Pearl Meyer

Quick Poll

Quick Poll: Banking Edition

How Coronavirus is Affecting Director Compensation

Introduction

Our Quick Poll survey series provides organizations with information on emerging topics and is designed to provide context for discussion and decision-making around pay, governance, and employment issues.

This survey was open from 4/14/2020 to 4/16/2020 and reflects responses from 315 participants, including the subset banking institutions—78 in total.

With the COVID-19 pandemic, the banking industry has been conservative in its pay actions for executives as well as for directors. Financial institutions are primarily staying the course with director compensation, in sharp contrast to the most impacted industries such as energy, transportation, and hospitality where we have seen the majority of director and executive pay cuts. While many banks have not taken action, some are still evaluating their options. We don't expect to see major actions in director compensation for banks, although we may see more actions the next couple of months as banks, whose fiscal years correspond with the calendar year, conduct their annual shareholder meetings.

We hope you find the information included in this report useful. If you have any questions or are interested in discussing these findings, please contact:

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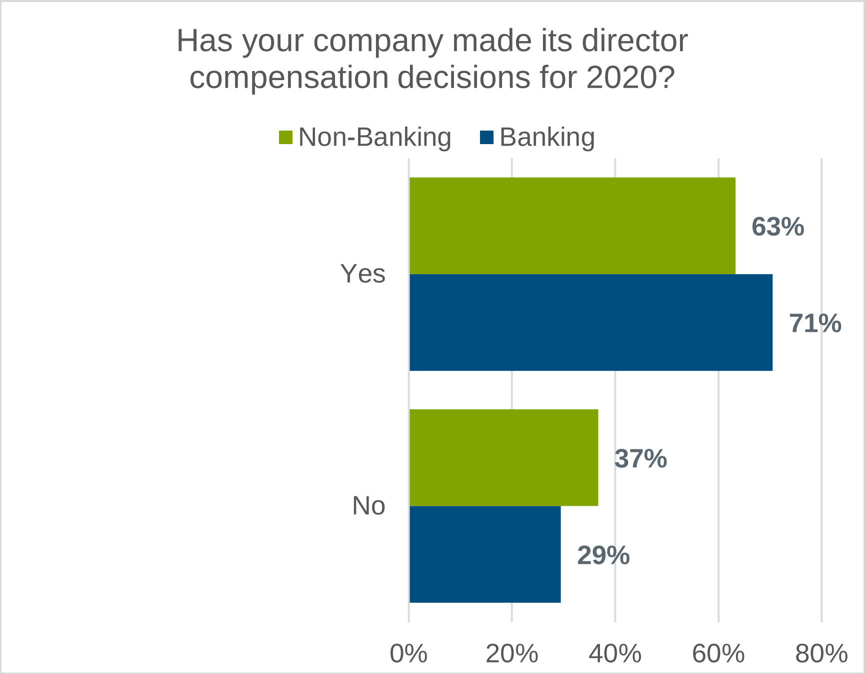
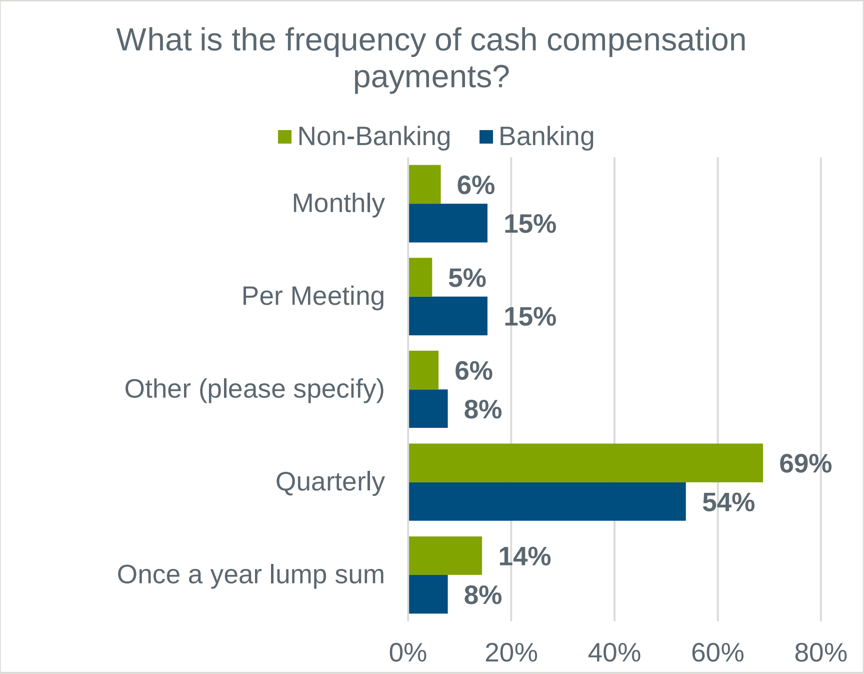
Director Pay Decisions and Effective Date

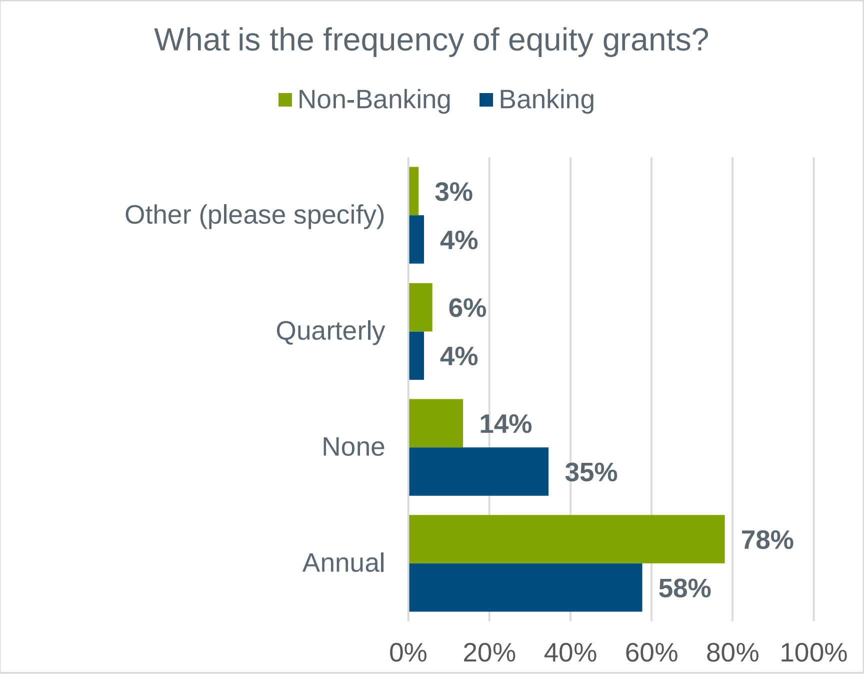
- The majority of banks (71%) and non-banking organizations (63%) have already made their director compensation decisions for 2020.
- Over 80% of banks use January 1 or their shareholder meeting as the effective date for director compensation which closely mirrors that of other industries in the survey.



Director Pay Frequency: Cash and Equity Retainers

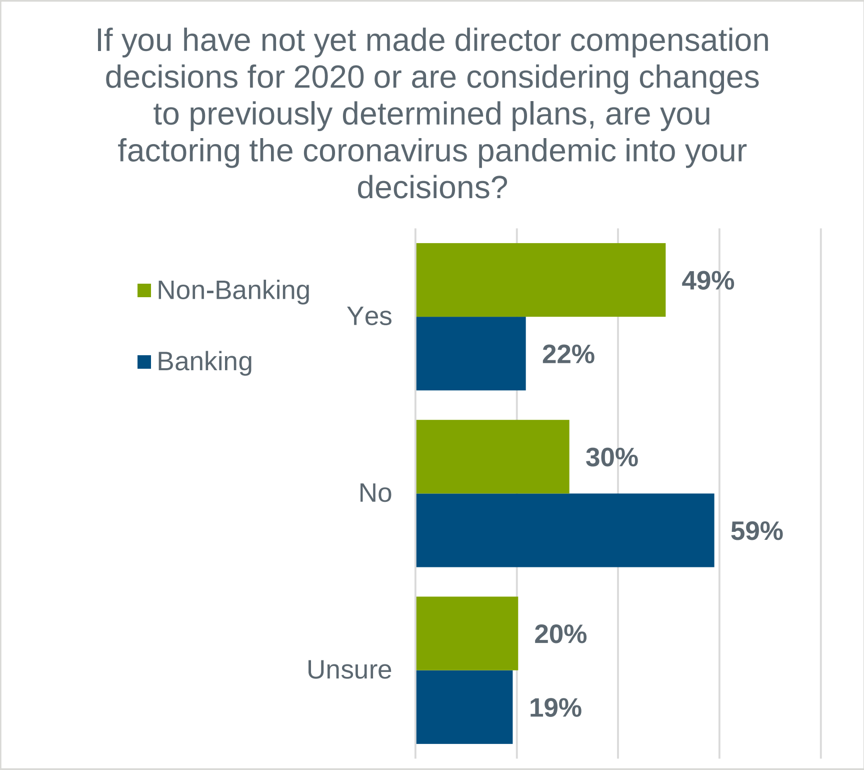
- Most banking (54%) and non-banking respondents (69%) provide the annual cash retainer in quarterly installments.
- Banks report higher frequency of monthly payment of cash retainers (15%) compared to those reporting one lump sum (8%). Non-banking respondents report almost the opposite, indicating more frequent use of lump sum cash retainers (14%) compared to monthly (6%).
- Annual equity grants are typically delivered in one lump sum by banks (58%) and non-banks (78%).

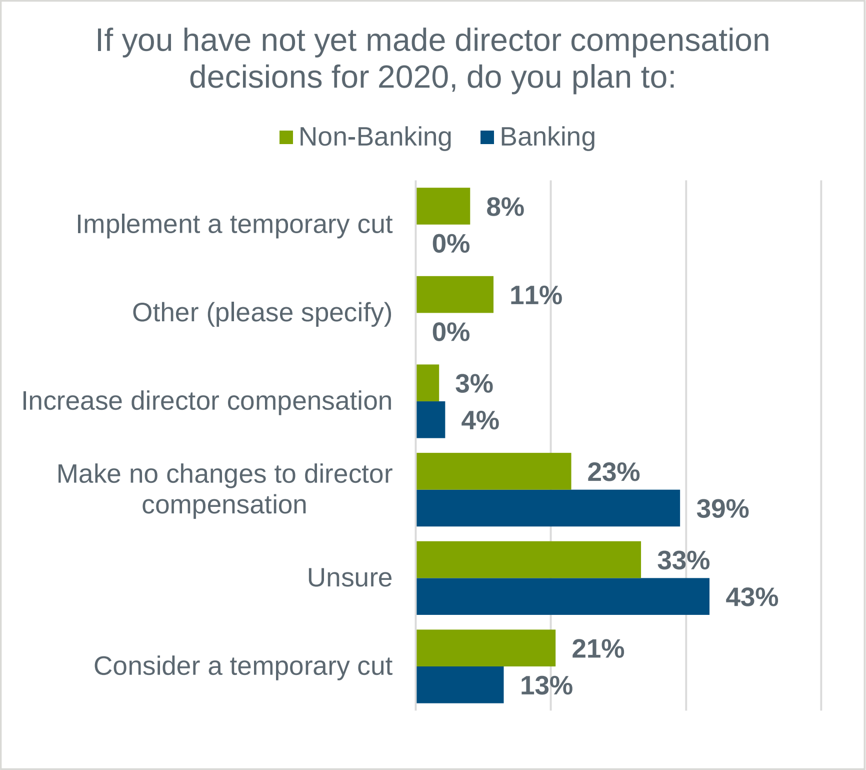




Proactive Director Pay Changes for 2020

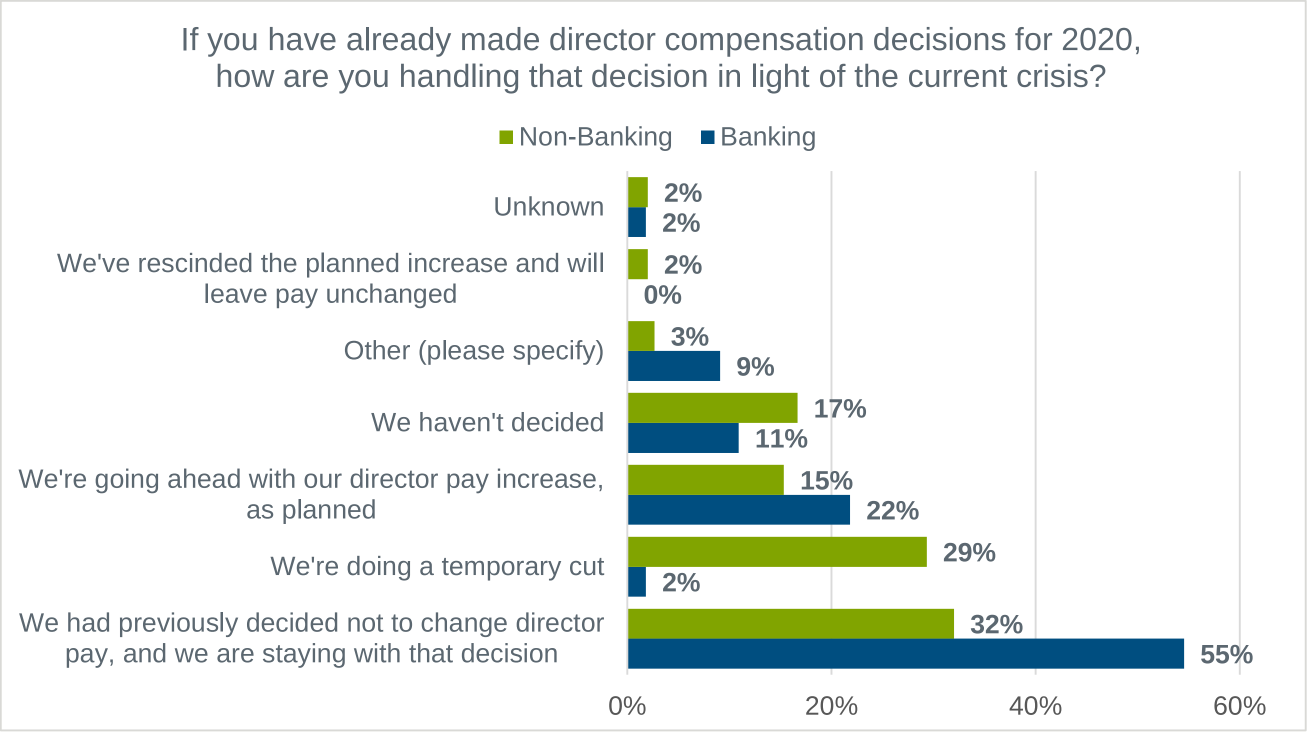
- Banks are being conservative regarding director compensation due to the effects of COVID-19. This is consistent with their approach to executives and other employees as reported in previous surveys.
- Banks report not yet considering COVID-19 in existing or future director compensation decisions (59%); this is in sharp contrast to non-banking respondents reporting only 30% not considering actions.
- 43% of banks who have yet to make director compensation decisions report being unsure and still evaluating what they will do compared to 33% of non-banking respondents.
- More banks (39%) than non-banks (23%) report that they will make no changes to director compensation. Non-banks report that 21% are considering temporary cuts compared to banking at 13%.





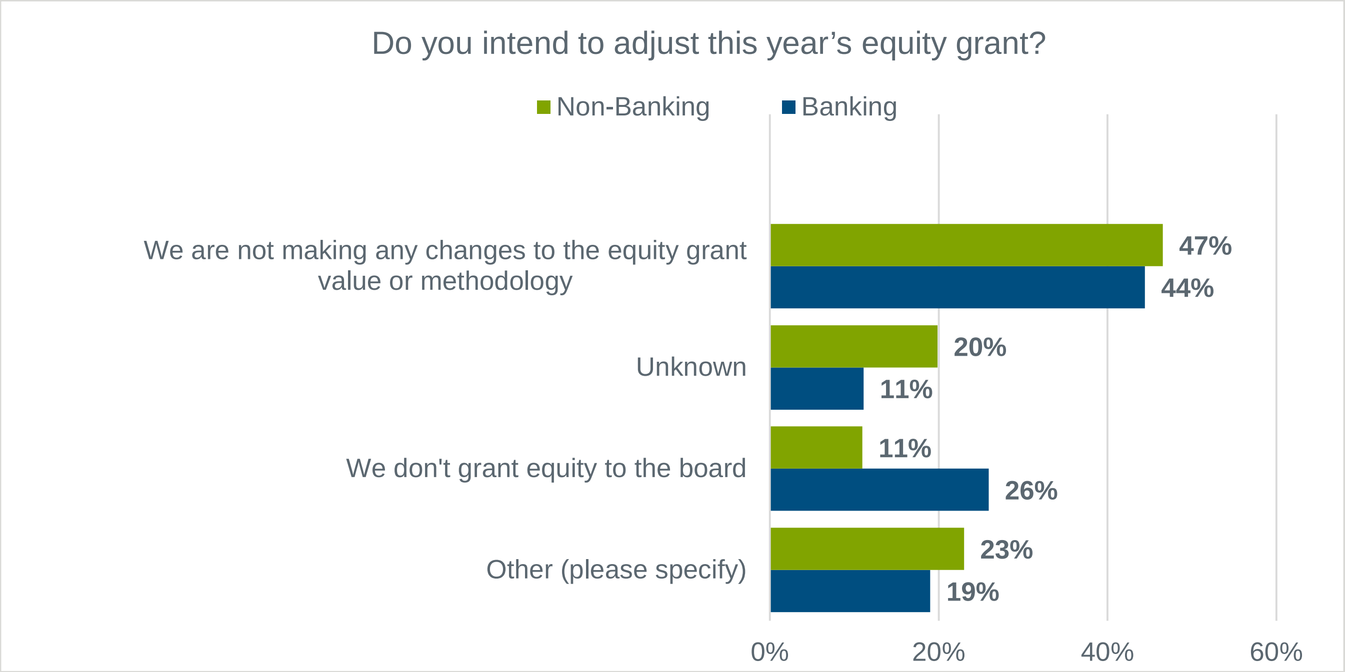
Retroactive Director Pay Changes for 2020

- More than half (55%) of banks who decided not to change director pay are sticking with that decision, while non-banks report a much smaller percentage at 32%.
- A very small percentage of banks (2%) report rescinding increases or temporary cuts compared to 31% of non-banks.
- Banks report going ahead with increases (22%); non-banking respondents report a smaller percentage (15%).
- Both banks (11%) and non-bank respondents (17%) appear to be further evaluating the effect of the pandemic and are still considering changes to director pay.



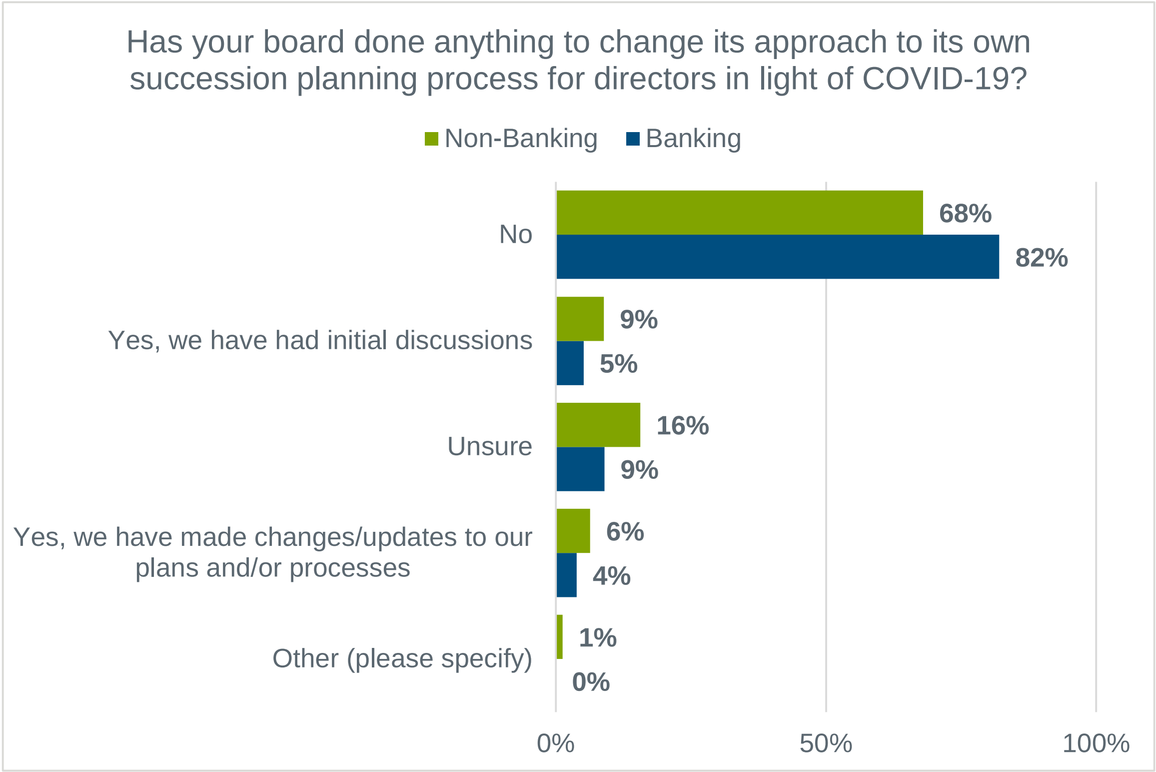
Changes to Director Equity Grants

- Banks and non-bank respondents most frequently reported no changes to their equity grant methodology, 44% and 47% respectively.
- Both bank (11%) and non-bank respondents (20%) are still deciding if they will adjust equity grants in light of COVID-19.



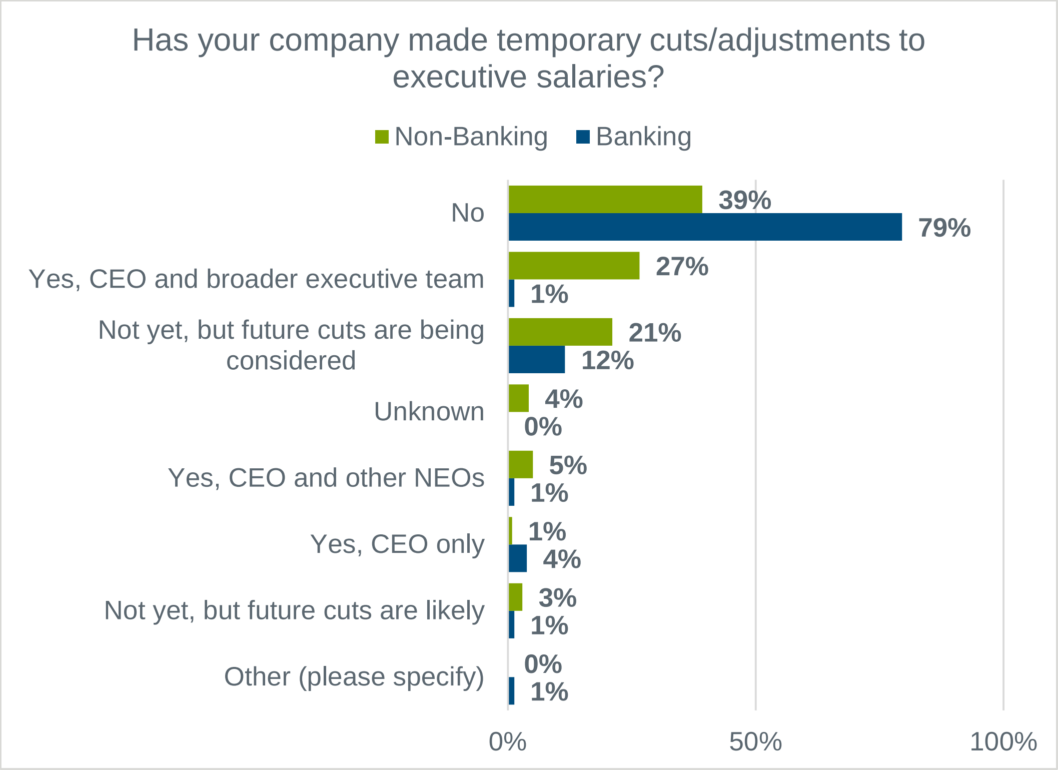
Board Succession Planning

- Most banking respondents (82%) and non-banking respondents (68%) have not made changes to the manner in which they will approach board succession planning in light of COVID-19. This is concerning given the demographics of who is most impacted by COVID-19. Shareholders may have an expectation that companies will begin to put additional focus on board succession planning and renewal programs.

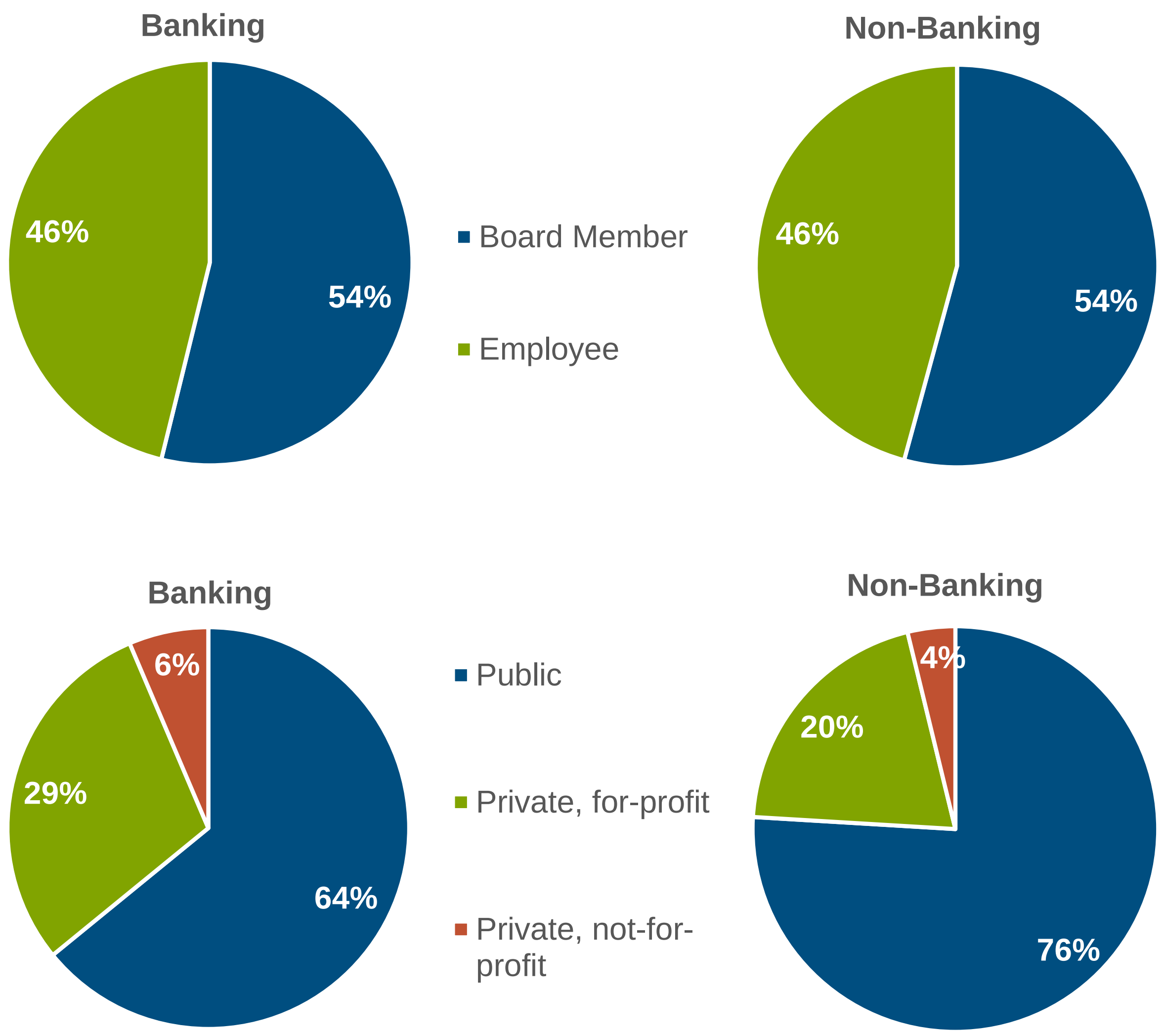


Executive Pay Cuts

- Banking, unlike other industries, has been very conservative with adjustments to executive compensation; approximately 80% of respondents are reporting no temporary cuts/adjustments to executive salaries.
- 57% of non-banking respondents report temporary cut/adjustments or considering it for the CEO and/or NEOs, compared to 19% of banks.



Respondent Demographics



About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a powerful catalyst for value creation and competitive advantage. Pearl Meyer’s global clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private companies to the Fortune 500 and FTSE 350. The firm has offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston, London, Los Angeles, Raleigh, and San Jose.