

AON

UK Market Trends Update

Prepared for City HR

September 2023



2024 UK Financial Services Salary Budget Projections

Salary budgets projected to be lower than last year but higher than historical norms

- Many firms are not planning to make mid-year salary adjustments in 2023.
- Some firms do not have a formal mid-year review process. However, they award out of cycle / discretionary increases on a case-by-case basis (exception management).
- When setting 2024 budgets, firms are split in referencing the current and projected inflation rates.

Challenges to salary budgeting

Inflation

Cost of Living

Affordability /
Cost Pressure

Expectations
versus
available
budget

Balancing supporting
employees with cost of
living against a need
to control costs

Additional Areas of Focus for HR in 2023

Uncertain outlook drives a continued need for resiliency

<h2>Expense Management</h2>	<p>Firms are focused on expense management given:</p> <ul style="list-style-type: none">▪ Inflationary costs▪ Headcount growth▪ Turnover for the past two years driving pay premiums▪ Non-Comp Costs (e.g. Digital transformation)	<h2>Human Capital</h2>	<p>While pay remains a top driver of employee engagement, other factors have gained importance.</p> <p>Understanding what employees value and establishing programs and policies accordingly increases workforce resiliency</p>
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Maximizing the return on people spend has never been more critical than today, requiring a strategy that is grounded in data across all aspects



2023 UK Financial Services Benefits Outcomes

Are you planning on making any changes to your benefit offerings in the next 6-12 months?



- Benefits are an area of change, the majority of firms indicated that they have made changes to their benefits in the last 12 months.
- Organisations are being forced to expand the breadth of the employee value proposition, of which benefits form a pivotal element.

Key Themes

Significant Area of Change

Benefits affected by DE&I – e.g., family leave entitlements (paternity, maternity, childcare & care giving)

Employee Engagement

Minority reported a **highly engaged workforce**

Working Practices

Shift towards **hybrid working vs. fully remote/flexible**

Achieving a good work-life balance is now one of the highest rated priorities in employee feedback



flexible hours • rotating office days • summer hours • four-day working week

Pay Transparency – a Global Movement

Pay Equity is a driving force behind the new laws, regulation and the changing attitude and expectation for pay transparency that is sweeping across the Globe.



EU – the **EU Pay Transparency Directive** has been formally approved by the European Parliament and came into force on 6th June 2023.

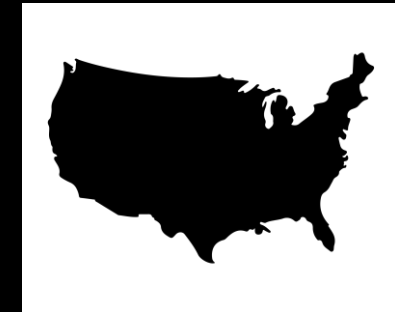
EU member states will have up to 3 years to transpose its provisions into their national laws and we anticipate that this will be much sooner in some EU countries.

The Directive also applies to UK companies with employees in the EU.

UK – world leading GPG reporting legislation in place since 2017 for companies with more than 250 employees. The Government is currently reviewing the GPG requirements.

The UK Government also introduced a pilot scheme 2022 on Pay Transparency.

Regulations vary from country to country and multinational companies may struggle with this fragmented landscape. Aon's global team of reward and human capital experts can support understanding in how to best navigate this complex network of local legislation and regulations.



US – several US states now have pay transparency laws in place with others to follow.

Aon's Oct 2022 US Pay Survey – 49% identified pay equity as one of the key talent initiatives, including implementing formal job evaluation, levelling, grading, and salary structures.

31% of US companies surveyed intend to disclose regardless of the law.

Middle East – Pay transparency is growing in importance in the Middle East and in reinforcing diversity and inclusion.



APAC – we see more focus on DE&I and ESG.

Impact of Pay Transparency

Pay transparency can:

- Increase fairness and equality, improving DEI and pay parity between men and women,
- Help to identify underlying issues within the culture of the business,
- Remove embedded bias in recruitment practices,
- Act as a driver to attracting talent,
- Provide a level playing field,
- Bring increased trust, loyalty, performance, retention, and build the employer brand,
- Act as a motivator for employees to develop their career.

But it can also:

- Lead to wage inflation and increase costs,
- Lead to a loss of talent and talent wars,
- Increased risk of employee relations issues including grievances,
- Trigger new waves of equal pay claims,
- Highlight the lack of or weak frameworks, processes and data e.g. Job Evaluation methodology, regular Equal Pay Audits, or sufficient compensation market data,
- Reveal ambiguous pay policies and historic pay decisions around pay setting, job evaluation and levelling, pay scales, and pay governance.

Pay Transparency Roadmap

How we are advising and supporting clients through each stage of the journey



Pay Transparency Readiness Assessment



- A quick, simple and low cost review.
- Recommendations for preparing for Pay Transparency

Pay Transparency Solutions (Tools, Advice and Support)



- Aon's Job Evaluation methodology, *JobLink*
- Market leading data
- Complete Reward and Human Capital solutions
- Advice and support, to full project management.

Pay Equity Audit



- Independent pay equity audit
- Key drivers and risks associated with a pay gap
- Recommendations & support

People Strategy, DEI & ESG



- Linkage of pay strategy to overall people strategy and employee value proposition of the organisation
- Establishing role of fairness and transparency impacting ESG and DEI policies and strategy
- Recommendations and advice to bring it all together

Evolving the role of Remuneration Committees

Supporting RemCos to transform into People & RemCo



Traditional RemCo remit:

- Setting remuneration principles.
- Remuneration policy for senior staff.
- Approval of bonus/incentive pool measures, funding and risk adjustment.
- Approval of senior staff remuneration
- Approval of decisions on individual risk adjustment, and oversight of outcomes.
- Approval of MRT policy and practice including reviewing at least annually the list of MRTs.
- Exercise of RemCo discretion, where appropriate.
- Oversight and review of compliance with regulatory requirements.



Traditional remit **AND** additional focus on the wider workforce:

- Pay and benefit offerings
- Workforce resilience, considering engagement, motivation, psychological safety, innovation and wellbeing in the workplace.
- Diversity, Equity and Inclusion.
- Relativity of workforce and executive pay.

What is on the RemCo agenda?

Some previous, and some newer topics

- ✓ Bonus pool governance and determination
- ✓ Risk adjustment policies, including malus and clawback
- ✓ Remuneration Policy restructures
- ✓ Disclosure policies
- ✓ Structuring of payment in instruments
- ✓ ESG in incentives
- ✓ Salary budgets in the cost of living crisis
- ✓ Gender pay gap, equal pay, ethnicity pay
- ✓ Benefits
- ✓ Employee reward communications
- ✓ Hybrid working
- ✓ Generational working style differences – employee motivation and retention



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