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Geoff Nunn & Associates - Governance and Board Specialists

Executive Remuneration 2020 and Beyond

In this Special Update we consider an announcement by APRA Chair, Wayne Byres on 27 March 2019, that the regulator might strip, or curtail bank boards' power to set executive remuneration. This would be a major blow to board credibility at a time when the banks are attempting to re-build relations with their stakeholder base.

Executive Remuneration in the Banks - The Regulator Threatens to Step In!

In an unprecedented move on 27 March, 2019, Wayne Byres, Chair of APRA announced that the regulator might strip bank boards of the authority to set executive remuneration:

"Boards have struggled to gain acceptance that new approaches are needed. So it seems inevitable that regulatory intervention, and a greater degree of prescription, will be required to shift practices."

Wayne Bryes, Chair, APRA quoted in ABC News, 27.3.2019

In a focused criticism Bryes asserted that bank boards and executive teams had a blind spot when it came to their own conduct. The implication is that bank boards have failed to hear the message that has been delivered through the Banking Royal Commission and the "No Votes" on the remuneration reports for three of the Big 4 plus the AMP in 2018. And that message is that the structure and quantum of executive remuneration needs to change.

The current model employed in most of Australian listed companies, has a number of inherent flaws:

- The focus on financial metrics favours shareholders and makes it difficult to balance the interests of other stakeholders in terms of corporate priority.
- Delivery of reward in the form of equity sends an underlying message: Even though other KPIs might feature in corporate scorecards, TSR is the prime measure of performance.
- Minimum executive shareholding requirements of 100% to 500% of Fixed Annual Remuneration compromises independent decision making. Some commentators assert such polices create a potential conflict of interest.
- The model has become so complex that all but the most informed of shareholders find it difficult to understand. Institutional investors have specialist financial analysts to sift through the data in 50 page remuneration reports. But the average retail investor has little hope of penetrating the complex models.

In Victoria executive remuneration in state owned entities is regulated by the "Office of Public Sector Executive Remuneration (OSPER)". This body takes a conservative view and sets strict parameters in which boards are able to manage CEO and executive remuneration, including CEO remuneration levels, the ratio of CEO to Level 2 executive pay, caps on annual increases and STI levels. In other states and the commonwealth various tribunals perform a similar function. Their role is to keep a lid on executive pay and ensure the principals of equity and moderation apply. High executive remuneration in government owned entities is not popular with the electorate.

The recent surge in "No Votes" on annual remuneration reports and the findings of the Hayne Royal Commission is sending a message to boards that the current model of executive remuneration in listed companies requires review.

On a number of occasions we've posed the question: Would changing and simplifying the model have a negative impact on business performance, however it is measured? Would discontinuing equity based delivery mean that financial performance was no longer important? We've long argued that financial, customer, operational, environmental, safety and people performance are base line executive accountabilities and should be recognised through the annual review of fixed remuneration. A discretionary STI might be offered to recognise extraordinary performance across a range of measures. Equity, if it is held by the executive, should be outside the remuneration package and not mandated by policy.

For bank boards to lose the capacity to set executive remuneration would be a major blow to their credibility. Even if a more restrictive regulatory regime imposed it would impact negatively. The Regulator is sending a message of no confidence. At a time when the banks are attempting to re-build trust with their constituent base this would not be a good outcome. Better to bite the bullet and undertake a ground up review of the structure of executive remuneration.

The Offer

The executive remuneration strategy issues outlined in this Update have broad based applicability across all industry sectors. They reflect the contents of the Royal Commission's Final Report. If we can assist your company review its approach to executive remuneration strategy call or email Geoff on 0418 595 107 or gtnunn@gna.net.au

Geoff Nunn & Associates

Geoff Nunn & Associates was established in 1993 as an independent provider of remuneration and organisation services to the government and corporate sectors. We specialise in working with Boards and CEOs in the areas of corporate governance, board dynamics and renewal, governance structures and executive remuneration strategy. Advice has been provided to over 1000 organisations Australia, New Zealand and Singapore.

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