

Advice Oxfam Novib, on behalf of the Dutch Fair Finance Guide (Eerlijke Geldwijzer) – consultation ‘Maatschappelijke consultatie beloningsmaatregelen financiële sector’ – Question 1 and 3.

Peter Ras, Sr. Policy Advisor Sustainable Financial Sector Oxfam Novib / Project Lead Eerlijke Bankwijzer

1. Wat zijn volgens u de voor- en nadelen van de drie maatregelen?

All three measures are/remain highly relevant. However, there is a need to make them more explicit and stronger.

We will focus our reply on measure 3: we are in favor to strengthen this measure:

At the minimum one third of the bonus, but we strongly prefer two thirds, should be based on non-financial criteria. The bonus should be based on employee satisfaction, client satisfaction and –particularly- on improving the social and environmental impact of the financial institution’s investments and financial services.

Motivation:

- a. The International Labour Organisation emphasises in its World of Work Report 2013 that it is important to increase a focus on better alignment of the activities in the financial sector with the needs of the real economy, for example through linking performance-based compensation to social and environmental objectives.
- b. In the UN Global Compact and UN PRI report ‘Integrating ESG issues into executive pay’ (https://www.unglobalcompact.org/docs/issues_doc/lead/ESG_Executive_Pay.pdf) companies are recommended to link appropriate ESG metrics to reward systems in a way that they form a meaningful component of the overall remuneration framework. They are furthermore encouraged to develop their own definition of sustainable value creation and use it to select appropriate ESG metrics, thereby also consulting shareholders and stakeholders in order to enhance internal and external support.
- c. In the European Union, the CRD Remuneration requirements Articles 74 and 92 to 96 and Article 450 CRR (<https://www.eba.europa.eu/documents/10180/1314839/EBA-GL-2015-22+Guidelines+on+Sound+Remuneration+Policies.pdf/1b0f3f99-f913-461a-b3e9-fa0064b1946b>) dictate that remuneration that is linked to performance, should in total be based on both the assessment of the performance of an individual, the business unit concerned and the overall results of the institution. When assessing the performance of an individual, financial as well as non-financial criteria are to be taken into account. The total amount of remuneration is based on a combination of the assessment.
- d. The report ‘Sustainable Remuneration’ (https://www.haygroup.com/Downloads/nl/misc/Sustainable_Remuneration_-_A_guide_for_linking_sustainable_goals_to_executive_incentives.pdf) of DHV/Hay Group/VBDO calls upon all companies to base at least 60% of the bonus on long-term objectives and at least one third of the total bonus on sustainable objectives. To achieve this it is important to take the activities and the industry in which a company operates into account. According to the authors, VBDO, Hay Group and DHV, sustainable objectives for banks should comprise of: integrity, responsible investment and the level of energy consumption.
- e. The core/main impact of financial institutions on social issues including human rights, the environment and climate, and animal welfare is a result of the financial services and investments of financial institutions, not their own operations (buildings etc).
- f. Dutch civil society prioritized the financial sector as the main risk sector on CSR in KPMGs Sector Risk Analysis, published in 2014 at the request of the Dutch Government (<https://www.rijksoverheid.nl/binaries/rijksoverheid/documenten/rapporten/2014/09/01/mvo-sector-risico-analyse/mvo-sector-risico-analyse.pdf>, page 94).

Furthermore, we strongly recommend a pay ratio for (all) financial sector' top executives that is no more than 20 times their median employees' pay, and preferably less.

Motivation:

- a. Respondents of the 2017 World Economic Forum's Global Risks Perception Survey (GRPS, http://www3.weforum.org/docs/GRR17_Report_web.pdf) rated "rising income and wealth disparity [a]s the most important trend in determining global developments over the next 10 years".
- b. In line with this study, Oxfam International argued in its January 2018 Briefing Paper (https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp-reward-work-not-wealth-220118-en.pdf) that "there is growing evidence that the current levels of extreme inequality far exceed what can be justified by talent, effort and risk-taking". Oxfam recommends to "limit returns to shareholders and promote a pay ratio for companies' top executives that is no more than 20 times their median employees' pay, and preferably less."
- c. Balanced remuneration is important for achieving SDG 10 - Reduced Inequalities.

3. Welke reikwijdte van deze drie maatregelen acht u aangewezen? U wordt verzocht hierbij per maatregel onderscheid te maken naar:

a) soort onderneming: alleen banken (en verzekeraars) of ook andere financiële ondernemingen en zo ja, welke?; en

b) soort functie: alleen bestuurders c.q. dagelijks beleidsbepalers of ook andere functies en zo ja, welke, of alle medewerkers?

A solid policy is needed for all entire financial institutions (including all subsidiaries) on remuneration, and at least concerns the Board of Directors, the directors (in case of a 2-tier board structure), the senior management and risk takers. The senior management includes the people that are ultimately responsible for certain divisions, portfolios, internal departments, etc. that operate directly under the directors and Board of Directors. Regarding banks: risk takers comprise of investment bankers, stock exchange traders and trading room managers.

More information:

The methodology of the chapter 'Remuneration' of Fair Finance Guide International:

<https://eerlijkegeldwijzer.nl/media/373664/ffg-methodology-2016-final-160421-edited-170413.pdf>.