



# FIRST FLIGHT

## NON-EXECUTIVE DIRECTORS

A Forward looking Report:

### Chairmen's Expectations of Board Remuneration and Time Commitment for 2016

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Carried out on behalf of the AFM by First Flight Non-Executive Directors



### **The brief and background to this part of the report:**

Each year the AFM commission Robert Wharton of Keystone Law write a report on remuneration in the mutual sector, this "Remuneration Report" has been compiled for some 6 years now. It was started in the wake of the Lehman crisis to demonstrate that there was not a culture of over-reward in the mutual sector. The "Remuneration Report" has now built a detailed picture of the sector over the years and is used, among other benchmarks, by many Members for their own board deliberations. The AFM wished to add value to the report by including a section on how the future might look in terms of remuneration expectations and time commitment by NEDs. First Flight were asked to undertake the survey and produce this forward looking section.

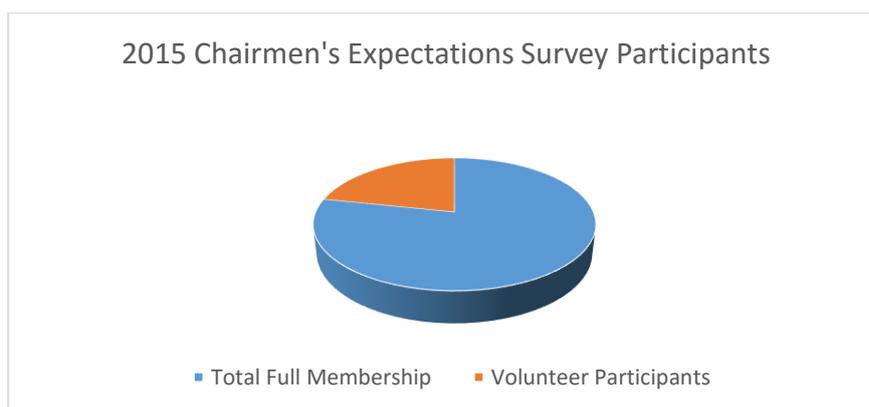
### **Executive Summary:**

As expected, overall the larger societies are in a position to anticipate larger increases in remuneration than their smaller counterparts. However, the majority are seeing the effects of the slow recessionary recovery for their members and their own profits and are only looking to offer, on average, about a 5% increase across the board, and in many cases less. These increases are justified by the increased work load created by the pending implementation of Solvency II (January 2016) and the Senior Insurance Manager's Regime. While there were other factors affecting individual societies these two were the strongest theme to come from the survey results.

For the majority of the participants the time commitment of the Non-Executive board appears to be on the increase. The overriding factor for this is again down to regulation and an increased perception that the spotlight is on board performance. While the Chairmen admitted that the increased time commitments had an impact on their NED's, the increased performance (as an unexpected outcome of the miserable financial meltdown in 2008) was in general welcomed.

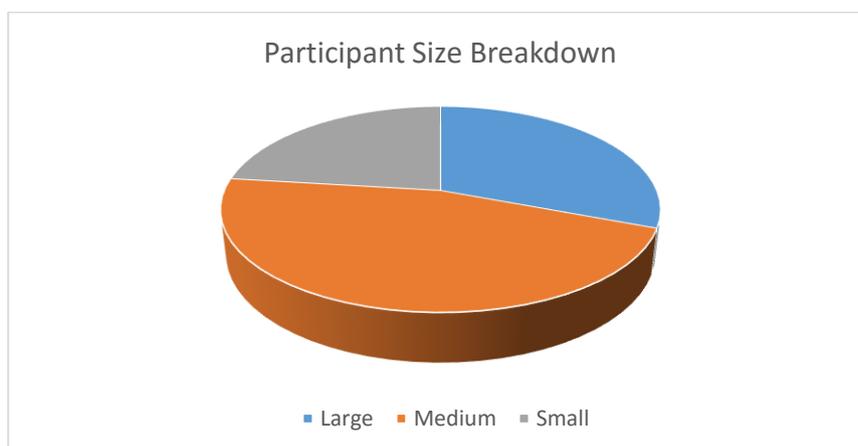
### **Method:**

The survey was carried out by First Flight using a selection of questions designed and agreed with the AFM. All AFM Member companies were emailed by the CEO of the AFM with an explanation of what was intended and volunteers from the Chairmen/Chairwomen of the Membership were requested to contact First Flight. Once contact was made the survey was carried out by way of a telephone interview taking between 10 and 30 minutes, the survey was conducted in confidence. To encourage participation the questions were brief and a combination of multiple choice with some opportunity to expand on the answers selected.



All 47 Full Members were invited to contribute on a voluntary basis and nearly 28% of the Full Membership were able to do so. At this point I would like to thank all those who did partake and also those who responded but were not able to contribute this year. Your time is appreciated and I hope you find this report of use. I would encourage those that were unable to take part this year to do so in future as the more participant data we can collect the better the results will be.

In order to allow users of this report some idea of correlation between their business and the survey results we classified the participants by size. "Large" societies are those where gross premium income exceeded £20 million. "Smaller" societies are those with a gross premium income under £5 million. "Medium" societies are those that fall between.



## Findings:

### Remuneration Expectations for the CEO's role in 2016

It appears that the larger societies are both actively growing their businesses, as well as busy with making sure that their remuneration packages meet the general expectations for their size and complexity within the sector. The result of these strategies are that they are expecting to offer a "between 5-10%" increase in remuneration to their CEO's in 2016.

The majority of the medium sized societies are expecting to offer "up to 5%" as an increase in remuneration to their CEO's in 2016 and the main focus of this is varied. There are active growth strategies underpinning some of the additional workloads as well as some benchmarking exercises going on to ensure that they are offering the right packages. It appears that pay increases are not as aggressive in this size of organization in comparison to the larger groups.

The smaller societies are naturally more conservative with all participants expecting their CEO's to remain at the 2015 levels. This is due to a levelling out of the organizations performance and the fact that benchmarking has already taken place in these organizations so they feel their package is appropriate for their size and complexity.

### Remuneration Expectations for the Executive Board member roles in 2016

The larger societies without fail described the drivers for their expected executive remuneration packages as those which were driving the CEO's expected remuneration described above. The levels were in total mainly "up to 10%" with one outlier of "up to 5%".

The medium societies were again a little more conservative than their larger counterparts; generally expecting to offer "up to 5%" additional remuneration to their executive boards in 2016. They also sighted the same drivers for expected executive remuneration increases as they had for the CEO's anticipated increase. However, work load in the sector began to show up as a factor and it was suggested by one participant that while they didn't expect material increases in remuneration they may be looking to increase the number of individuals at this level to provide appropriate cover for this increasing load.

The smaller societies naturally were more conservative still with most expecting to pay their executive boards "about the same" in 2016. They too sighted the reasons for this as those stated as the focus in the discussion about their CEO's remuneration level described above.

### Remuneration Expectations for the Chairman/Chairwoman role in 2016

Remembering it is the Chairmen that are answering this survey, overall they were less generous with the pay increases for themselves than they had been for their executive staff. However, there are usually some outliers when you are looking across all the responses and we did hear from one Chairman who was not remunerated at all to another who was suggesting their rise should be more than 10%.

In general regardless of size most participants suggested they would be expecting to stay "about the same" or a modest increase of "up to 5%" and sighted the focus of this as being in line with the drivers for their anticipated executive changes.

### **Remuneration Expectations for the Non-Executive Directors roles in 2016**

Most of the larger societies were expecting to increase the NED's remuneration by "up to 5%" for 2016. However, the membership of the society, playing a large role in the ethos of the entity, was being considered and, given the current market conditions, the increases were anticipated to be tempered by those pressures.

Medium sized societies were also anticipating an increase similar to their larger counterparts. Again consideration was being taken of the ethos of their business but the increased responsibility that the NED's were having to shoulder does require some compensation.

The smaller societies were in a similar mind-set but again a little more conservative with the majority saying their anticipated increase for NED's would probably only be marginally higher than 2015 if not the same.

### **Time Commitment Expectations for the Chairmen/Chairwoman in 2016**

It is no surprise to see that not one of the participants felt that the time commitment was going down. Five (38%) of the societies Chairmen said they anticipated it would stay the same as before but everyone else thought it was going to increase.

The large societies Chairmen tend to work more than 6 days a month in their roles, with some as many as three days per week. The medium organizations are more difficult to summarize as they vary from more than 6 days per month to 2 days and there appear to be no particular outliers nor any correlation in business plans to explain it. The smaller societies Chairmen work in line with the medium ones varying from 2 days per month to more than 6. It seems the role of Chairmen in this sector is busy and driven by the current affairs of the organization as much as the size of the organization or its business plan.

Overall Chairmen considered the work load had been increasing significantly historically but was now levelling out and they only expected it to increase marginally in 2016. The main factors affecting this are the consequences of Solvency II implementation for those eligible boards (and the enhanced risk management that they need to fulfil) plus the work caused by the Senior Insurance Manager's Regime. The current fashion for expecting your board of directors to enhance the manner in which they work by layering it with documented corporate governance is also having an effect and although this is not bemoaned by any of the Chairmen spoken to, it is taking its toll in time. In fact the Chairmen spoken to welcomed the enhanced drive that this fashion was instilling in their board members, and it looks set to change the scene in the board room irrevocably for the good.

## **Time Commitment Expectations for the Non-Executive Directors in 2016**

Picking up from the theme of enhanced board performance discussed by the Chairmen in the paragraph above it seems the role of the Non-Executive is also expected to be taking more time in 2016. The amount of time committed seems to be naturally dependant on whether an individual also chairs a sub-committee. While it seems logical that a sub-committee Chairman/Chairwoman would have to commit more time than a Non-Executive Director who does not hold such a position, it has become significantly more than some expected.

Each organization in the survey divulged what they anticipated their Non-Executive directors would be expected to spend in time for 2016. It varied from 100 days per annum to 12 days, this included preparation time. It is not possible to give specific breakdowns by size range other than to say as you would expect the larger societies tend to demand more time than the smaller ones but there were cases where smaller societies demanded a great deal of time from a Non-Executive director and a correlation between size, business plan and/or time was not necessarily apparent.

### **Conclusion:**

In conclusion, in the areas of remuneration and generosity of time, it seems the boards of societies are well focused on the philanthropic roots from which they come. The regulatory requirements of the varying business plans undertaken in the sector are increasingly burdensome particularly on the smaller societies but are being shouldered valiantly. Modest increases in remuneration reflect the increasing responsibility of the board and the time commitments they are expected to make.

We hope to make this survey an annual occurrence if the feedback from this report justifies it and the AFM wishes us to continue. We do not think that there is anything in the conclusion that will surprise people and hope in surveys to come we will seek out the trends that are of use to you, the recipients. Please do let us know if you have feedback and we will keep it in preparation for next time.

**Introducing First Flight:**

First Flight Non-Executive Directors Ltd is a search and selection agency specialising in recruiting Chairs and Non-Executive Directors. As part of its service it can supply companies with pre and post-search Board services, including Non Exec and Chair remuneration advice, Board and NED skills audits, Board benchmarking and succession planning.



Jane Linney is First Flight's specialist Business Development Manager for the Mutuals, Friendlies and Building Societies sector. She has extensive business knowledge as a Non-Exec herself in a Financially Regulated position and holds the Certificate of Company Direction from the IoD.