

European bank compensation, comparing apples to oranges

Posted by **Lisa Pollack** on Oct 18 14:44.

Lines you don't always expect to see in analyses of bank pay:

The data is presented at source in ways that are intended to make sure that things cannot be simply compared. We have taken all reasonable steps to ensure that the data is as coherent as possible.

...FT Alphaville may have met our soulmate when it comes to feeling bitter about data not being comparable. The above quote is from Alphavalue, an independent equity research firm that assembled a small army to flip through the annual reports of 38 banks from 17 countries to try to determine trends in compensation levels.

By “at source” they mean in the annual reports themselves. The amount of variability in disclosure is considerable in terms of what information is given and what is given by the same bank over time. However, Alphavalue will not be deterred and has come up with a number of headline-worthy stats — of the type that are likely to get thrown around first and questions asked later, or never. (Emphasis ours)

Banking compensations are still [too] high in relation to other industries (40% above average). This is at odds with the savage reduction in value experienced by shareholders (86% contraction between 2007 and 2011) and the fact that banks now account for a dramatically lower proportion within market indices (11% of Stoxx 600 vs. 20-25% pre 2008 crisis), reflecting a demise as a sector.

Go on..

*Only a few weeks ago, some banking managers were still considering ROE targets of 15% as a way to prop up their shares. Even before the current crisis, this was so much at odds with common sense – how can this figure ever be reached without taking massive risks? – that it suggested governance also was just not up to the task. Especially at a time when shareholders and lenders of last resort have all been claiming that less risk was the way forward, **these promises smacked of a complete misunderstanding of the real world.***

An axe, you say? Some grinding?

Anyway, onto some numbers. Here's average management (i.e. executive) compensation for starters:

Average compensation (€)	2009	2010	Readings (2009)
UK	5 333 904	5 777 256	21 (19)
Switzerland	4 231 860	4 422 579	32 (29)
Spain	3 538 700	3 701 300	10(10)
Germany	3 511 520	3 265 379	25 (24)
Italy	1 820 433	1 896 750	8(8)
Sweden	1 047 711	1 356 455	5(5)
Austria	811 909	1 251 000	5(4)
France	597 629	865 075	16(18)
Portugal	715 474	845 892	17(18)
Denmark	770 710	796 669	6(5)
Netherlands	605 867	623 250	5(4)
Norway	461 424	537 567	10(12)
Belgium	530 766	250 674	9(6)

The “readings” column is the number of executives, hence it's hard to get too much out of this chart beyond perhaps the ranking generally, i.e. UK firms pay executives the most, followed by Switzerland, etc. There's just no way to

know if these numbers are skewed by one UK bank being very transparent by reporting even on its lowest paid exec, while another just reported their top two highest earners.

Here's another table that helps to illustrate how the information is difficult to interpret – a table on the banks that have the highest average management compensation:

Top 5 Average compensations	2009 (€)	2010 (€)	Readings
Barclays	3 479 679	8 094 281	3(2)
Credit Suisse	8 490 720	7 129 651	8(7)
UBS	3 950 272	5 261 819	12(11)
HSBC	5 057 346	4 582 066	7(6)
Santander	4 364 333	4 524 500	6(6)

These numbers are eye-popping, but keep your interpretive, number-crunching hat on for a little longer...

Is it surprising that Barclays comes top when it's only reporting on three execs? Perhaps more interesting is that UBS comes so high even though the bank reports across 12 individuals. The number of data points is clearly a problem and that's a disclosure issue. Why do the banks get away with such variations in the amount of information that they share?

Not only that though, what's included and excluded from those data points, that are given, is a problem too, as can be seen in the CEO compensation table:

CEO Top 10 Compensation (€)	Company	Cash 2010	Equity-linked 2010	Total 2010	Total 2009
Robert Diamond	Barclays	3 830 263	7 766 280	11 596 543	634 522
Brady Dougan	Credit Suisse	1 811 050	7 432 549	9 243 599	13 850 910
Alfredo Saenz Abad	Santander	7 878 000	0	7 878 000	8 340 000
Stuart Gulliver	HSBC	7 191 719	0	7 191 719	11 498 450
Michael Geoghegan	HSBC	6 776 667	0	6 776 667	6 680 073
Josef Ackermann	Deutsche Bank	2 684 332	3 620 107	6 304 439	9 551 530
Boris Collardi	Julius Baer	2 932 890	2 825 238	5 758 128	4 075 594
Stephen Hester	RBS	5 398 391	0	5 398 391	2 027 495
Francisco G.Rodriguez	BBVA	5 316 000	0	5 316 000	5 343 000
Peter Sands	Stand. Chart.	1 780 196	2 112 992	3 893 188	5 148 909

OK, raise your hand if you believe that any single CEO received no equity-linked compensation in 2010. Anyone? No, didn't think so. This is another disclosure issue. From Alphavalue's methodology:

*We separate management compensation into two parts: the first is cash compensation which includes basic salary, cash bonus, benefits in kind as well as any supplementary pension contribution; and the second is the equity-linked compensation and this includes: stock options awarded, performance share plans (PSP) and long-term incentive plans (LTIPs). The total value of these are calculated using the IFRS 2 method, **however these can only be included when disclosed in the annual report.***

So if equity-linked compensation is included for some and not for others, where does that leave us?

A further chart, of which one that Alphavalue kindly sent us a new version in order to include the number of data points (thanks!):

Average fee by country	2009 (€)	2010 (€)	% Change	Nb of banks
Switzerland	677 129	632 489	-6,59%	4
Spain	279 523	279 810	0,10%	4
Italy	248 729	248 223	-0,20%	4
UK	188 315	242 260	28,65%	5
Ireland	0	141 375	0,00%	1
Germany	93 618	89 907	-3,96%	3
Norway	84 786	84 287	-0,59%	1
Portugal	112 051	75 607	-32,52%	2

Denmark	74 967	86 732	-10,99%	1
Sweden	68 286	65 883	-3,52%	4
Belgium	55 832	47 649	-14,66%	2
Austria	39 474	43 668	10,63%	2
Netherlands	42 200	40 091	-5,00%	1
France	35783	37 457	4,66%	4

Alphavalue's conclusion is just too priceless (emphasis ours):

*By country, Switzerland compensates directors the most as they obtain €632k for their **enlightened** services.*

Sarcasm? Slight error of translation? Whatever — we dig it.

The message we take from Alphavalue's report is: the amount of disclosure in bank compensation is pitiful, it should be greater (especially given explicit and implicit backstops now in place), and must be uniform in order to have meaning. Apples to the apples, that sorta thing.

Ergo, if you have to resort to doing apples to oranges because of rubbish disclosure, it's hard to avoid having to chuck in an appendix or five. Think EBA stress test – it's not your conclusions that count, it's all about the data you collated.

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