SAYER HAWORTH

Chief Risk Officer (SMF 4) Compensation Guide
Small to Medium sized Banks - UK

Introduction

Sayer Haworth has carried out research of a Chief Risk Officers compensation within the Small to Medium sized banks and challenger Banks in the UK. This data has also been verified on actual Chief Risk Officer searches Sayer Haworth has executed and delivered on in 2019.

About the Author

James Sayer is Managing Partner at Sayer Haworth Executive Search. For over 20 years, having lived and worked in the UK, Europe and the Middle East, James has acted as a trusted business partner to source senior leaders within Financial Services.

Executive Summary

- The Chief Risk Officer compensation has increased due to the increased regulatory scrutiny under the Senior Managers Regime. Packages are very much dependent on the category of the firm, there is a variance between the categories, this survey is based on Category 2 to Category 5 firms
- With the increased number of new entrants into the market, there is a general consensus that demand is higher than the available talent in the market
- Average base salaries are between £160,000 –£245,000, dependant on the Category of the firm
- Most individuals have reached their lifetime allowance caps for pension contributions and subsequently receive a cash equivalent
- Full transparency to be shared during a selection process with a Non-disclosure agreement in place

A detailed look at Chief Risk Officer compensation

With the increase of regulation under the Senior Managers Regime, executive pay has come under upwards pressure within Financial Services since the 2008 Financial Crisis, the makeup of reward to senior executives can be complex. This white paper has been written to provide a broad compensation guide for a Chief Risk Officer within a Small to Medium sized bank in the UK.

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SH *We partner with you to find leaders, not followers*

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Pay Structure

The Chief Risk Officer compensation generally comprises of base salary, annual bonus, long-term incentive scheme and pension. There may be other non-cash related benefits which are detailed in this report.

We have seen a rise in organisations offering flexible benefits, where employees can elect to use this allowance to purchase benefits, or the employee can be paid this amount in a cash equivalent.

Chief Risk Officer Salary Range

The general range of a base salary for a Chief Risk Officer is between £160,000 – 245,000.
The salary, in our findings, forms the largest part of the remuneration for the Chief Risk Officer.
Base salaries on offer at the lower end of this scale were with banks that generally have a branch operation in the UK, typically a low category firm, and not a full subsidiary; these banks would have on average 25 –50 employees. The median base salary for Chief Risk Officers is within this segment is £175,000.

At the higher end of the base salary scale, this would be banks that are full subsidiaries in the UK, the number of employees would be up to 500. The median base salary for the Chief Risk Officer in this segment is £215,000.

Short Term Incentives (Annual Bonus)

With the introduction of the PRA and FCA remuneration rules, bonuses are capped at 100% of base salary, or up to 200% with shareholder approval. All the Chief Risk Officers in our research were eligible for a bonus, we did not find any Chief Risk Officer who did not achieve their annual bonus award.

The average bonus payments were from 35 –62% of base salary.

Variable Remuneration – Deferral and Clawback

The PRA Supervisory Statement of SS2/17 expects that where an individual's variable remuneration is £500,000 or more, at least 60% of the variable remuneration should be deferred, however, there is also guidance in this statement, indicating that firms should also consider this proportion for variable remuneration below £500,000.

The rules on this are all dependent on the Category of the firm, firms that are a Category 2 Firm and above are under further rules and guidelines, more information on the following link:

https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2017/ss217

A deferral period for Senior Managers, as defined under the new Senior Managers' Regime (SMR), of no less than seven years, with vesting no faster than on a pro rata basis from the third anniversary of the award; and a deferral period for all other MRTs of five years with pro-rata vesting from the first anniversary of the award. This is related to Category 2 Firms and above.

Our research did not reveal any Chief Risk Officer who exceeded the £500,000 remuneration level.

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Pension

The pension arrangements for the Chief Risk officer is an average non-contributory range of 9 – 15%, the survey revealed that the majority of the Chief Risk Officers that we researched had reached their lifetime allowance to contribute into a pension scheme.

Therefore the common practice was for the individual to receive the cash equivalent in contributions in their normal salary which they would then pay standard income tax of this.

Benefits

The benefits offered formed the lowest element of the package, typically on offer were the following

- Healthcare Insurance, individual and dependents (occasionally dental and optical included)
- Life Insurance (Average from 4 –6 times annual salary)
- Critical Illness Cover (Varys, depending on the Firms policy)
- Gym Membership
- Flexible Benefits (Child Care Vouchers, Gym Membership, cycle to work)
- Holidays (Average of 28 –30 Days offered)

Senior Managers Regime (SMCR)

The Chief Risk Officer is now very much held to account for the actions of their firm under the Senior Managers Regime, the SMF 4, is regarded as one of the high risk roles under this regime due to the responsibilities of the role.

The role typically incorporates Credit Risk, Operational Risk, Market Risk, in addition depending on the size of the firm, the smaller firms also include Compliance and Financial Crime under the Chief Risk Officer. These areas of responsibility make the Chief Risk Officer a significant Material Risk Taker (MRT) in a firm.

Senior managers are responsible for certifying annually that a wide swath of staff are “fit and proper to perform their role.” This includes anyone who could potentially harm the public or the firm, as well as those who are high-earners or handle client money.

With this increased responsibility for a Chief Risk Officer, there is a consensus that there also needs to be a financial package that reflects the increased responsibility and consequences of falling foul of the regulator. A Chief Risk Officer may not intentionally be aware of an action in the Bank that results in breach, however, under SMCR, they are now responsible and would need to demonstrate reasonable steps they had taken to reduce the risk of a breach.

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Attraction and Retention

At this level of the organisation, the Chief Risk Officer is generally looking at the content and the challenge ahead. As in every case, and this is not unknown, the right package has to be on offer to attract and retain Chief Risk Officers in their roles.

The Chief Risk Officer under the Senior Managers Regime expects to have full accountability and veto rights within their role. A common reason why a Chief Risk Officer wishes to move on from their role is due to frustration of not having the resource to be able to ensure that the appropriate level of cover is in place under the Senior Managers Regime. More recently, compensation is starting to become an increasing reason for Chief Risk Officers wishing to make a move.

Compensation levels have increased at pace since the Senior Managers Regime has become more established.

There is a balance, with the increased regulatory scrutiny under SMCR, with Banks also closely watching the cost base of the Bank, therefore non-revenue generating areas of the Bank are under internal scrutiny to be lean.

We find that Chief Risk Officers who are given full autonomy and reasonable resource to run the operation are the most motivated and content in their roles.

Retention of the Chief Risk Officer is on the whole achieved by rewarding for good performance and providing the necessary trust and autonomy to carry out their duties.

Leadership Development

To further add to retention, we recommend that opportunities should be presented to the Chief Risk Officer with external providers to enable them to continue their professional development.

This could be one to one Leadership Development, tailored residential programmes, team building with their executive team. There are many programmes available that can provide the Chief Risk Officer with stimulation and further personal development.

Transparency – Selection process

In the selection process, it is advisable for the short-list to sign a Non-disclosure Agreement. This will enable full transparency in relation to the firm. Sharing any regulatory challenges is in our opinion key to ensure that when attracting talent, there is a full and clear picture presented.

Where full disclosure has not been shared during a selection process, this can result in the incumbent not being prepared, and deciding to leave within a short period of time of joining.

The Senior Managers Regime has created a caution in the industry. Candidates are not prepared to take on the personal responsibility, where there is clear and present risk, unless this has been demonstrated in the selection process with the necessary resource to rectify any current challenges.

As an example, if there are any recent or current Section 166 reviews within the firm, it is advisable to share these in a selection process with a Non-disclosure Agreement signed.

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Summary

Our insights in this subject have revealed that the majority of Chief Risk Officers are happy with their compensation level, they find it fair and reflective for the responsibilities they have. However, it is advisable to review the Chief Risk Officers compensation to ensure it is in line with the expectations of the role under the Senior Managers Regime.
We have found that what is missing, is the non-financial elements that can be offered to a Chief Risk Officer, this is in the form of personal development opportunities.

The general demand for a Chief Risk Officer is high in the market, firms that are offering base salaries at the lower end of the guide base salary do find it a challenge to secure talent.

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