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The ABI's response to the CEBS consultation on its draft high-level remuneration principles.

The ABI is the voice of the UK insurance and investment industry. Its members constitute over 90 per cent of the insurance market in the UK and 20 per cent across the EU. They control investment assets worth some €1.8 trillion. They are the risk managers of the UK's economic and society. The ABI represents large institutional investors whose interest in remuneration is in relation to its link to long-term value creation. Members have considerable experience in dealing with remuneration issues at companies in which they invest, and ABI guidelines (www.ivis.co.uk/Guidelines.aspx) set benchmark terms for remuneration of directors of UK-listed companies.

Executive Summary

Remuneration structures within firms, particularly banks, can represent a significant risk to a business. We therefore agree with the broad aims of the principles. We welcome the moves to ensure remuneration encourages long-term value creation and does not lead to excessive risk taking. We must stress the need to avoid the possibility of reward for failure. The recently announced proposals at the G20 meeting and the UK's FSA's proposals are already aiming to do this. Any other steps to support this can only be good news, we look forward to contributing further in this area.

Response to specific principles

General

(i) ***The financial institution should adopt an overall remuneration policy that is in line with its business strategy and risk tolerance, objectives, values and long-term interests. It should not encourage excessive risk-taking. The remuneration policy should cover the institution as a whole and contain specific arrangements that take into account the respective roles of senior management, risk takers and control functions. Control functions should also be adequately rewarded to attract skilled individuals.***

We agree that financial institutions should adopt such remuneration policies. As investors, we remain committed to rewarding appropriately long-term value creation. We would also emphasise that companies should take such steps to ensure that there is no opportunity for reward for failure either via contractual obligations or inappropriate remuneration structures.

(ii) ***The remuneration policy should be transparent internally and adequately disclosed externally***.

If employees have a clear understanding of the remuneration policies and structures this will allow their expectations to be managed and met as appropriate to individual, division and group performance. Remuneration structures can represent a significant risk to a business, given this we consider that disclosure of remuneration policies should be done in the Business Review which is mandated by the EU Accounts Modernisation Directive. The remuneration policy should also be disclosed to the appropriate regulator, who should it into account when assessing the adequacy of a firm's risk management.

Governance

(iii) ***The management body, in its supervisory function, should determine the remuneration of the management body, in its management function. In addition it should have oversight of the overall remuneration policy of the firm. The implementation of the remuneration policy should be subject to central and independent review.***

The setting of remuneration for employees should remain the responsibility of the executive directors\management. The independent representation, be it independent non-executives or the supervisory directors, should retain control of setting executive directors pay and have a role, via their directors' duties, in determining overall remuneration policies in light of the company's risk management framework and appetite. Non-executive or supervisory directors should not become heavily involved in setting all employees pay as it is beyond their remit or expertise. It may be appropriate for non-executives to be involved in setting senior employees pay and participate in other discussions by, for example, membership of an Employees Rewards Committee.

Measurement of performance as a basis for remuneration

(iv) ***Where the pay award is performance related, remuneration should be based on a combination of the individual performance's assessment, the performance of the business unit and the overall results of the company or group. When defining the individual performance other factors apart from financial performance should be considered. The measurement of performance, as a basis for bonus awards, should include an adjustment for risks and cost of capital.***

Agree.

Form of remuneration

(v) ***There should be a proportionate ratio between base pay and bonus. Where a significant bonus is paid, the bonus should not be a pure upfront cash payment but contain a flexible, deferred component; it should consider the risk horizon of the underlying performance.***

Care should be taken not to impose on firms a requirement that leads to a significant rise in base salaries. Such a rise would not fit into the cyclical nature of the banking business model. We agree that an element of deferral in bonus which aligns with the risk horizons of the business. We would also recommend that claw-back provisions should be introduced.