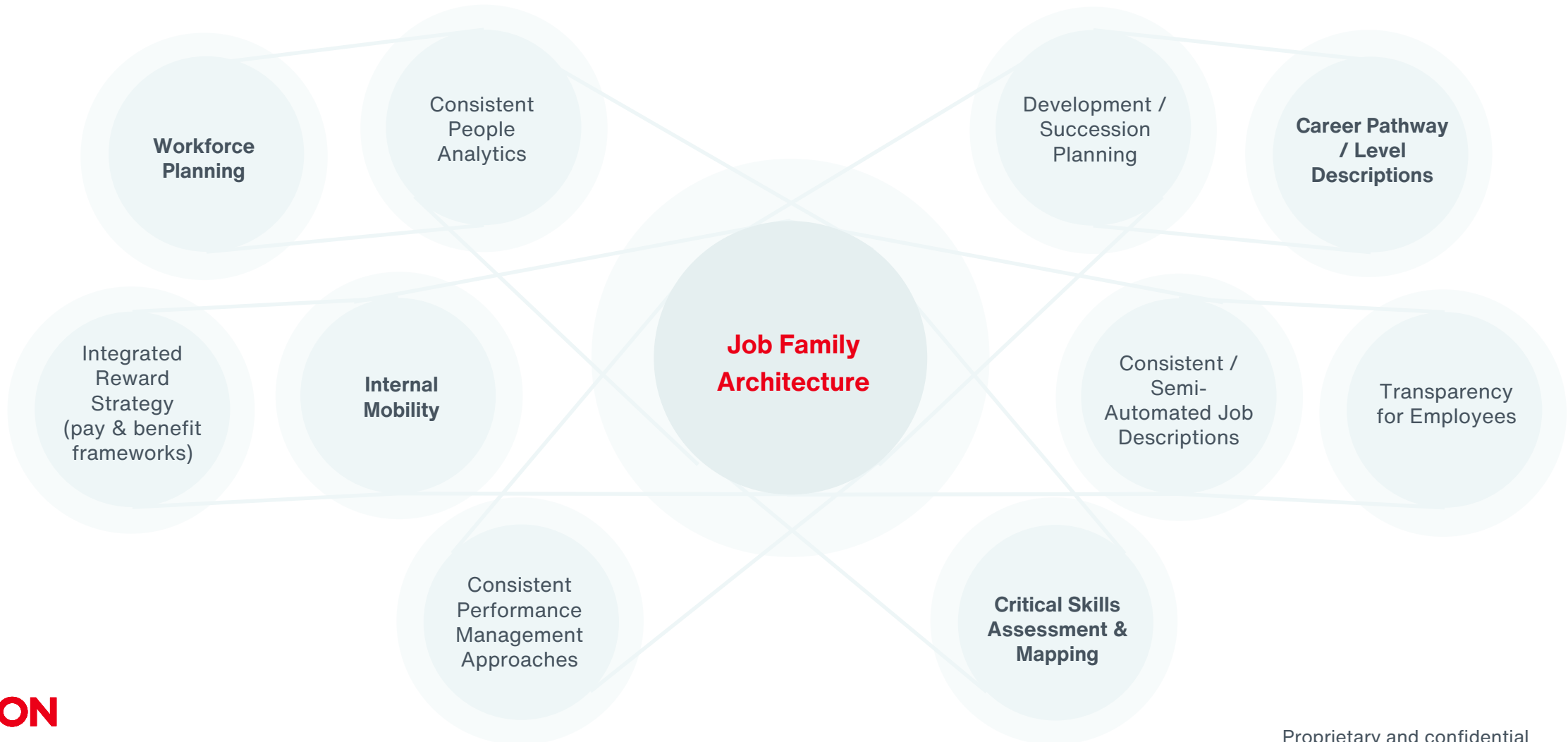
03 | Ongoing Monitoring & Governance

- How can we organically institutionalise pay equity as part of the annual compensation cycle?
- Can we continue to monitor our pay equity position in a cost-effective manner?
- Can we guide compensation decisions through a pay equity lens?



Job Architecture as a hub for business and people process

An organisation's job architecture should act as hub for a range of people and business processes. It is recommended that any organisations adopting the approach starts with something simple that can be expanded and evolved over time and based on business need. The list below represents some of the possibilities that can be built onto the core framework.



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