

Work and Pensions Committee

Oral evidence: Executive Pensions, HC 2268

Wednesday 19 June 2019

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Members present: Frank Field (Chair); Heidi Allen; Rosie Duffield; Ruth George; Steve McCabe; Nigel Mills; Chris Stephens; Derek Thomas.

Questions 1 - 74

Witnesses

I: António Horta-Osório, Group Chief executive, Lloyds Banking Group plc; Stuart Sinclair, Independent Director and Chair of the Remuneration Committee, Lloyds Banking Group plc; Pauline van der Meer Mohr, Chairman of Remuneration Committee, HSBC; Alex Lowen, Group General Manager and Head of Group Performance, HSBC.

Written evidence from witnesses:

Examination of witnesses

António Horta-Osório, Group Chief executive, Lloyds Banking Group plc; Stuart Sinclair, Independent Director and Chair of the Remuneration Committee, Lloyds Banking Group plc; Pauline van der Meer Mohr, Chairman of Remuneration Committee, HSBC; Alex Lowen, Group General Manager and Head of Group Performance, HSBC.

Q1 Chair: Welcome. Alex, might you begin by introducing yourself? Then we will go down the panel so that we know for the record who everyone is.

Alex Lowen: Absolutely, yes. Alex Lowen, Head of Performance and Reward at HSBC.

Pauline van der Meer Mohr: I am Pauline van der Meer Mohr. I chair the Remuneration Committee on the board of HSBC plc.

António Horta-Osório: I am António Horta-Osório. I am the Group Chief Executive of Lloyds Banking Group.

Stuart Sinclair: I am Stuart Sinclair. Since September I have been the Chairman of the Remuneration Committee at Lloyds Banking Group.

Q2 Derek Thomas: Thank you very much and good morning. If I can start with Alex and Pauline, you have taken a lead in your industry in setting executive pensions at a level that is aligned with the rest of the workforce. Have you ever set out how you are achieving this or how you have achieved this?

Pauline van der Meer Mohr: Generally, we consult with all of our shareholders on a very regular basis and we do that annually because we care about our shareholder vote. We have successfully achieved in securing the majority shareholder vote in the high 90s over the years. We try to continue to achieve that kind of shareholder support. We do that regularly.

Q3 Chair: Pauline, can I just interrupt? When you say you go to the shareholder base, do you have a commitment to the small shareholders as well as the large ones?

Pauline van der Meer Mohr: We do. However, it is harder to engage the smaller ones. For example, a lot of our smaller shareholders are retail shareholders, especially in Hong Kong, and they are notoriously hard to engage with. In the UK, however, we typically engage with our larger shareholder base, the institutional investors, both the proxy advisers and the actual investment houses. We do that regularly and we have done so this year as well.

When the Investment Association issued its guidance in January, we found it quite easy to follow its guidance. We quickly agreed that for the new pensions, for the new appointments, we would agree to reducing our



pension to 10% as the guidance was suggesting. Then our existing executives took the initiative to follow suit and to also adjust their existing pensions to that lower base.

Q4 Derek Thomas: Is there anything you need to add to that?

Alex Lowen: No, I think that covers it. I would say the executive directors who are currently at HSBC, our CEO, CRO and CFO, have a contract that had their pension at the 30% allowance. They made a voluntary personal decision to reduce that and they accepted a new contract with a lower amount. That is how we ultimately implemented that change. The IA was very focused on new policy and new executive appointments, but it was our current executive directors that made the decision to reduce their pension down.

Q5 Derek Thomas: What was the driving factor behind making this quite significant change within your sector?

Pauline van der Meer Mohr: The driving factor is that we care about good governance, we care about shareholder support and we care about doing the right thing. We believe that the three in combination led to this conclusion.

Q6 Derek Thomas: Good, thank you very much. Again to Pauline, if you do not mind—and also Stuart, if you can comment—when considering what is an appropriate pension for directors, did you look at the pensions received by other staff?

Pauline van der Meer Mohr: We think alignment is important. The Investment Association also stipulates that alignment is important, so we obviously look at the broader workforce and then we look at the executives and try to align as best we can.

Q7 Derek Thomas: I can add a bit more to that. What is the appropriate relationship, do you think, between your executive pensions and those of the rest of the workforce? Is there a formula that you apply?

Stuart Sinclair: I do not think there is a formula, but of course, like Pauline, we are very conscious of the new guidance that has come out from the Investment Association and we see no reason why we would not find ourselves on a path to convergence.

There are a couple of differences between the two companies, however. One is that we are at a different point in the cycle. As you know, companies typically have a three-year remuneration cycle and we are a year behind them. You have done your work; you have made your announcements. We are beginning, as we speak, to redesign compensation, of which pensions are just one part.

The other point I would make is I do not want in our Committee to start with the pension question. To be honest, I think that is the wrong thing to do. It is not a once in a lifetime opportunity, but it is a once in a few years opportunity to step back, to say, "What do we want to reward?"



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What behaviours should we reward and what outcomes?" They will be financial outcomes, social, environmental and governance outcomes. Then you go to shaping remuneration and then I think the pension pops out as part of it.

The funny thing is we are talking about pensions today. The whole thing is a bit of an anomaly because it goes back to an era of different pension tax arrangements. I am coming at it through a slightly different door, but I suspect we will end up in a place not massively different from HSBC.

Q8 Derek Thomas: What we are hearing seems quite encouraging. I am interested in an unintended consequence. Will you be less able to attract the people you really need to be executive directors because of the work you have done to address pensions?

Pauline van der Meer Mohr: Clearly being competitive is a key concern to us, just as engagement of shareholders is a key concern to us. It is always a balancing act. We need to balance different perspectives. The shareholder perspective is one; the regulatory perspective is one; the executive perspective is one. Being competitive in a global banking environment, where obviously HSBC is active in 66 different countries with very different markets and market dynamics, is always an issue. For now I think we have it roughly right. What the future will bring we will need to see.

Derek Thomas: Do you have a view on that, Stuart?

Stuart Sinclair: Broadly similar, but I would major on the motivating part. I am confident that when we have finished our review, which is going on as we speak—literally now, since we have just finished our last AGM—we are going to come up with a series of packages that are modern, transparent, simple and motivating. That motivating thing is very important to me and my Committee because, for one thing, I have spent a lot of my life in consulting, helping firms that have become poor performers, and a lot of that has had to do with not attracting and retaining good talent. Wherever we end up, there has to be a commercial angle to it.

Derek Thomas: That is helpful.

Q9 Steve McCabe: Mr Horta-Osório, you volunteered to take a cut in the cash payment in lieu of pension from 46% to 33% of your base salary. Is that correct?

António Horta-Osório: That is correct.

Q10 Steve McCabe: Why did you do that?

António Horta-Osório: I did that because in line with what Stuart was saying and in spite of having our policy vote next year, we are absolutely mindful of the Investment Association guidelines, which say there should be an adjustment over time. At the same time, as you know, my fixed share allowance has been increased, as I have additional responsibilities



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in the bank as we implemented non-ringfencing. In discussion with Stuart, as Chairman of the Remuneration Committee and the Chairman, I have decided to do that as a first voluntary step in agreement with the Committee.

- Q11 **Steve McCabe:** Thank you. If I have understood it correctly, that cut from 46% to 33% meant that it went down from £573,000 to £419,000, so you lost £154,000, but you did receive fixed shares worth £150,000, which must have largely offset that. Is that a fair assumption?

António Horta-Osório: The numbers that you are referring to are the following: the pension contribution going down from 46% to 33% on my salary represents a decrease of £166,000, as we calculated it, and the fixed share allowance was an increase—and I referred to it—of £150,000, although the fixed share allowance is paid over five years. None of it is received this year. It is paid in shares to have an alignment with the bank that the calculations are a £166,000 decrease on the pension allowance.

Stuart Sinclair: Chairman, could I just add to that, since I am the steward of that arrangement? These are big numbers by anyone's standards. I understand that. I think back to my dad, who never had a pension, and he would be very surprised to be listening to all of this. There is a market for talent and Mr Thomas has talked about that.

Take-home pay for António has gone down by £167,000 this year and next year and so on, because the share allowance is spread over—

- Q12 **Steve McCabe:** It is spread over five years, yes, so he does not get it all at once. I did understand that.

Stuart Sinclair: The other point I think is important, which almost everybody on the panel has said, is that we acknowledge there is a convergence trend at work, prompted in part by the Investment Association, and I do not see us being an outlier on that.

- Q13 **Chair:** You are behind the curve on that.

Stuart Sinclair: We are only behind the curve insofar as our policy cycle is three years to three years. We are not behind the curve with respect to consulting very widely. I have just been to see 27 investors, for example. I have spent a lot of time looking at and speaking to Resolution Foundation folks to get their input, which I know is important in your career. We are going to do a very eclectic review, and I hope you will find when we end that and announce it that we will not be behind anyone's curve.

- Q14 **Steve McCabe:** Mr Horta-Osório, we have had this explanation of the cut and the money that will part-offset it, spread over five years. That means if I look at last year's total and this year's, it has gone up from £2,876,000 in 2018 to £2,895,288 in 2019. That is an overall gain of £19,288. Is that accurate?

António Horta-Osório: Those numbers are broadly correct, Mr McCabe.



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Q15 **Steve McCabe:** You would agree with that. Thank you. What is the average salary of a Lloyds employee?

Stuart Sinclair: The average salary of a Lloyds employee is around £37,000.

Q16 **Steve McCabe:** £37,000 as opposed to £2,895,000?

Stuart Sinclair: Correct. In addition, they have very attractive pensions. One in four of our colleagues—we have 67,000 colleagues—is on a 44% defined benefit pension, which is a strong private sector pension.

Q17 **Steve McCabe:** Am I right in thinking that the average employer contribution for the pension for this employee that we are talking about—£37,000—is between 8% and 13%? Is that right?

Stuart Sinclair: Yes. It is difficult to use the word “average” because we have so many schemes, but yes, broadly you are right. For example, if a new person joins us and they contribute 5%, we match with 13%, which is a very big overmatching. That is a total of 18%, which I am not embarrassed about, personally. I think 18% is—

Q18 **Steve McCabe:** I am glad to hear that. Am I right in thinking that Lloyds Banking Group made an after-tax profit last year of about £4.4 billion? Is that accurate?

Stuart Sinclair: That is correct.

Q19 **Steve McCabe:** Did anyone consider—did you, Mr Horta-Osório, or you, Mr Sinclair—increasing the average employer pension contribution for the rest of the staff? 8% to 13% for someone who is taking away close to £3 million and getting 33% for their pension does not sound quite what we are looking for, does it?

Stuart Sinclair: Can I give you my Committee’s point of view on that? We have consistently, year after year, made a point of considering everybody’s package, not just the top people. To that end we have consistently increased base salaries of the most junior people by 3% to 3.5% versus 1.5% or 2% for the better-paid. We also have a fully funded pension scheme of the kind we have already described, plus healthcare and so on. In a market sense, I think we do very well by our colleagues, to be quite honest.

Q20 **Steve McCabe:** If we were seeing you back here next year or in a couple of years, how much do you think the gap between 33% and 8% to 13% would have narrowed for those people?

Stuart Sinclair: My Committee is working hard on this very question right now, so it is conjecture. As I said, I do not think it is just about the pension. It is about the total package. If I were to speculate, I would say we will almost inevitably be very conscious of the convergence thinking that has been put out there by the Investment Association.



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I think we are at an inflection point in British pay and this Committee is testimony to that. You remember manufacturing wages got very complicated with all kinds of piece rates and all kinds of overtime rates. You could not run a factory that way, so it changed. Now we have very complicated, madly complex pension arrangements and so on, and I think similarly we are all saying it is just too complicated and possibly not that motivating, so we are going back to the drawing board as a society, certainly in the banking industry.

Q21 Steve McCabe: I just want to ask one last question. I do not wish this to sound rude, Mr Horta-Osório. I do not mean that at all. I am curious, as I say, when I look at these figures because we started by you saying that it was being reduced from 46% to 33% so that we could deal with the Investment Association's rules. Yet when we break down the figures, you have not done that badly at all. I am just wondering, if someone was to say this was an attempt to circumvent the Investment Association's rules, how would you react to that?

António Horta-Osório: I would react by making three points about that. First, in 2011, when I joined the bank—as Stuart also says—the pension contribution was not seen as it is seen today. It was seen as part of total fixed compensation, as you have already discussed. My package was approved by the Government. Then, as you might remember, Lloyds was on the verge of bankruptcy. The Government had 43% of the shares and asked me to step in, together with a great group of people, to try to save the bank. The package was approved by the Government, and what mattered was the total fixed compensation.

Second point: we are very mindful of what it is to be competitive, which was also mentioned by HSBC. We know the remuneration level for each position in the bank and across geographies. We try to be competitive. My total fixed compensation is very much in line with the fixed compensation of other major bank CEOs.

The third point I would make is in spite of, as Stuart says, our policy vote being next year—it is next year that we have to present our three-year remuneration policy to shareholders—I thought that I should do a first step in agreement with the Remuneration Committee in line with the Investment Association guidelines, which mention that there should be a transition over time. I did that first step, which as you heard, is a first step, because our policy vote—we need to consult with important stakeholders such as yourselves and our shareholders—will lead to a proposal that is only due in my next year, given our cycle for next year.

Q22 Steve McCabe: I see, thank you. The purpose of these rules is obviously to try to narrow that gap between what the average employee is getting in pension contributions and what people like yourself are getting. I imagine anyone looking in on this from the outside would say, "Here is a guy getting nearly £3 million a year. It is 33% against an average employee getting £37,000, and then maybe 8%, 10%, and if they are lucky, 13%". That must be how it looks from the outside, mustn't it?



António Horta-Osório: Mr McCabe, I completely understand your point of view and I am very sensitive to that.

Q23 **Chair:** Sensitive enough?

António Horta-Osório: In line with that, as Stuart mentioned, we have been doing lots of things in terms of trying to address that inequality. I am not speaking about words, Mr Field. I am speaking about facts. We have decreased the average pay gap by 4% last year. This has been done over the last few years because, as Stuart mentioned, we have been increasing earnings for our lower-paid staff by, for example, 3.5% last year, when the senior staff have been increased 2%.

The second example I would like to give you is that for the last three years we have offered £200 in shares to each and every one of our employees because the bank is doing well. For the last three years they have received £600 in shares and all of our colleagues are now shareholders.

The third example I would like to mention to you is that we have moved to paying the real living wage in the whole of the UK. We pay a real living wage of £17,500—7% above the living wage—and we pay it both in London, where it is above £10.55 an hour, and in the rest of the country, where it is £9 an hour.

Q24 **Chair:** Stuart, you are too good a colleague to disclose what is going on in the bank, but I would imagine that this pension deal that António stuck to has caused huge trouble in the bank and a lot of your time has been spent in selling it.

Stuart Sinclair: No, I do not accept that, Mr Field.

Q25 **Chair:** There has been no trouble in the bank at all?

Stuart Sinclair: It is a very interesting question. I try to stay in touch as part of my job, not just with what is leading thinking about pay, but also what people believe in the bank. I will go to branches quite a lot and I do not do royal visits. I just go and hang around and I try to stay in touch with people.

We also have a wonderful system called Hive, where everybody can make anonymous comments. We look at that very closely to see whether people are saying, "Our boss is living in a fantasy world. He is not worth it". You do not get that. The point I would make is when you go to see people—

Q26 **Chair:** We have had that. People have e-mailed myself, for example, making that very point. It is very strange they should do it to me and not through the channels of the bank, is it not?

Stuart Sinclair: I have spoken to Accord and Unite and a whole variety of folks on this and I do not see that sort of discord.



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Let me make the final point here, Mr Field. People like a winner, I think, and when I go out to see people who are on £22,000, £30,000 or £40,000, they see António as a winner because he brought this bank back from the brink.

Q27 **Chair:** He certainly is a winner.

Stuart Sinclair: No, I mean winner in the sense that—thank goodness for British taxpayers—he did, through his effort, working with others, pull this bank back from the brink. People regard that as a big achievement and there is a charisma around António that means a lot of people say, “Good luck to him. He works incredibly hard and I do not resent the money”.

That may not be true in every company, I know. I have worked in a lot of companies in many countries and you often have a bitter resentment of bosses’ pay by the lower-paid folks. I do not see it widespread in Lloyds.

Q28 **Chair:** António, we have done a number of inquiries that have illustrated the problem is not capitalism, it is the capitalists. We have had the greed of Sir Philip Green and Mr Green with Carillion. How do you justify your greed compared with what other people in the bank are getting, given that other banks like HSBC have found it probably relatively easy to negotiate what they think both is a fair deal within the bank and what this Committee would probably think is a fair deal?

António Horta-Osório: Mr Field, it is very difficult to accept the word “greed” that you used, according to your own example, when my total fixed compensation at £2.8-something million, as Mr McCabe defined it, is lower than the group chief executives of HSBC.

I strongly believe, as I said before, there is in the market a remuneration value for each position. We look at it, our group and HR looks at it, and we know what it is in each position. We know what it is across geographies. We try to be competitive. At the same time we are very mindful of the inequality in society, absolutely mindful.

Like Stuart, I visit my branches every four to six weeks. I spend two days out in each city. If I were not here with you—and thank you for your invitation because these are important issues—I would have spent my day in Liverpool. I cancelled my visit to Liverpool. I have branch staff dinners. I have recognition dinners. I do town halls. I have breakfasts with small and medium-sized customers, which I have been doing for the last eight years. We are very mindful of that.

Our response is, “Yes, we should decrease this pay gap” as I discussed with Mr McCabe. We have been decreasing it year by year. Last year it decreased 4%. We increased our lower-paid staff by 3.5%, when senior staff have been increased by 2%. We have been giving free shares to every employee and we pay the real living wage across the UK—100% of our full-time employees get the real living wage. We have more to do, we completely agree, and our policy vote—as Stuart said, we are rethinking



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the whole remuneration because this is about total remuneration and not just pensions—is for next year and will represent this.

- Q29 **Chair:** Do you not feel that this very good message you have is distorted by your own personal performance and by you sticking to these absurd pension arrangements that you have in force while other people have surrendered theirs? Do you think the public is focused on you, not on the bank's record? I am asking António.

António Horta-Osório: Mr Field, I respectfully disagree with that because my total compensation—I think it is worth repeating this point—at £2.85 million is absolutely in line with other major bank chief executives. That is the market value for bank chief executives. That does not mean at all that we should not be—and we are—mindful of reducing the pay gap, which I think should mostly be done by increasing pay for lower-paid staff because that is what affects their living conditions. I just gave you three examples of what we have been doing. There is more to do and we strongly intend to continue to do things, as you will see as time goes by.

- Q30 **Ruth George:** I will address questions to both of you, but as you are speaking, António, I will start with you. Lloyds has reduced the number of branches by 409 in the last four years. What impact has that had on the number of staff that you employ?

António Horta-Osório: You are absolutely right that the number of branches in the United Kingdom has been reducing. We do not see branch reduction as a cost lever at all. I repeat this publicly. Often some other banks do; we do not. We see our branches as a key component of our offering of products and services to our customers. We think they want a multi-channel offering, which means they want to call us. They growingly use the mobile app or the computer, but they also like to go to the branches and we keep the three channels available.

The fact is customers are interacting with us increasingly through the digital channel and they go to the branches less and less. I have to tell you, I have managed banks for 26 years. This was the first time that I had to close branches in any bank I have managed before, because customers are using them less. We closed some, as you said, but we have closed less than others, and we have the public commitment that we will keep the largest branch network in this country. We presently have one out of five branches in the country and our commitment is to keep having one out of five and the largest branch network in the country.

- Q31 **Ruth George:** What impact has that had on your number of staff? How many staff did you have in 2015? How many staff do you have now?

António Horta-Osório: When we close branches, we make a very significant effort in trying to redeploy people and use attrition in order not to force people to leave their jobs. Of the people that have had to leave the bank given branch closures, we only had 7% of—



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Q32 **Chair:** What is the answer to Ruth's question? You have done all this business moving people around. What is the reduction?

Ruth George: What is the reduction in staff?

António Horta-Osório: I do not know exactly the number of people that we have in those branches that were closed, but I can write to you and tell you that number.

Q33 **Ruth George:** How many total staff do you have now compared to 2015?

António Horta-Osório: We have now 67,000 staff and we probably had—I would have to check exactly the number—around 73,000 or 74,000 staff three or four years ago.

Q34 **Ruth George:** You have lost around 7,000 jobs in the UK in the last four years?

António Horta-Osório: Yes, but the reason I did not give you that number in relation to the branches is those are not mostly or necessarily branch people. As the bank has been merging with the previous HBOS that Lloyds acquired, we had lots of duplication functions. Two finance departments became one finance department; two HR departments. The bank also lost people in terms of being more efficient and being the merger of two different banks.

Q35 **Ruth George:** Your base salary is at the real living wage, which anyone would appreciate, but presumably that has gone up 3%. What proportion of your staff are on that level of remuneration? Maybe Stuart would know that better.

Stuart Sinclair: It is quite a low number. Interestingly, as well we have 12 people on the zero-hours contracts out of 67,000.

António Horta-Osório: All of our staff have the real living wage, which Stuart just said. Very few are on that wage. If you want me to give you some numbers, a teller in a branch makes around £20,000 within the country. In London it is a bit more because London is more expensive. In London it is 10% or 15% more. If you are a branch manager, you make around £30,000, again across the country. In London it is 10% or 15% more.

Q36 **Ruth George:** You have reduced your number of staff by around 7,000, you have raised wages around 3% at the bottom, but you are still making profit of £4.4 billion. How is that impacting on your customers, and on the people that we see and hear from in this Committee quite a lot, who are vulnerable and struggle to get to banks? In my own rural area I have just spent two days going around with the Payment Systems Regulator, talking to people about the impacts that all the bank closures have had on rural communities. It is quite severe on elderly people and on charities in particular. How does that fit in?

António Horta-Osório: I completely agree with you. I was mentioning before that it is the first time in all the banks I have managed over the



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last 26 years that I have had to close some branches because of the customer trend to use the branches less and less.

You are absolutely right that some people do not use digital channels and they like to go to the branches. We are very mindful about that. When we close a last branch in town, we only do it after a very thorough analysis, and if there is a post office available, if there is an ATM. We are doing a pioneering trial with retailers to give cash to customers through the retailers. We have coverage of most of those locations by our mobile van fleet. We have branches that are buses. They go, they stop, three hours twice a week. They cover more than 200 locations in the UK. We have the largest fleet of mobile branches in the UK on top of having the largest branch network in the country.

Q37 Ruth George: When you go around to branches and speak to customers, particularly at the mobile banks, which have seen the biggest reductions in their service, what is their attitude to the bank making £4.4 billion profit and to your own salary? Do they think it is fair enough that their service has been reduced?

António Horta-Osório: In relation to the mobile branches, we got live research from our customers and they are very pleased with the mobile branches. They think it is a good alternative and much better obviously than only having the post office or an ATM.

In relation to the £4.4 billion that you mentioned, it is true that it is a lot of money as well in pounds, but you have to bear in mind that we have a capital base of more than £40 billion in the bank. Our return for shareholders is around 12% and 12% is a normal rate of return. It is not excessive. Our cost of equity is constant at around 10%. We have a return for shareholders of around 12%. You are right, it is £4.4 billion, but the capital base of the bank, because we are largest retail and commercial bank in the UK, is more than £40 billion of capital that shareholders put into the bank.

Q38 Ruth George: Do you think it is right that your return for shareholders is higher than your pension contribution for your lowest-paid staff?

António Horta-Osório: Our return for shareholders is 12%, so it is not comparable to that number.

Q39 Ruth George: Those are the staff that are putting the hours in, putting the work in.

António Horta-Osório: We have two types of pensions, as Stuart described. We have the defined contribution pensions, and in terms of the defined contribution, the majority of our staff has 13%, which is higher than the return for shareholders, which was 12%. On the defined benefit contribution, where we have 17,000, the equivalent contribution is 44%.

Q40 Ruth George: Thank you. It is reasonably the same.

Alex, turning to HSBC, you have closed 440 branches since 2015. What



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impact has that had on your staff levels?

Alex Lowen: I think it is a similar answer to Lloyds, in the sense that the branch footprint reflects the ways the customers are now using branches. There has been an increase in terms of the movement towards online and mobile banking. 80% of transactions are managed through online for our customers and 50% are digital in terms of how they work with the bank. We similarly provide our services through post offices. We provide telephone banking in other ways for people to interact with the bank. I recognise there are some vulnerable customers in rural areas that find it difficult with a lack of branches and, that is something that we recognise is an issue. We do try to offer alternative ways for them to work with HSBC.

I do not have the specific number of how many jobs have declined. HSBC is a global organisation. We have 235,000 staff around the world. We have 40,000 here in the UK. Jobs have been created through the digital channels as well as some jobs being lost from the branches, but it is something we can follow up on in terms of the specifics around how many jobs have been reduced in the UK over that period.

Q41 **Ruth George:** You have seen a net reduction in staff numbers in the last four or five years?

Alex Lowen: Yes, certainly in the branch network, given the change that has happened in that, but there has been obviously an increase in digital staff given the movement of customer needs from one to the other.

Q42 **Ruth George:** Your pension contributions, the employer contributions for your staff, what are they?

Alex Lowen: We make a minimum contribution of 10% for our staff and it goes up to 16% maximum. For those that make a contribution, we match that contribution. Again, it is a range from a minimum of 10% up to 16%, and that is for all of our UK staff who are in that defined contribution plan.

Q43 **Ruth George:** What is your base level of salary?

Alex Lowen: We are a national living wage employer. We were one of the first to sign up for that about six or seven years ago. That means that people outside of London receive that when they are an entry-level member of staff. We have minimum target and maximum levels for each level of staff, and the minimum at the entry level is the national living wage, which is around £16,000. We talk to the unions and Unite about those rates. Those are published and our employees understand what they are and there is progression obviously from that entry-level rate up to the next band. The top of the next band is £25,000. That is something that is transparently available to staff and they know the progression they can move through into those different levels of salary.

Q44 **Ruth George:** What is happening to the pay gap at HSBC?



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Alex Lowen: We published our pay ratio for the first time voluntarily this year. It is coming into legislation, as you know, shortly. It is 118:1, so the average compensation for an HSBC UK employee, because that is the way the legislation works, is £45,000. That compares to our CEO single-figure remuneration of £4.6 million in aggregate and 118 is that ratio.

Again, we are very focused on the junior population. That has been one factor that has been coming through loud and clear from shareholders and Government about the RemCo not just focusing on executive pay, but thinking about the broader workforce. The RemCo sees data about all of our staff. It gets benchmarking information to see if we are competitive at all of the different levels. We are being more generous with salary increases at the junior levels than we are at the executive levels. It is something that the RemCo takes into account as part of its decision-making, which is the right thing to do.

Q45 **Ruth George:** What about your customers, particularly the ones that are impacted by branch closures? Mobile banks: I am amazed that people standing queuing outside a mobile bank in the rain think it is a great service, as Mr Horta-Osório thought. What provision have you given to customers who are impacted by all your branch closures?

Alex Lowen: Typically it is either through a post office, because there is a larger network of post offices available than we have branches, or it is telephone banking. We have very positive feedback about telephone banking. For those that cannot use the mobile devices, that is the way that they can use the banking service.

We have published our customer feedback directly now in our ESG report. We also talk about how many complaints we get from customers in that ESG report, so those are publicly available figures. We do not get a large amount of complaints from customers about the service we offer and we are conscious of trying to offer them the service that they need in different ways, but obviously the movement has been towards more mobile, online banking, and 80% of transactions are now done in that way.

Q46 **Ruth George:** It is not the way that older people can operate. It is not the way that small charities or school fairs can operate, or carnivals, like we are seeing around lots of areas at the moment. Those people have simply had to leave HSBC when the bank has left town, so no, you will not be getting complaints.

How are you accountable to people like that, to communities, do you feel, both for the bank's profits and for your own remuneration?

Alex Lowen: It is very important that we offer a service to a broad range of customers, not just to selected customers who live near to a branch. It is not only in commercial interests to operate that way either. We have more than 10 billion customers in the UK. We have a large number of global customers.



Q47 Ruth George: Why have you closed 440 branches?

Alex Lowen: It comes down to the usage of the branches. If the branches are not having an amount of use that justifies that branch in that particular location, that is the analysis that happens. That has unfortunately been the issue with some of the remote branches, which are not sustainable in terms of the usage that they get, particularly as people are moving to different channels. Again, it comes back to telephone banking, post offices and other alternative ways for people to leverage the service HSBC provides. I do recognise that there is a challenge for certain customers or elderly customers in more rural locations. It is harder for them to access banks where there is not a branch in their community.

Q48 Ruth George: You are not doing anything about that?

Alex Lowen: We are trying to offer alternative channels, trying to improve those channels and make it as easy as possible. Our mobile device: we are investing a lot of money into that in order for it to be very easy for people to deposit cheques and do things on a mobile device in their own homes and not need to go to a branch. We are trying to find alternative ways for them to do it through technology.

Q49 Derek Thomas: In terms of retaining skills and talent that is obviously lost through high street bank closures and then addressing financial exclusion, I grew up in a part of the world—west Cornwall—where we had lots of high street banks. We barely have one now. Would it be beyond the wit of man for all the high street banks to get together and agree to collocate into one building in order to retain the skills at least somewhat, but also to address the financial inclusion? For example, NatWest is sending people into people's homes to do their banking. Have there been conversations across high street banks about collocating?

Chair: Would you use the post office, rather than two together?

Derek Thomas: I have kind of addressed that. Post office payments might be a helpful one to address, including how much they get paid by banks, but I mean collocating in terms of the high streets.

Alex Lowen: I am not aware of any conversation, but I am not sure if you have any further information.

António Horta-Osório: Mr Thomas, what we have been trying to do—because we are very mindful of that issue—is basically two things. The first one is when regrettably there is no usage for a branch and we have to close it after thorough analysis. We try to cover that branch through our mobile branch fleet, which is the largest in the UK, covering more than 200 locations already.

Secondly, I am trying to use the branches for as long as possible to the benefit of our customers, and we are doing that through three types of activities. We are increasing the number of mortgage advisers through our branch network because we think that people value important



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decisions such as buying their home for the first time and they like to have a human interaction. We have been increasing the number of mortgage advisers in our branches and have increased our market share of mortgages that are provided through the branches. That is number one.

Number two, we have just done a joint venture with Schroders in order to provide advice for people's decisions for their retirement. We have just announced it to the market. That will be done not only through digital channels, but also through our branch network.

The third one is we have increased the segmentation for small brands and small businesses to be able to use our branches from £1 million of sales to £3 million so that they use the branches more. We are seeing how we can also better serve them by having a relationship manager for the small businesses. Those are the areas that we are using the most.

Your suggestion, by the way, is a very interesting suggestion. I will take it on board and I will analyse it.

Q50 Derek Thomas: It is helpful what you say, but the kind of people we are talking about are not going to be looking for mortgages. They are not in that environment and some are quite elderly.

Secondly, businesses in my constituency are not banking £3 million. They are probably not banking £1 million.

António Horta-Osório: No, it is £3 million of sales.

Q51 Derek Thomas: Of sales. Yes, I would still be surprised if a lot of our high street businesses are doing anywhere near that in west Cornwall. They are quite small and independent.

The point is that there has been a lack of vision over many years. I grew up in a time where there were five or six banks. That may have never been justified, but they probably all retained about 20% of their customer footfall. If you had collocated and provided other services, as you have described, you probably would have saved money but also addressed the financial exclusion issue that we are all concerned about.

António Horta-Osório: The problem in the past for that alternative has been the question of branding and service—

Q52 Derek Thomas: Yes, sure, I understand that, service and competition, but—

António Horta-Osório: Competition as well, you are right, because there are several brands, but also which brand has service issues? How do you position it? It is a good suggestion and I will take it on board.

Q53 Derek Thomas: I would love to pick that up as a pilot in west Cornwall.

António Horta-Osório: I will take it on board. Thank you very much for your suggestion.



Chair: Pauline, do you want to come in on this?

Pauline van der Meer Mohr: I thought it was a very interesting observation. I know of some examples around the world, perhaps not directly related to the UK, where these collaborations have led to very interesting outcomes. I come from the Netherlands. In the Netherlands, some of the banks are now gathering together to create a “beyond ATM” kind of service offering. Some of that kind of innovation is where we need to head. We need to step beyond the considerations of pure competitive issues and think more innovatively about financial inclusion. Thank you for that suggestion.

Q54 **Heidi Allen:** A question for both banks. Shareholders: what is their role in all of this? How do you gather their thoughts? How did your most recent AGM go? How do you take on board their views?

Pauline van der Meer Mohr: Shareholders are obviously very important to us, so we care deeply about their support for what we do. We take great pride in their support over the years and have garnered roughly 95% to 97% shareholder support for our policies over the last few years. We intend to keep it that way if we can. It is important to us that we engage with them simply because their support demonstrates that we are on the right path, at least from their perspective.

As Stuart Sinclair also said, we make a lot of effort to talk to them on a very regular basis. This is not just a one-off thing when the AGM—

Q55 **Heidi Allen:** What about the pensions issue? What is their view on that and how do you gather that?

Pauline van der Meer Mohr: What we saw was that they followed the Investment Association guidance rapidly, as soon as it came out in January. The shareholder sentiment has evolved over the last few months and we decided to follow that guidance, as I mentioned before.

Q56 **Heidi Allen:** No issues? Generally shareholders are all deliriously happy with the way you approach your—

Pauline van der Meer Mohr: I would not say deliriously happy, but 96% or 97% approval ratings indicate to us that, at least from their perspective, they are comfortable with our policy.

Heidi Allen: Alex, is there anything you want to add to that?

Alex Lowen: The only thing I would say is the Investment Association, once we had announced our change, did come out with positive feedback about what we had done, and it reflected that we had listened to our shareholders, engaged with them and then responded to the feedback very quickly. The Investment Association was happy with the outcome of the change we made, moving our pension from 30% to 10%, and it reflected that in its statement.

Q57 **Heidi Allen:** On the Lloyds side?



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Stuart Sinclair: I just spent a lot of time speaking to shareholders. I saw 27, mostly face-to-face, some by phone, from very big to very small. The three issues that came up very clearly were, number one, they want value for money, just like I do. I want value for money from the people who run the bank to justify the kind of money they are earning.

Number two, retention. Once you have a proven team, do not let them leave because they have been attracted away by some other offer. I know from bitter experience that if you have a good team and you start losing them, shareholders will give you an extremely hard time, and rightly so.

The third thing is pensions. Pension convergence, which is the word used by the Investment Association, is on everybody's mind. There is no question about it. It is one of, in my experience, three things on the list.

Q58 **Heidi Allen:** Let us talk a little bit more about the pension conversation. The most recent AGM, was that universally approved? Was everybody deliriously happy about the—

Stuart Sinclair: We got a very high vote for our remuneration policy.

Q59 **Heidi Allen:** That does not answer the question. Was everybody deliriously happy?

Stuart Sinclair: Sorry, I did not quite catch what you are saying.

Q60 **Heidi Allen:** Was there disquiet? Was there any discontent at all about the pension remuneration package that you went with in the bank?

Stuart Sinclair: As you would expect, there are some people who come at this from a very different point of view. We have so many shareholders. We had a couple of people who spoke very eloquently and movingly about inequality in British society and I sat there and I thought very hard about what that means for me and my next six months.

A lot of people were talking about branches. Because we carry out our AGM in Edinburgh, inevitably we get a lot of Scottish people saying, "I live in Anstruther or Ullapool, and I just do not have the branch access I used to have". António has already tried to address your questions about that.

Q61 **Heidi Allen:** People speaking movingly is great, but the measure is how you respond to that.

Stuart Sinclair: Yes, and we are in the middle, as I have said, of redesigning our pay policy. We have to do it in a careful way because the regulator would be aghast if I just suddenly blurt out a new policy.

Secondly, pensions are part of the totality, and I do not think starting with pensions is the right thing from an analytical point of view. Third, and I think most significantly, I am going to get with my Committee to think about what we want to reward. Society is changing in its



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expectations of what it wants more of and less of from a big company like Lloyds Banking Group. We have to think about that and say, "We used to reward X. Now we are maybe going to reward X, Y and Z" and obviously that will not just be financial things. It will be environmental, social and governance things. The answer to that is not going to be the first thing you think of. It takes a little bit of deliberation. We are taking the time.

You may find that frustrating. I am not obfuscating. We will get there and I hope we will have a modern very attractive thing that keeps management absolutely on their toes, but is also transparent and can be defended in the court of public opinion.

- Q62 **Heidi Allen:** Can I ask António a question? Forgive me, it is a little unfair, but you are here today in front of us. Nobody understands better that a business needs to thrive because it creates jobs, it creates tax and talent has to be rewarded. Retention is an important point, as you say, Stuart. When you have a great team, you do not want to lose them. There is also a bubble that is very easy to live in that says, "what the market does" or "comparable with" or "in line with". If somebody does not ever buck that trend, it is never going to change. An element of leadership can be saying, "Enough now. We need to change. I am going to be the first person to say this bubble is not sustainable anymore". Why don't you do that, António? Your pay is off the scale. Why don't you be the first chief executive, the first leader of a big bank, to say, "You know what, this bubble needs bursting"?

António Horta-Osório: Ms Allen, I have three comments about that. First, when I joined the bank in 2011 and the bank was on the verge of bankruptcy, I do not think—

- Q63 **Heidi Allen:** Absolutely, and that turnaround is fabulous, but we are not—

António Horta-Osório: I do not think you heard me saying that because you were not here. The bank was on the verge of bankruptcy.

Heidi Allen: No, I did hear that.

António Horta-Osório: I joined the bank then, and the conditions under which I joined, which were approved by the Government—they were the largest shareholders—did not, as we discussed here before, distinguish the pension from the salary or other fixed compensation. As Stuart said, things have changed and what matters is the total fixed compensation. To that point, my total—

- Q64 **Heidi Allen:** Which is huge. It is not 2011 now, it is 2019. My question to you is why aren't you the first leader in banking to burst that bubble, António?

António Horta-Osório: If you will allow me to answer your question, my total fixed compensation, contrary to what you said, is very much in line with other bank CEOs, including HSBC's, which is actually higher.



Q65 **Heidi Allen:** It is, as I have said, in line.

António Horta-Osório: Thirdly, our policy vote is for next year. We are duly considering and consulting with stakeholders and shareholders in spite of it being for next year, in discussions with the Remuneration Committee. I have taken a first voluntary step of reducing the pension contribution to 33%. I am absolutely mindful of the points you mentioned. What the investment guidelines are from the Investment Association is a gradual adjustment over time. Our policy vote is next year. We are absolutely taking seriously everything we are hearing, including your feedback, and we will come back with the policy for next—

Chair: We will not need to bring you back, António, next year? You will have changed? You will have shed the bubble that Pauline and her bank are in?

Heidi Allen: I did preface it with, “It is a slightly unfair question”. Forgive me, but your—

Chair: It was not unfair at all.

Heidi Allen: He is one of many. He just happens to be the most senior banker in front of us today.

Chair: We have another bank side by side. You have done this. I am saying that next year my guess is that we will not need to call you back because you will have changed. I think the message has got over pretty clearly.

Q66 **Chris Stephens:** Just for Pauline and Stuart then, the Investment Association’s guidance is that the executive directors’ pension provision should be in line with the general approach for employers. Do you plan to follow that guidance in future?

Pauline van der Meer Mohr: We have already committed to future appointments and bringing them in line with the Investment Association guidance, so we have already done that. That was an issue that is separate from the current incumbents, who took the initiative to reduce their own pensions also to the level of 10%. We had already committed to that. Whatever new guidance will come out beyond what we have today obviously is hard to foresee, but today we have already committed to that.

Stuart Sinclair: I have been three times to see the Investment Association in recent months to make sure I understand the spirit and the letter of where they are trying to go. I completely understand it. I would be surprised if we do not find ourselves, as part of our redesign, being in line with what they are suggesting.

Bear in mind that what they said literally was over time you should achieve conversions and I think different companies will be on different timetables.

Q67 **Chris Stephens:** How does that work in practice for yourself then,



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Stuart? You said something earlier that I have thought about. Lloyds has different pension schemes, I think you had said, presumably because of mergers, because of pay issues.

Stuart Sinclair: Yes, that is right.

Q68 **Chris Stephens:** How does that work then in practice for you to follow the Investment Association guidance?

Stuart Sinclair: We just have to arrive at, if you like, a weighted average number, which we have alighted on as being 13% today. We are setting aside the 44% that we are paying to a completely different scheme of 17,000 people who have that very defined benefit scheme. If we exclude them, let's use the number 13% as our target number.

Q69 **Chris Stephens:** Not everybody is on a career average pension scheme in Lloyds, are they?

Stuart Sinclair: I think there are only a tiny number of people who are not in any pension scheme.

Q70 **Chris Stephens:** My understanding is the chief executive is on a final salary pension scheme.

Stuart Sinclair: Yes. There is a lot of detail to António's pension that has to do with where he came from, the fact that it was not a mobile pension. We could talk about all that detail if you want. I come back to the headline: it is all in the melting pot.

Q71 **Chris Stephens:** I am just trying to figure out how you are going to get a situation where you are going to follow the Investment Association's guidance, when one person is on a final salary scheme that is seen as the gold standard. I worked in local government when they tried to take final salary off us. There was immediate industrial action, so I know—

Stuart Sinclair: No, I know.

Q72 **Chris Stephens:** How does this work out then? When a senior person is on a final salary pension scheme against those at the bottom who are career average, how are you going to try to reach the guidance? That is basically my question.

Stuart Sinclair: Yes. That is one reason why I am not leaping to any announcements today. There is quite a bit of work to be done here and it can get very actuarial and technical. In fairness to all 67,000 people, you do not want to just jump to an answer.

I think what you are getting at is what is the spirit of our approach. The spirit of our approach is we totally hear what has come from the Investment Association and other commentators in our society right now. We will, to the best of our ability, arrive at a very fair but extremely competitive set of packages.

Q73 **Chris Stephens:** Thank you. António and then Alex, do you support the



Investment Association's approach, and what actions do you personally intend to take in future to make sure, if you do support that approach, what—

António Horta-Osório: Yes, we do support them, as Stuart mentioned. We are in line with those and we are consulting because our policy vote is for next year. We are consulting in terms of having a comprehensive package of total remuneration to be presented to shareholders next year that accommodates the current trends in society.

Alex Lowen: Similarly, we support the Investment Association approach. It does represent the large UK shareholders. UK shareholders represent about 30% of our share base, so we are more global in terms of our share base, but it is an important stakeholder. Again, there is a lot of complexity. We have 60-plus countries at HSBC. We have defined benefit plans from legacy acquisitions and other things. I think it is important though to try to simplify. Our current employees, when they join the bank, get a defined contribution plan that ranges from a minimum of 10% to a maximum of 16%.

We try to simplify it by just saying, going forward, executives will get 10%, which is in line with the same rate that a UK starting employee on the defined contribution plan would receive. That is why we are able to quite quickly make the decision to move to 10%. We are fully in line with and going beyond the guidance of the Investment Association by doing that.

Q74 **Chair:** Pauline, I was intrigued by the comment you made about the work you are doing on ATMs. I just wonder whether we might have a note on that, because trying to defend an element of "free" within that system is crucial to people on lower incomes. We would love to follow up on that.

Pauline van der Meer Mohr: I would be very happy to talk to my Dutch friends and give you a sense of that. Thank you.

Chair: Thank you all very much for coming. We are grateful to you.