



Presentation to AFM

# 2020 Remuneration Survey

# Executive summary

## Background

The aim of the survey was to look at both the absolute level and trends in Board and Executive remuneration for members of the AFM over the last 3 years. With that in mind a questionnaire was sent to members of the AFM, with questions covering four main topics:

1. Company Information
2. Board Structure
3. Board Remuneration
4. Gender Pay gap

A total of 26 responses were received from members of varying sizes and from across all business lines. In some cases not all parts of the questionnaire were completed so where appropriate these have been excluded from the analysis.

## Key findings of the Survey

Whilst CEO remuneration increased in 2019, it is expected to **decrease this year**. This is due to a reduction in variable pay, which has decreased to a smaller percentage of total remuneration in 2020.

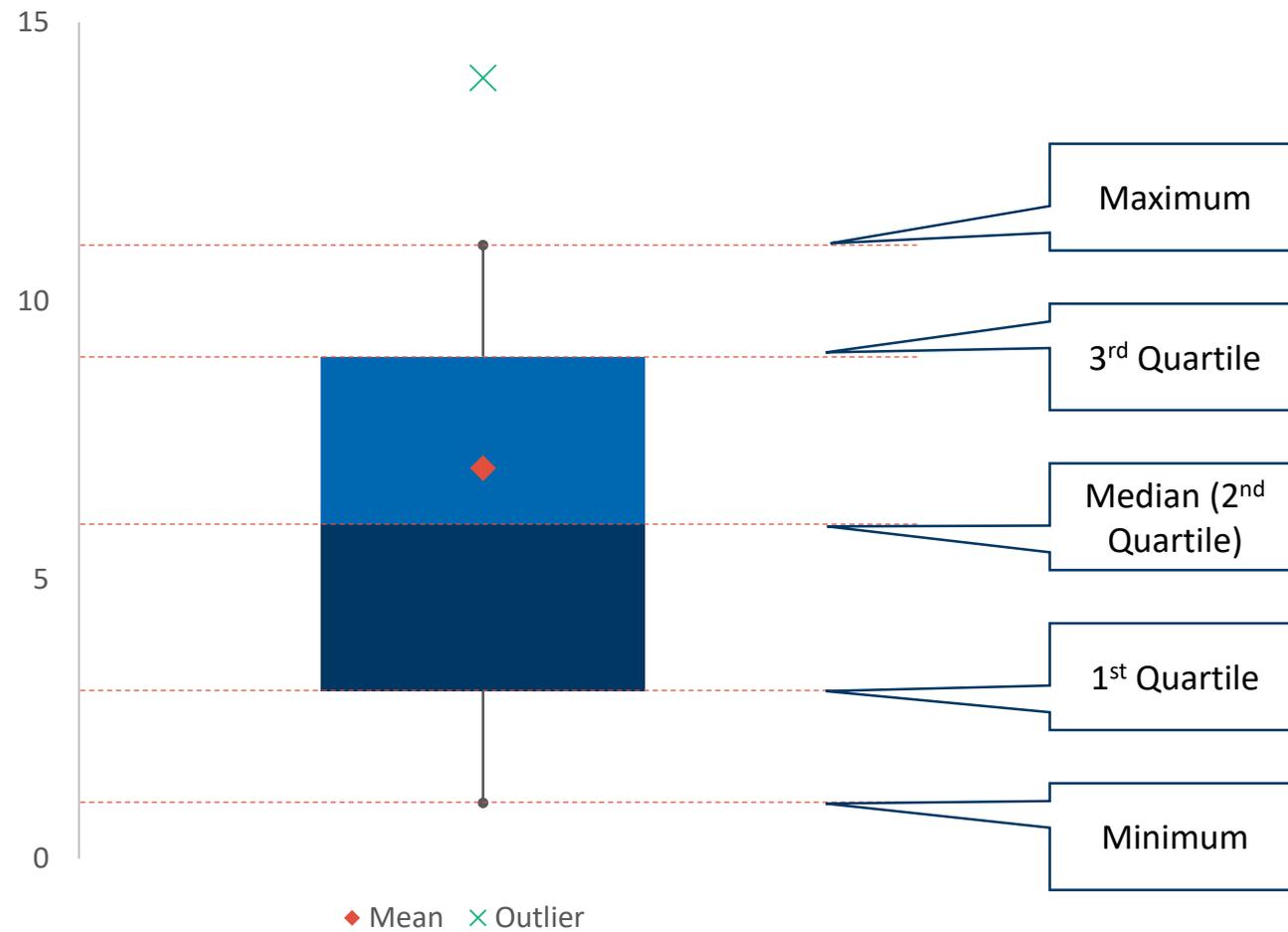
Average remuneration for COOs, Commercial Directors and Other Directors is expected to **increase slightly in 2020**, whereas CFO/CRO/FD type roles are expected to decline slightly, seemingly in line with the CEO trend.

Remuneration for NEDs has remained largely **flat over the last 3 years**. However, there is a wide range of remuneration, we have found that the highest paid NED (often the chair) is paid around 1.4x the next highest paid, although this gap is slowly shrinking

The gender split across the executive and NED team remains predominantly male. Half of the companies surveyed had **no females on the executive team**, and one-fifth had no females on the NED team.

Looking more broadly across all employees, there remains a large gap between the hourly wage and bonus for males and females. On average females could expect to get a bonus and wage of **40% less** and **30% less**, respectively, of a male at the same company.

# Use of graphs and statistical terms in this survey



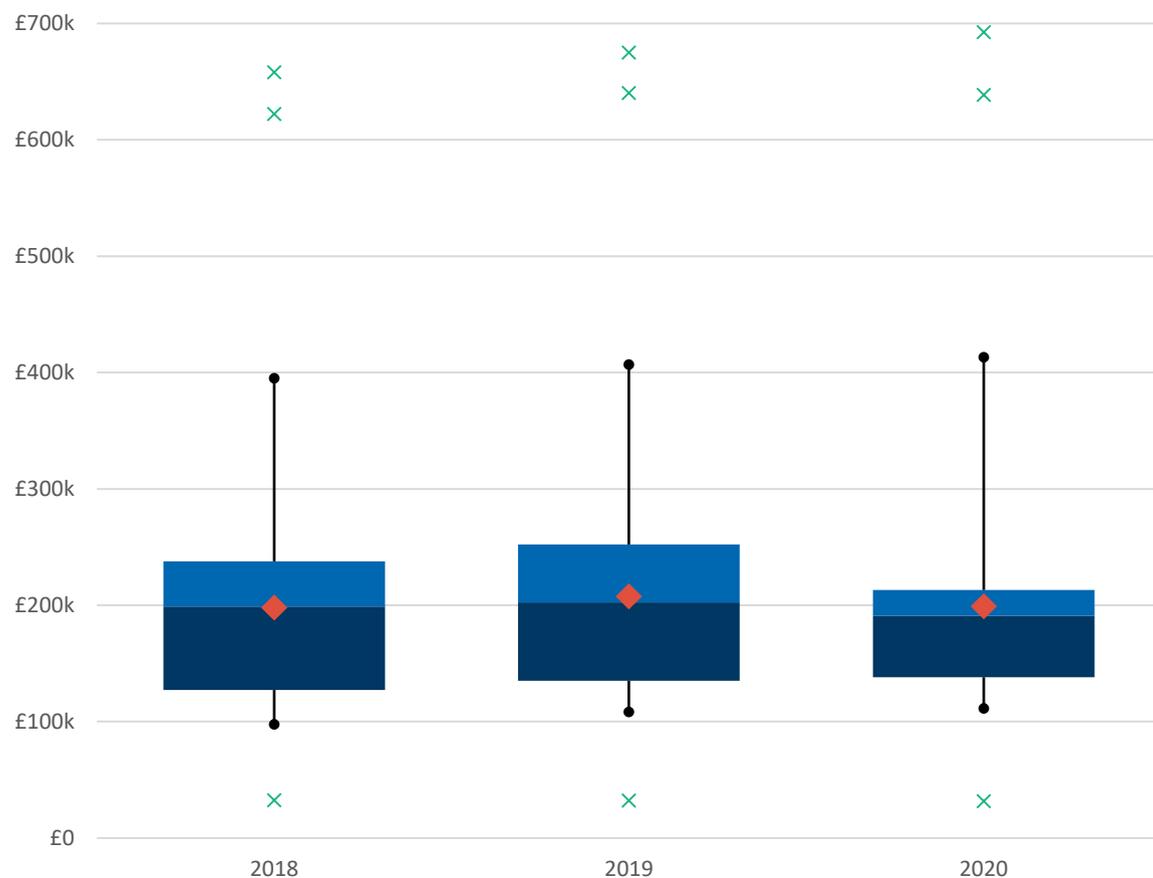
## Definitions

- **Box & Whisker plot** – This is the plot shown on the left. These plots are useful for gauging the distribution of a data set in a compact form.
- **Outlier** - a data point that differs significantly from other observation, which would distort the results if included and therefore is excluded from the analysis.
- **Mean** – What most would refer to as average, it is the sum of the data, divided by the number of data points.
- **Median** - if all data are sorted into order, then the median is the number that falls in the middle. This is a type of “average” and is less affected by extreme values when compared to the mean.
- **Quartiles** – and extension of median, if all data are sorted into order, then the data can be divided into 4 equal sized groups. The quartiles are numbers that split these groups, and are found at a quarter, half, and three-quarters along the data.
- **Maximum** – the largest data point
- **Minimum** – the smallest data point.
- **Correlation Coefficient** – When a trend line is fitted to a graph, the correlation coefficient is a measure of how strong that relationship is, 1 being the strongest, 0 meaning no relationship at all. This can also be denoted as “R<sup>2</sup>”.

# CEO Remuneration

Total remuneration for CEOs increased for 80% of participants from 2018 to 2019, but there is far more variation in 2020

## Total CEO remuneration



	2018	2019	2020
Mean <sup>1</sup> total remuneration	£198k	£208k	£199k
Median <sup>1</sup> total remuneration	£199k	£202k	£191k
Firms considered	22	22	22
Firms considered outliers	3	3	3

## Commentary

- 2019 total remuneration increased across nearly all companies compared with 2018, with the mean<sup>1</sup> total remuneration increasing c.5% from £198k to £208k.
- There seems to be a marked change to the expected remuneration for 2020. The mean<sup>1</sup> total remuneration decreases to £199k, and the 3<sup>rd</sup> quartile decreases dramatically from £252k to £213k, which implies that CEOs towards the higher end are having their remuneration decreased, closer to the median.
- The median total remuneration is also expected to decrease c.5% from £202k to £191k in 2020. However, the 1<sup>st</sup> quartile is expected to increase, implying that the CEOs towards the lower end are still seeing increases. The maximum<sup>1</sup> and minimum<sup>1</sup> amounts are also expected to increase.

1. Excluding outliers

# CEO Remuneration

Life company CEO remuneration is highly correlated with GWP. Health & GI is more varied.

Total remuneration of CEO by GWP of company – Health & GI



Total remuneration of CEO by GWP of company - Life



	Health & GI	Life
Firms considered	15	10
Correlation coefficient (R <sup>2</sup> )	0.51	0.88

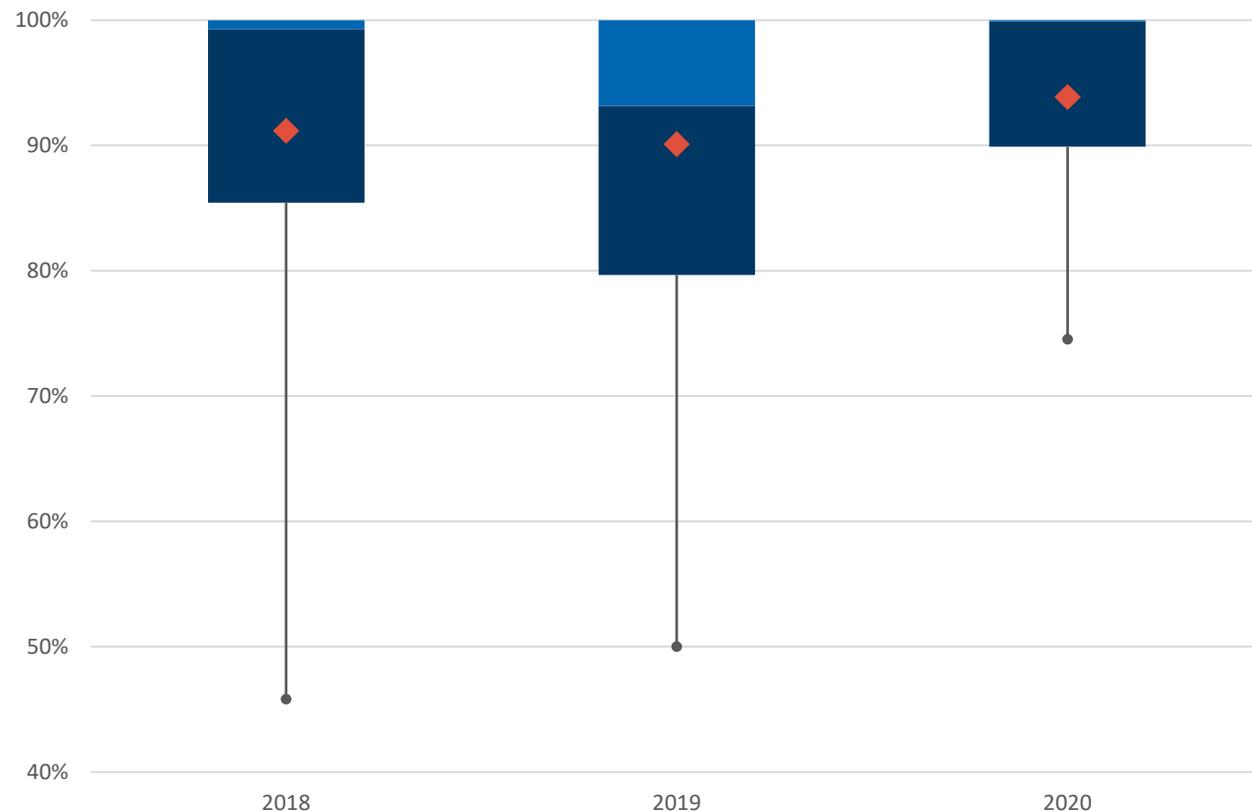
## Commentary

- As we would expect, there is a relationship between size of company and CEO remuneration. However, at the smaller end of GWP, particularly for Health & GI, the relationship is less clear.
- There are also differences in trend depending on whether the company predominantly sells Life products, or Health and GI. Life company CEO remuneration is very strong correlated with GWP.
- For Health & GI, there is a far weaker relationship between remuneration and GWP, both at the larger and the smaller companies.

# CEO Remuneration

Across the participants, the majority of the CEOs' remuneration was fixed in nature, and the percentage is expected to increase for 2020

Percentage of CEO remuneration that is fixed in nature



	2018	2019	2020
Mean % of Fixed remuneration	91%	90%	94%
Median % of Fixed remuneration	99%	93%	100%
Firms considered	25	25	25
Number of firms paying no variable compensation	11	9	12

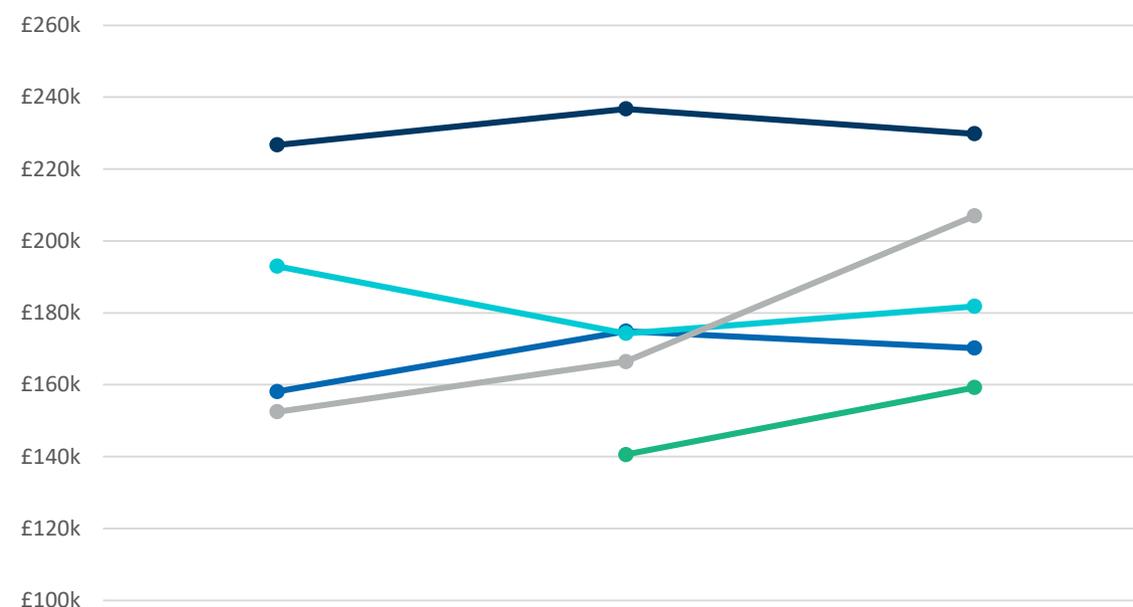
## Commentary

- The majority of CEOs' remuneration for most firms is fixed in nature. There was only one firm in 2018 which had over 50% of the remuneration represented by variable compensation.
- In 2019 there was a wider range of variable compensation, however the mean fixed percentage across companies only fell one percentage point.
- In 2020, most firms expect to pay little or no variable pay. This is in line with the wider industry, where executives are forgoing bonuses in the current climate.
- There are many firms who paid no variable compensation at all, 44% in 2018, falling to 36% in 2019, and rising again to 48% in 2020.

# Comparison of CEO to other roles

Looking at the average total remuneration over other executive roles, we see the average for CEOs is expected to decline whilst other roles are expected to see an increase in 2020

## Average total remuneration across selected roles



Number of roles considered	2018	2019	2020
CEO <sup>1</sup>	25	25	25
CFO/CRO/FD	16	16	16
Commercial Director	5	4	4
COO <sup>2</sup>	1	4	4
Other Director	3	4	4

## Commentary

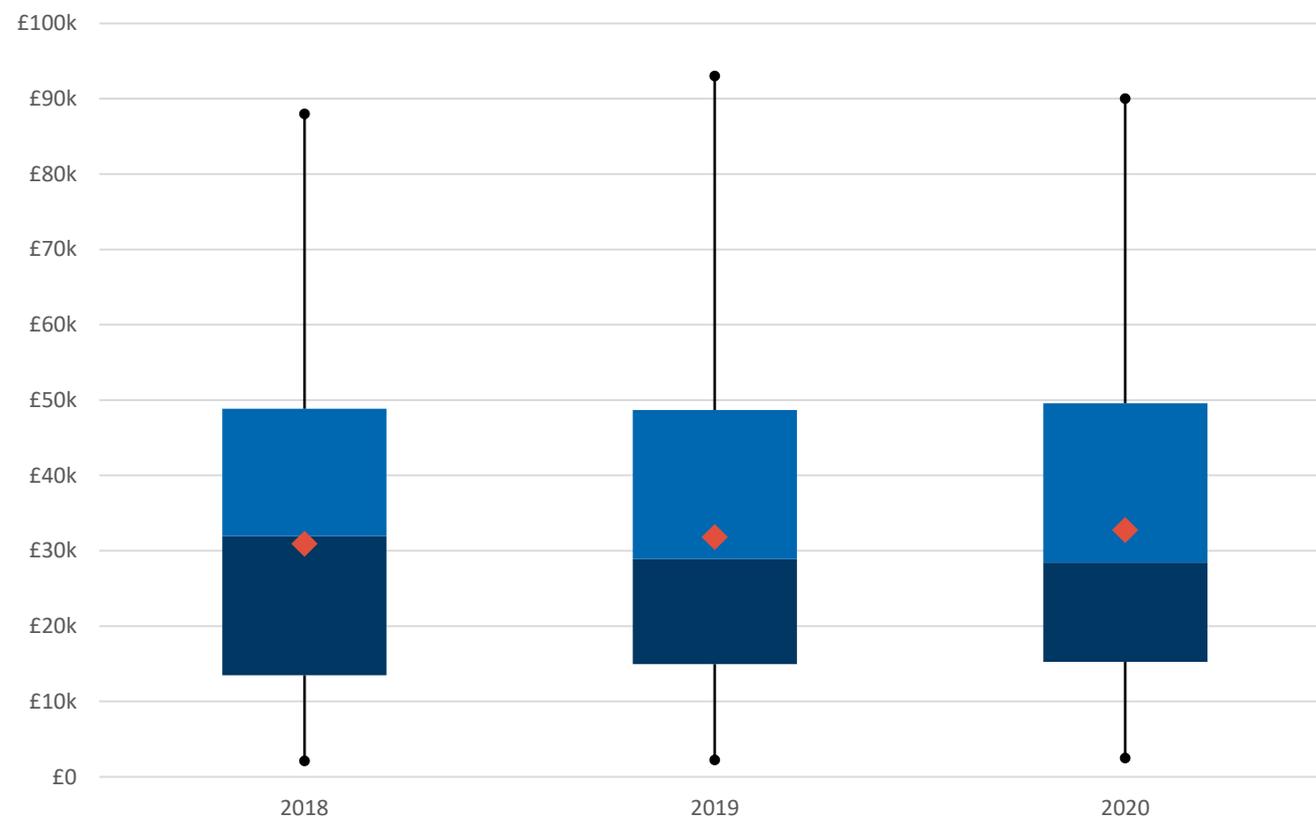
- The change in remuneration over the last three years has been very different for different roles.
- Not too much should be read into this as only a small number of individuals are included and the differences in the sizes of participating firm.
- However, there are still trends that can be seen, CFO/CRO/FD roles have mirrored the movement of CEO remuneration, with a reasonable increase in 2019, but a slight decrease in 2020, as COVID-19 puts pressure on bonuses.
- Commercial director, COOs and Directors have experienced an increase in total remuneration in 2020. This may be due to the fact that the companies that have these roles tend to be larger. It also may be due to companies recognising an increased need to manage the commercial and operations side of the business.
- It is notable that one “Other Director” is expected to receive a large bonus in 2020, which brings the average up significantly.

1. Excluded one company as the CEO takes no remuneration  
 2. Only one COO reported remuneration in 2018, so no data is graphed for that year

# Total remuneration for highest paid NED

Total remuneration for the highest paid NED (often the Chair) for each participant has had very little growth over the three years

Total remuneration for highest paid NED



	2018	2019	2020
Mean total remuneration	£31k	£32k	£33k
Median total remuneration	£32k	£29k	£28k
Firms considered	25	25	24

## Commentary

- The total remuneration for the highest paid Non-Executive Director has experienced very little growth over the last three years.
- There has been a slight decrease in the maximum amount paid in 2020, but there is a slight upward trend, with the mean remuneration paid increasing by £1k.

# Non Executive Directors – remuneration by size of company

Not surprisingly the highest paid NEDs tend to work at the biggest companies

**Total remuneration of highest paid NED by GWP of company – Health & GI**



**Total remuneration of highest paid NED by GWP of company – Life**



	Health & GI	Life
Firms considered	15	10
Correlation coefficient (R <sup>2</sup> )	0.59	0.72

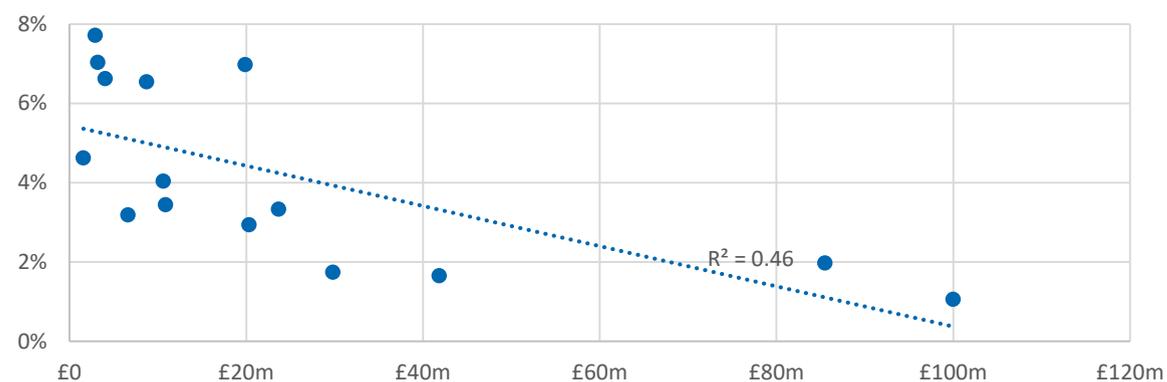
## Commentary

- Similarly to the CEO remuneration, there is a relationship between size of company, as measured by GWP, and the remuneration of the highest paid NED.
- There is more variation for the smaller sized companies for both Life and Health & GI.

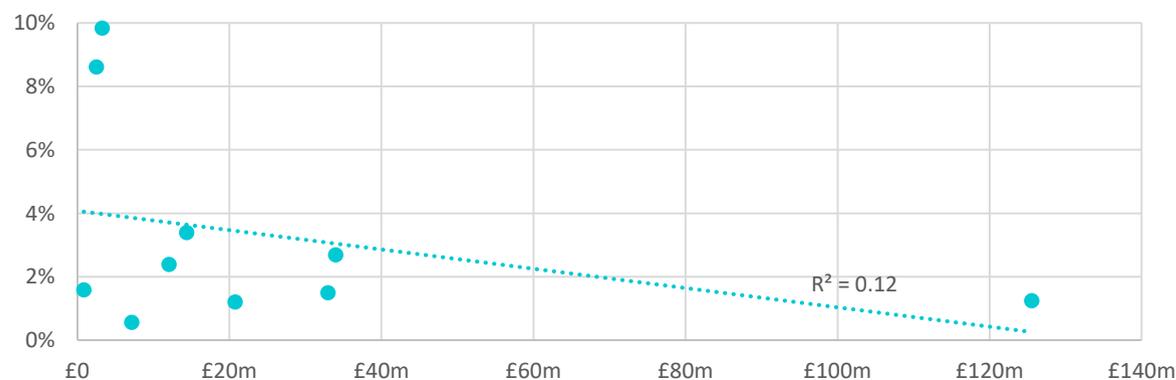
# Total board remuneration

Smaller firms tend to use more of their premium income to remunerate their board. However, there are some clear outliers.

**Total remuneration of board as percentage of GWP by size of company – Health & GI**



**Total remuneration of board as percentage of GWP by size of company – Life**



	Health & GI	Life
Firms considered	15	10
Correlation coefficient (R <sup>2</sup> )	0.46	0.12
Average percentage	4.2%	3.3%

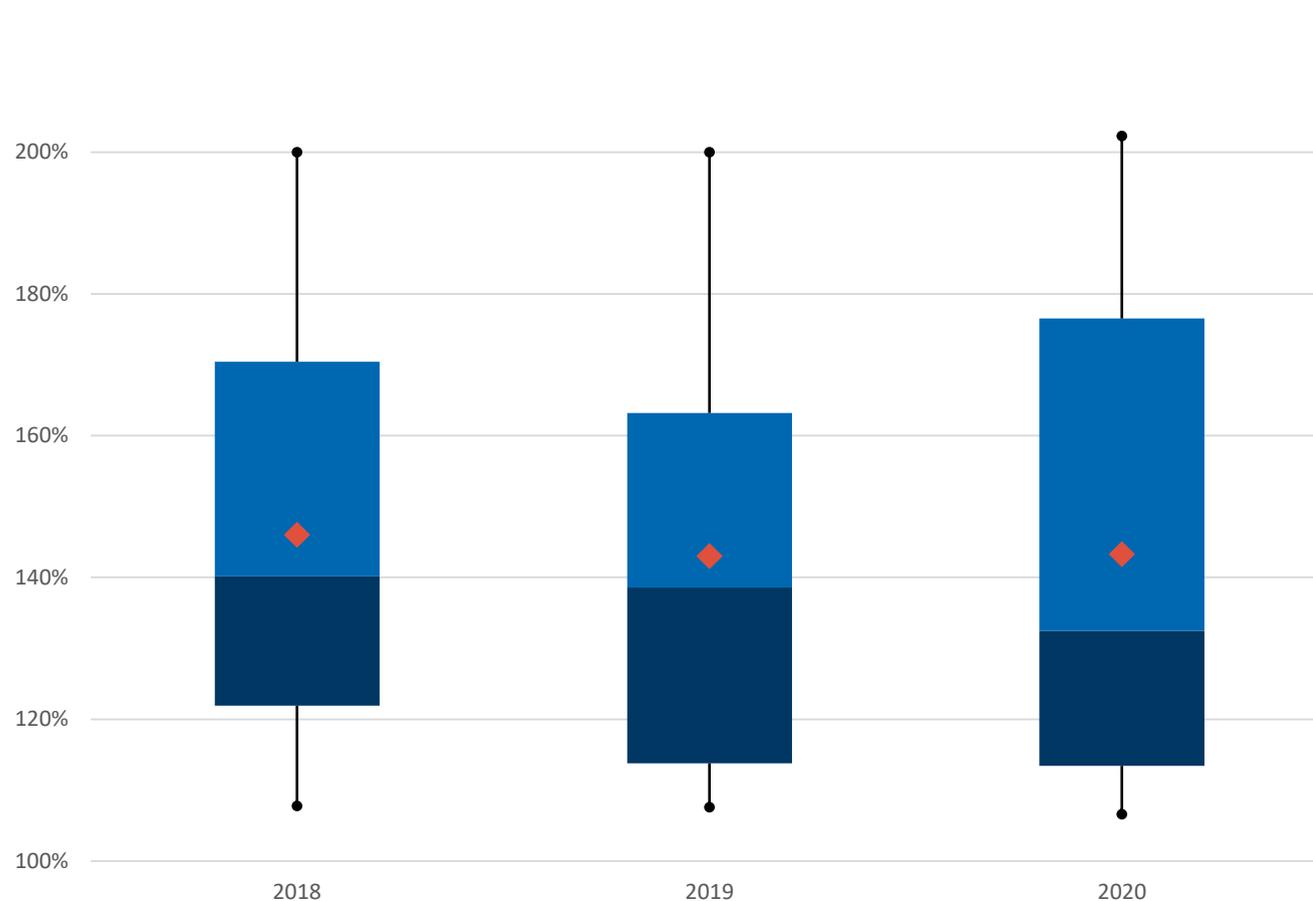
## Commentary

- For Life Boards, there are two clear outliers who are paid over £8 for every £100 of premium taken. The remaining Boards vary between £1 and £4 respectively.
- For Health and GI Boards, there is less of a gulf between those with the largest percentage and the rest. There are five companies that are paid between £6 and £8 for every £100 of premium taken, with the remaining Boards varying between £1 and £5.
- The average percentage for Health & GI companies is greater than for Life companies

# Comparison of highest paid NEDs

The highest paid NED (often the chair) is paid far more than next highest paid, but the gap is narrowing

Ratio of highest paid NED to next highest paid



	2018	2019	2020
Mean ratio	146%	143%	143%
Median ratio	140%	139%	132%
Firms considered	18	20	19
Firms considered outliers <sup>1</sup>	1	0	0

## Commentary

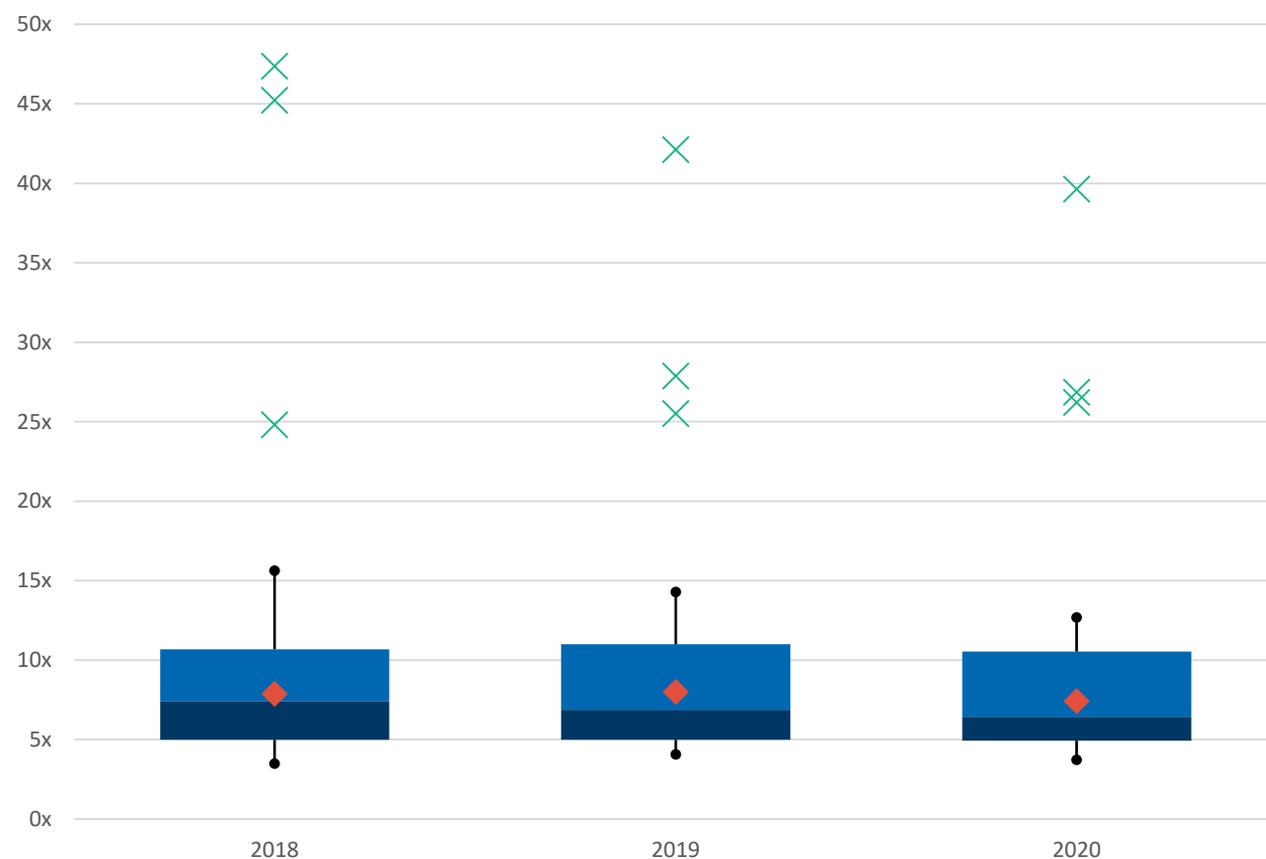
- It is useful to compare the highest paid NED to the second highest paid. The highest paid member tends to be the Chair, but we note that this was occasionally not the case.
- Over the last 3 years, the median and mean percentage has decreased from 140% to 132% and 146% to 132% respectively. As we have seen that the remuneration of the highest paid NED has remained largely flat, this implies that the remuneration for the rest of the board is increasing.
- Further analysis shows that the median has fallen at a faster rate than the mean. This implies that those with the largest have not decreased as much as those with a smaller gap.

1. One company had a ratio of 277% in 2018 and hence was excluded from the chart

# CEO and NED comparison

CEOs' remuneration is many times more than the highest paid NED, but there is a wide range of multiples

CEOs total remuneration as multiple of highest paid NED



	2018	2019	2020
Mean multiple	7.9x	8.0x	7.4x
Median ratio	7.4x	6.9x	6.4x
Firms considered	22	22	21
Firms outlier	3	3	3

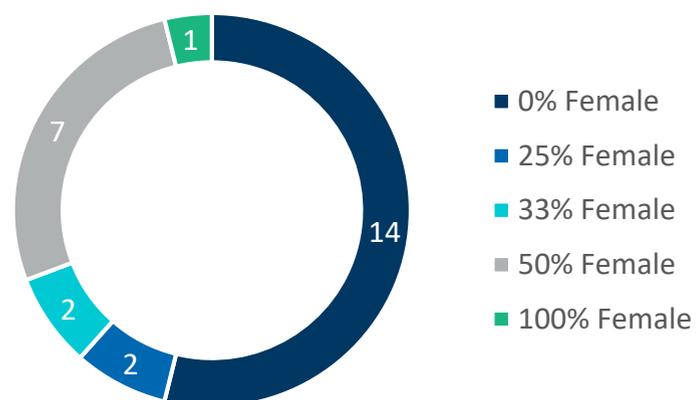
## Commentary

- There is a large variance across companies on how much more the CEO is paid than the highest paid NED.
- Three firms were excluded as outliers as they had multiples ranging from 25x to nearly 50x.
- The mean and median are both expected to decrease in the 2020. This is likely due to CEO pay, on average, expected to decrease in 2020, whereas NED pay is expected to remain broadly flat.
- In 2020 the gap between median and mean has widened, implying that those in the lower half are decreasing compared to those with the largest multiples.

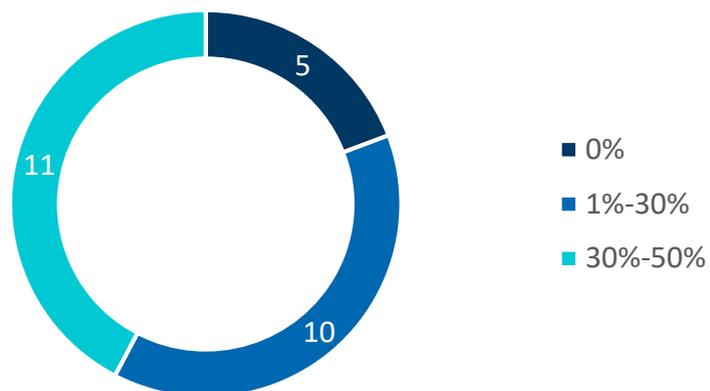
# Gender split across boards

With several companies having no female representation on either the executive team or the NED team, there is still progress to be made in this area

Number of companies grouped by female representation on executive team



Number of companies grouped by female representation on NED team



## Commentary

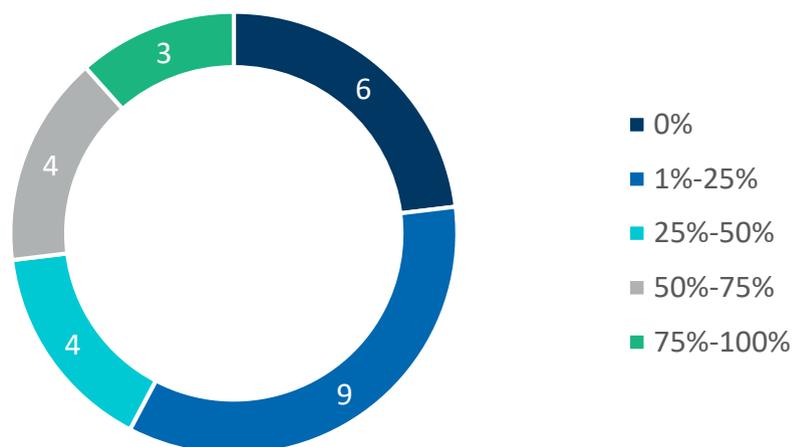
- For the executive team, the average percentage of females is 22%.
- We can see that there are 14 companies with no female representation on the executive team at all.
- For the NEDs, the average is 23%, and there is less variation between companies.
- There are no companies with over 50% females in the NED team, and five companies with no female representation at all.
- There is a global initiative to reach 30% female representation across boards, which has now been achieved across FTSE350 companies<sup>1</sup>. There are:
  - 62% of companies do not meet this criteria with respect to the executive team.
  - 58% of companies do not meet this criteria with respect to the NED team.

1. <https://30percentclub.org/about/chapters/united-kingdom>

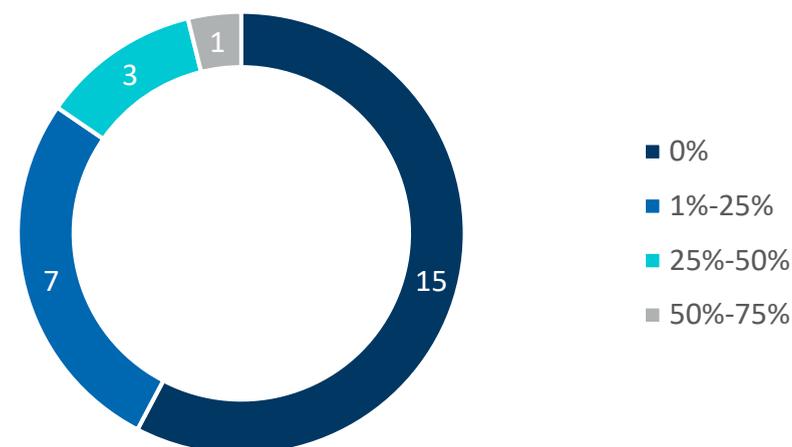
# Board tenure statistics

Board turnover is low with only 38% of companies having at least one new member joining the board in 2019

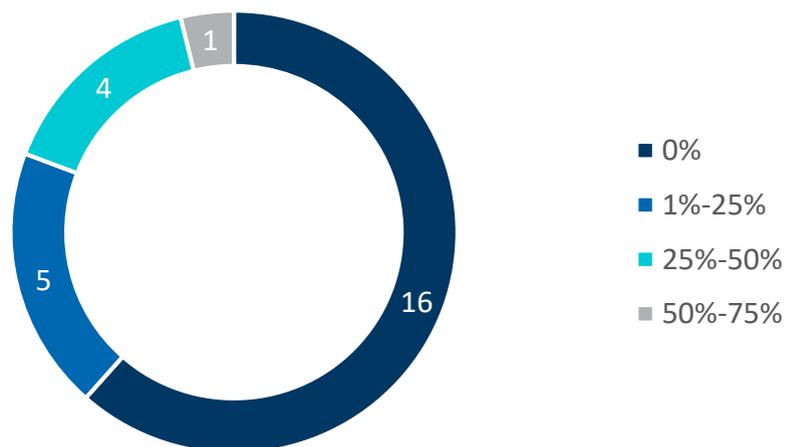
Number of companies grouped by percentage of board with over 9 years of service



Number of companies grouped by percentage of board retiring in 2019



Number of companies grouped by percentage of board joining in 2019



## Commentary

- A third of the average board has served over 9 years, although we can see that there are several firms that are far higher than that.
- 77% of participants have at least one member of their board with over 9 years of service.
- 62% of participants had no new members joining in the last year, and 58% of participants had no member retiring. This implies that the majority of companies had low turnover in the last year.

# Gender Reporting

**Averaging across the participants, we can see that there is a noticeable difference in the amount that males and females across the whole company are paid**

**Weighted average bonus by gender across participants**



**Commentary**

- 20 participants provided data on gender reporting across their whole company.
- Calculating an average that is weighted by company size across all participants that provided the data, we see that on average, females received a bonus that is 40% less than males in 2019.
- Under similar weighting and looking at hourly pay, females received 30% less than males per hour in 2019.

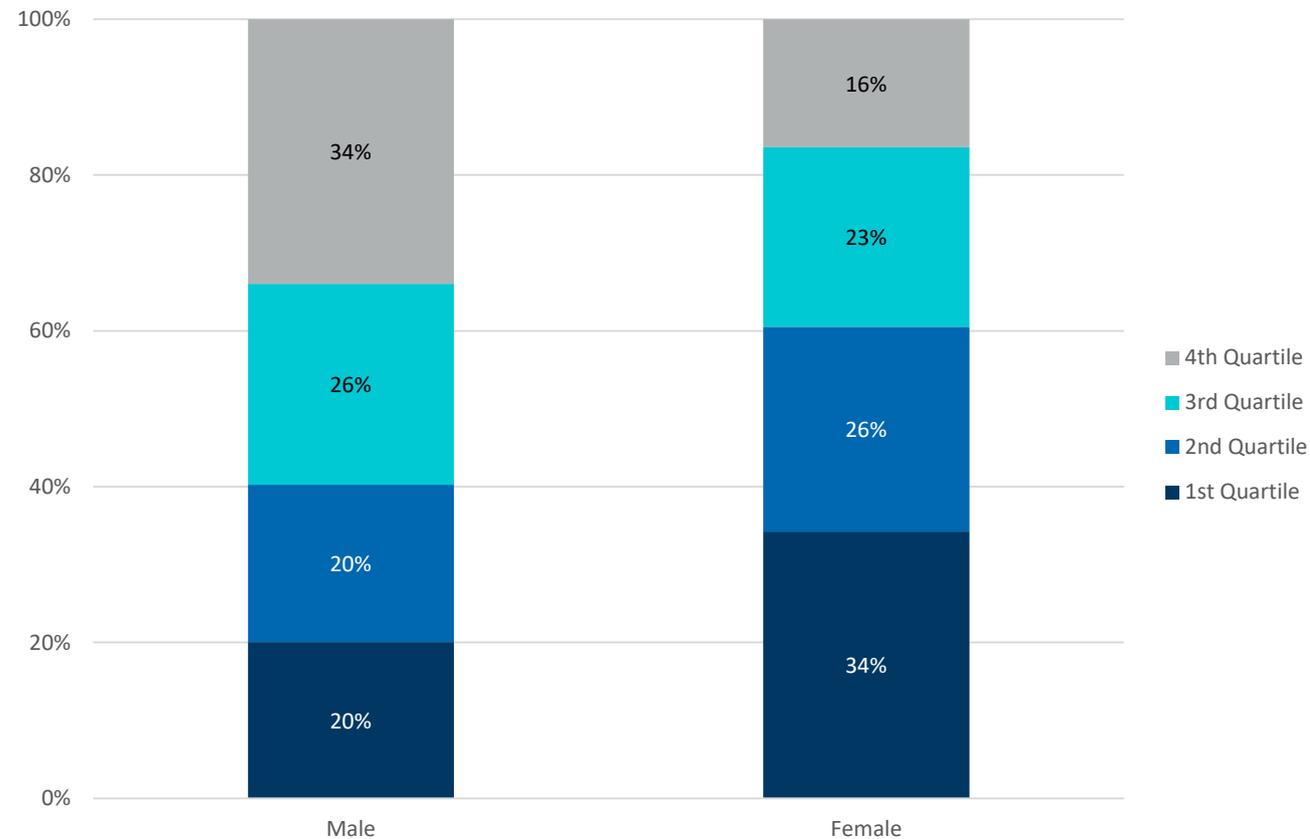
**Weighted average hourly pay by gender across participants**



# Gender Reporting

## Examining the distribution of earnings across quartiles clearly shows a discrepancy

Earnings quartiles by gender across participants



### Commentary

- The chart to the left shows the percentage of males and females in each earnings quartile across the 19 participants who provided this data.
- One-third of males fall into the top 25% of earners, compared to 16% of female.
- Females are disproportionately likely to fall in the bottom quartile, i.e. the lowest 25% earners.
- The 2<sup>nd</sup> and 3<sup>rd</sup> quartiles are not quite as extreme, but females are still ending up lower than males.
- This shows that there is a clear discrepancy between male and female earnings, which may be driven by males dominating the higher paid jobs, or males being paid more for similar roles.



# Appendix

## Company grouping

We have grouped companies according to the category that had the most GWP in Section 1 of the survey

Life	GI	Health
Compass Friendly Society Limited	The Benenden Healthcare Society Limited	British Friendly Society
The Rechabite Friendly Society	Medicash	Cirencester Friendly Society
Kingston Unity Friendly Society Limited	UIA Insurance Limited	The Dentists' & General Mutual Benefit Society Limited
Metropolitan Police Friendly Society Limited	Cornish Mutual Assurance Co Limited	Health Shield Friendly Society Limited
National Friendly		The Original Holloway Friendly Society Limited
The Independent Order of Oddfellows Manchester Unity Friendly Society Limited		The Medical and Dental Defence Union of Scotland (operating as MDDUS)
PG Mutual Limited		Paycare
The Scottish Friendly Assurance Society Limited		Sovereign Health Care
Sheffield Mutual Friendly Society		Transport Friendly Society
Shepherds Friendly Society		WHA
Tees Mutual		Wiltshire Friendly Society Limited



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