# Why banks may struggle to align pay with accountability

*By Libby Sander*
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High-risk, high-reward pay structures, and a focus on individual performance, has driven the recruitment of banking executives that are misaligned with customer needs. Experts believe changes to executive pay may create a source of competition for key talent that is better suited to community expectations and the post-Hayne regulatory environment.

Former **Credit Union Australia** banking specialist **Kimberley Knapp** believes the sales-focused environment within banks resulted in recruitment that was inappropriate.

“The focus on empathy and soft skills needs to be dialled up," Knapp said.

"There is a disconnect between what the bank measures, such as mortgages underwritten, or net promoter score, and what the customer needs or wants."

**APRA** chairman **Wayne Byres** has suggested executive pay tied to shareholder returns should fall to below 25%, meaning banks must make significant changes to implement new pay structures.

Byres believes this measure will re-focus management away from financial targets such as profit and shareholder return and toward serving customers, noting that discretion in handing out bonuses had not improved over the past year, despite an APRA directive for industry to address the issue.

Byres said formulaic approaches to reward would not improve accountability or other non-financial considerations and it was disappointing that many banks had defaulted to the minimum federal requirements of the Banking Executive Accountability Regime (BEAR).

Research suggests accountability in the behaviour of banking executives is driven by an “accountability triangle”.

This includes the prescriptions set down by rules and regulation, the identity of the individual, including their position, qualities and responsibilities, and lastly, the events that are the outcome and consequences of the banking executive’s behaviour.

Accountability is believed to be highest when all three links are strong.

To address the issues relating to large pay-outs used to attract key staff, shareholders have called for top executives to be promoted internally.

Research supports this call, finding that the benefits to shareholders from performance-based compensation (i.e. options and bonuses) declines the longer a CEO is in place. However, the opposite effect was found for non-performance based (i.e. salary) pay.

To make these changes requires effective performance management and career succession programs. For example, some organisations are less focussed on career succession, citing the appetite for executives to move on and up.

Effective career development strategies require organisations to invest in both formal and informal learning and development programs across all levels of the business. Ensuring that career paths are visible — and that development programs are accessible — is vital to this progress.

Increasing accountability is not straightforward. Banks need to consider the professional identity of their employees, as well as ensuring culture, values, KPIs and internal systems are aligned.

**Women in Banking and Finance** chief executive **Jennifer Dalitz** said banks had significant internal work to do.

"This includes articulating where lines of responsibility start, end and overlap within the business. We need to ensure everyone in the business is collectively responsible for the experience they create — for the customer, other employees, shareholders and other stakeholders," Dalitz said.

"There's a question mark in my mind around bonus structures and the role that variable remuneration plays and whether there is sufficient appetite to withhold elements of remuneration if behaviours are out of line with values or codes of conduct.

"First and foremost it's the leaders accepting responsibility for their business in its entirety."

Banking executives, in an attempt to protect their professional identity, tend to overlook their ethical identity and responsibility, according to research.

In a 2011 study of executive accountability, executives defended their behaviour, justifying that the level of risk they took was acceptable and would have "paid off" if it wasn't for "extraordinary external circumstances".

These problems with identity and behaviour were evidenced in 2017 when the CEOs of the big four banks, during their appearances before the House Standing Committee on Economics, emphasised they did not feel accountability lay with them.

As such, change may not come easily or quickly.

Dalitz said it came down to rewarding the right behaviours.

Executive pay is a complex beast. Remuneration structures in large corporates are linked to a wide range of internal systems including recruitment, performance management, learning and career succession amongst others, not to mention company culture and values. Changing these systems is a wide-ranging and lengthy exercise in a large bank.

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