

AON

UK Market Reward Trends

Prepared for City HR

October 2023



2022 Performance & Pay – The Short Story by Division

Banking & Capital Markets	<ul style="list-style-type: none">▪ Investment Banking pay drops significantly s revenues decline 50% from record 2021 fee wallet▪ Fixed Income revenues up on market volatility but pay lags performance trend▪ Equity pay down mid single digits with Derivatives > Cash
Corporate, Commercial & Transaction Banking	<ul style="list-style-type: none">▪ Interest rate increases improved net interest margins, loan growth and credit quality held through the year Transaction Banking revenues highest since credit crisis; cash management & trade finance strong▪ Pay up mid to high single digits
Retail & Consumer Banking	<ul style="list-style-type: none">▪ Consumer and Credit Cards enjoyed higher net interest margins with some caution on credit outlook▪ Rising cost of living drives mid-year salary increases and one-off payments.▪ Pay up single digit driven by salary increases and fully funded bonus pools.
Asset Management	<ul style="list-style-type: none">▪ Firm revenues fell from record highs, following the “best year ever” for asset management in 2021▪ Incentive pools fell but most individuals saw total compensation increase due to focused cuts and salary increases.
Wealth / Private Client	<ul style="list-style-type: none">▪ Revenues driven by strong lending and deposit growth following rate increases; client AUM’s decline from record 2021 levels▪ Pay up mid-single digits (US > UK/EU)
Infrastructure	<ul style="list-style-type: none">▪ Total Comp increases across major hub locations primarily driven by salary increases▪ Juniors / lower paid roles experience larger increases vs seniors as a result of inflation▪ Technical / Analytical Skills still in demand despite some headcount reductions in the Tech sector

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.

Source: Aon's September 2023 Salary Pulse Study

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

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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Maximising the return on people spend has never been more critical than today, requiring a strategy that is grounded in data across all aspects



Aon UK Financial Services INED Remuneration survey

Over 60 companies participated in our 2023 UK Financial Services NED Survey covering a range of size and sectors – focussing on INEDs for subsidiary and private firms (as well as comparisons to listed companies).

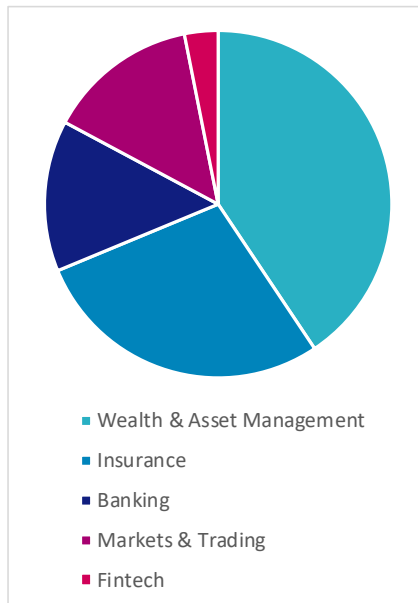
INED fee insights

- Contrast between Non-Executive Chair fees at listed and unlisted firms, versus those of other INEDS.
- Chairs of listed firms have a higher time commitment for shareholder investor relations.
- Impact of sub-Committee chair and membership fees on total fees.
- Varying practices of firms paying base fee only versus supplementary fees.

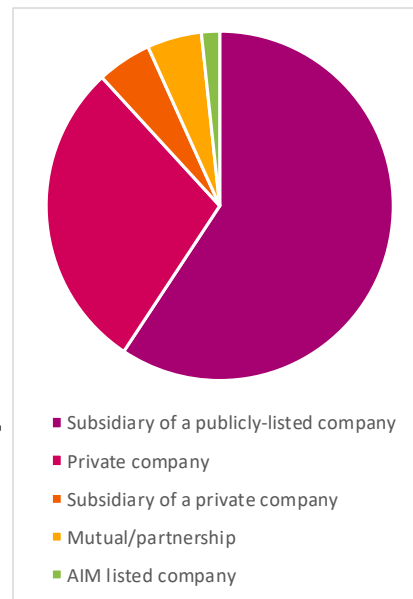
Board diversity

- Gender diversity of Boards is a key priority for many companies, with progress on ethnic diversity at an earlier stage of development in comparison to gender. Companies report difficulty finding suitably-qualified Board candidates from ethnic minority backgrounds.
- Gender diversity of the Chair (Non-Executive) lags the gender diversity across NEDs as a whole.
- This topic continues to have a strong focus in the context of the latest PRA/FCA consultation on Diversity & inclusion.

Business type

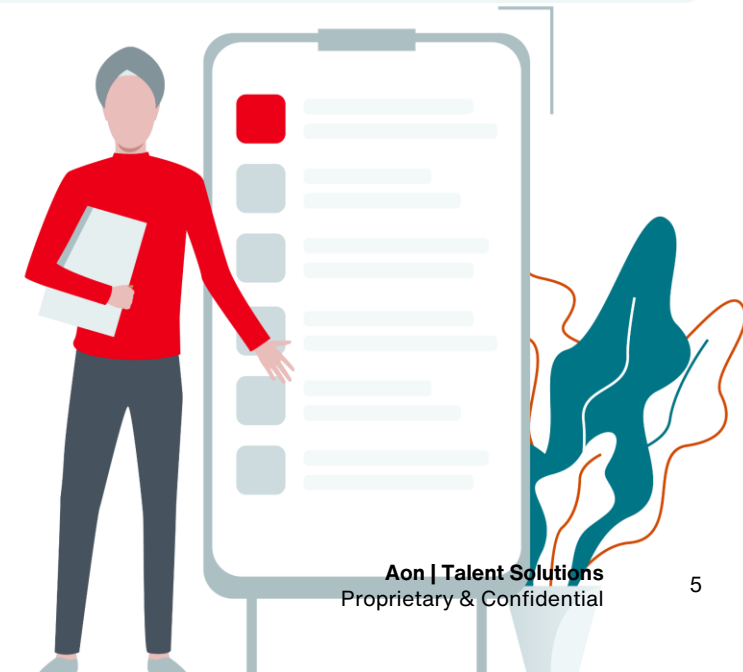


Ownership structure



Frequency of fee reviews

- Variance in frequency of increases
- Significant increase in the number of firms reviewing fees in the last 12 months and looking to increase in the next 12 months



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.

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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

What is the Gender Pension Gap?

Difference in Retirement Outcomes Between Men and Women

35%

difference in pension income between males and females*

Up to 60%

For those who rely on DC only*

Increases with age

Participation is higher but median auto-enrolment female saved

£510 less p.a.*

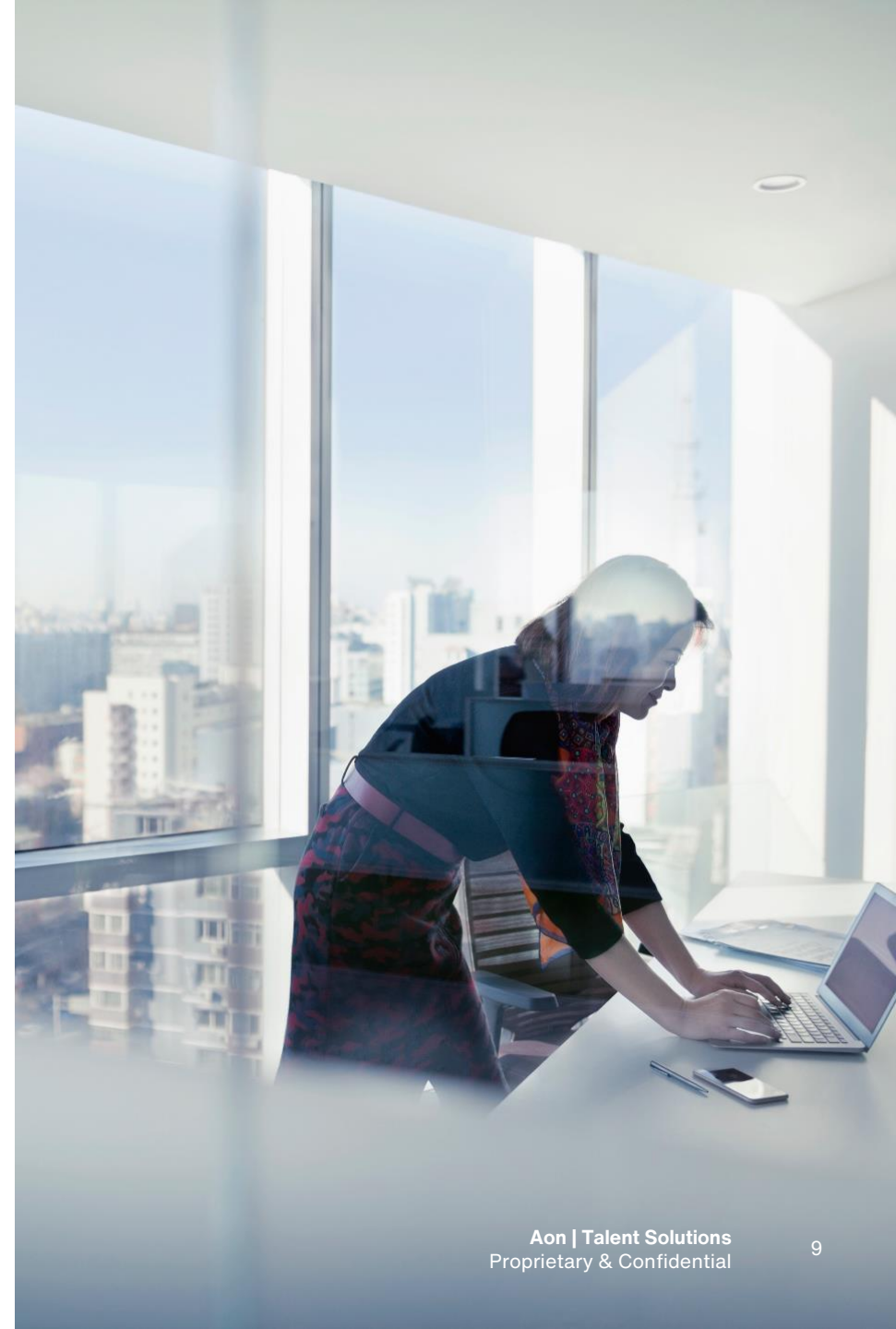


More than double the Gender Pay Gap**

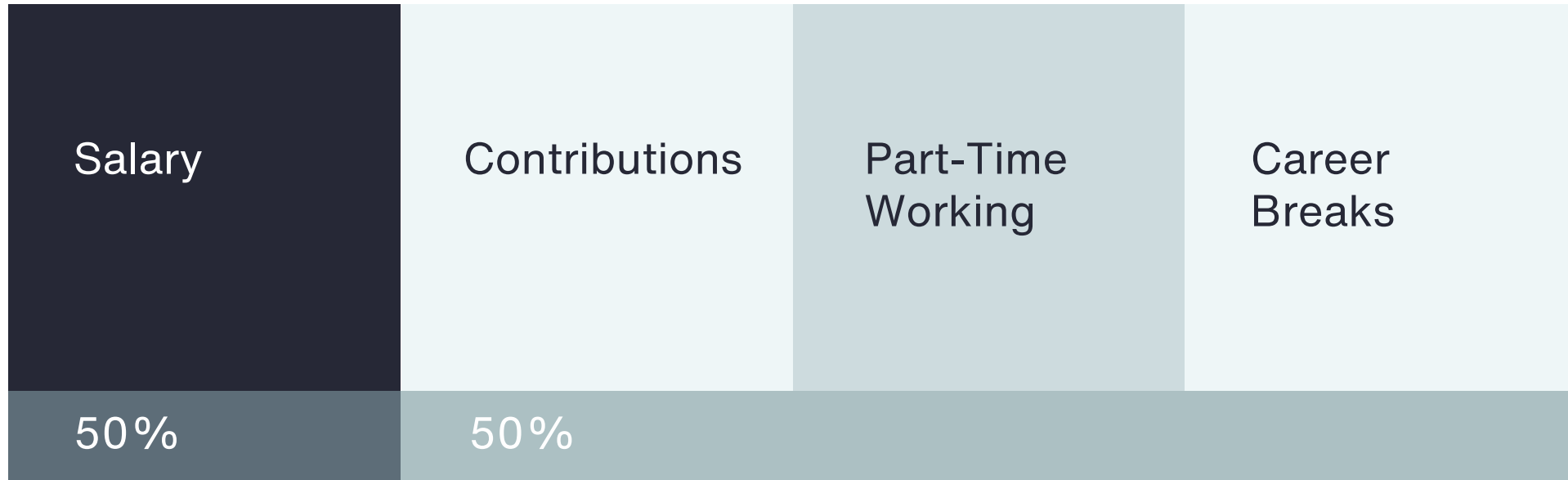
Source:

* "The Gender Pensions Gap in Private Pensions – DWP June 2023

** "Achieving Gender equality in pensions" – Prospect Union 2021



What are the causes?



Key Takeaway

c.50% of the gap is due to non-salary related factors

Source: "Achieving Gender equality in pensions" – Prospect Union 2021

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 re-structures
- ✓ Disclosure policies
- ✓ Structuring of payment in instruments
- ✓ ESG in incentives
- ✓ Salary budgets in the cost of living crisis
- ✓ Pay transparency, 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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