

Banking on smaller bonuses to cut wages in finance sector

SIMON CARSWELL, Finance Correspondent

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PAY IN banks and financial services firms has fallen dramatically, primarily due to the cutting of bonuses and performance-related pay amid the unprecedented crisis in banking.

The four banks and two building societies covered by the Government's bank guarantee ceased paying bonuses under the terms of the State bailout of the sector, while performance-related pay has declined dramatically as the level of new lending and sales of financial products has plummeted due to the shortage of credit during the crisis and sharp falls in stock prices.

Wages in the financial sector dropped 11.1 per cent in the 12 months to March 2009, according to Central Statistics Office (CSO) figures released last month. This was due to a 65 per cent fall in "irregular earnings" such as bonuses. However, the CSO found that, excluding bonuses, earnings rose by 5.4 per cent from €26.17 to €27.58 per hour. The number of employees working in financial services rose to 84,300 from 83,200 in the 12 months.

The decline in bank bonus payments, which make up a large part of bank employees' annual pay packages, was broadly in line with declines in the global financial centres of New York and London last year.

The average Wall Street bonus fell by almost 40 per cent in 2008, according to the New York State Comptroller, while the average bonus in the City dropped by 62 per cent, according to figures provided last April by London recruitment firm, Napier Scott. This compared with a worldwide decline of 50 per cent.

Irish financial institutions have all introduced pay and recruitment freezes, though pay cuts have only arisen by way of cutting bonuses and basic salaries have not declined.

Irish Life Permanent, which owns Permanent TSB, the country's largest mortgage lender, said that a pay freeze at the company would generate savings of €22 million this year. The company has also ended bonuses for senior staff and its profit share scheme for employees.

Allied Irish Banks cut staff costs by 9 per cent to €654 million during the first half of this year by not replacing staff who leave the bank and by cutting performance-related pay.

At boardroom level, pay has been cut dramatically in line with conditions set by the Government in return for guaranteeing €440 billion of deposits and funding in the banking system.

The remuneration committee set up by the Government under the terms of the bank guarantee set the annual salaries for the chief executives of Bank of Ireland and Allied Irish Banks at €690,000, at Anglo Irish Bank and Irish Life Permanent at €545,000 and Irish Nationwide and EBS building societies at €360,000. Minister for Finance Brian Lenihan later lowered the cap to €500,000 for the higher-paid chief executives.

Bank of Ireland, the only bank to report full-year results this year due to the lender's March 31st year end, reduced pay to the company's top four management executives by 37 per cent to €3.9 million during the year. Richie Boucher, who took over as chief executive last February, received €1.05 million during the year, down from €1.45 million a year earlier. The chief executive's basic salary halved from €1.155 million to €580,000 over the year.

For non-executive directors around the boardroom table, total pay rose to €1.633 million from €1.505 million, but the higher figure included pay to two Government-appointed directors appointed by the Minister in January under the terms of the bank guarantee scheme.

The Irish Bank Officials' Association (IBOA), which represents almost 24,000 employees in the banking sector, says that pay has fallen 12 per cent over the past year as banks have, for the most part, not passed on national wage agreement increases or paid incremental salary increases.

The IBOA's highest-earning member receives a salary of about €130,000 a year, according to Larry Broderick, the association's general secretary. He said that pensions and lump sum savings of many staff has been "absolutely devastated" due to the average 59 per cent decline in the share prices of Irish banks as many employees took shares in profit-share agreements.

"For a lot of our people, there is a lot of pain being felt out there," said Broderick.

Sigmar, which counts financial recruitment among its specialised areas, said there have been pay cuts ranging from 20 per cent to 40 per cent for senior executives in banking and financial services firms. The majority of companies have frozen salaries for most staff at early 2007 levels, the firm said, and it does not expect bonuses to return for the next 18 months. The company says that salaries for directors of financial services companies have fallen by 20 per cent to 30 per cent from €110,000 to €130,000 in 2007, while salary expectations for middle managers have dropped by 15 per cent.

Job hunters with less than three years' experience are expecting salaries that are 5 – 10 per cent lower. Internationally, there have been attempts to curb bonuses as performance-related pay has been linked to the reckless lending that has forced governments to rescue banks. The European Commission is working on a draft policy to cap bankers' bonuses where payments would be withheld if criteria were not met and a major part of bonuses would be deferred.

The Government's bank remuneration committee has recommended changes to bank bonuses, saying that they should discourage "unacceptable risk-taking" and not focus on "short-term targets" but on the "long-term sustainability" of a bank.

However, no legislative changes have been introduced to curb bankers' remuneration in the long-term, at least beyond the end of the Government guarantee in September 2010.