Royal Bank of Scotland increases top executives’ pay

Jean Shaoul
1 July 2009

No matter that just eight months ago Britain’s banks were staring into the abyss, had to be bailed out by the government, and precipitated the worst economic depression since the 1930s; the Royal Bank of Scotland (RBS) has announced a 50 percent salary deal for its chief executive, Stephen Hester.

Hester has been granted salary and perks worth £9.6 million a year for three years. His package includes close to £6.4 million of long-term share and stock option awards, as well as £1.2 million in salary and an estimated £2 million of annual non-cash bonus payments.

According to the *Guardian*, RBS’s largesse towards Hester is by no means unique. RBS has also been accused of poaching staff from other banks by offering guaranteed bonuses.

The pay increase was announced after institutional shareholders raised concerns that Hester might not be suitably “incentivised” with a deal worth a mere £6.23 million. One major financial institution had apparently written to the chairman of RBS, Sir Philip Hampton, saying "there is a case that the quantums are too low."

The full payout is conditional upon the share price, currently languishing at 37 pence, reaching 70 pence within three years. The government acquired its stake in the bank last year when the share price was about 50 pence. While the government claims that the purpose is to ensure that it can sell the bank back to the private sector at a profit, this will not recoup all the other costs of the bailout.

Losses at Britain’s major banks soared from £150 billion to £400 billion between October and December, outpacing their attempts to raise additional capital of around £100 billion. RBS posted the largest losses in British corporate history when the company announced that it had lost £24.1 billion in 2008. The bank has had billions of pounds in taxpayers' money pumped into it, either to buy up largely worthless RBS stock or to guarantee its "toxic assets."

The UK government now owns 70 percent of RBS, though the bank continues to operate as a private company. In the largest bailout to date, the government has agreed to inject a further £13 billion into RBS, on top of the £20 billion already given, and to make a further £6 billion available.

Not surprisingly, the Bank of England recently said that "sentiment has improved," with stock markets recovering some 25 percent to 35 percent. Key bond markets have also recovered somewhat.

But the huge losses have still made the banks reluctant to lend. The Bank of England estimates that UK banks had a "large and rising funding gap" of £800 billion, half of which was backed by securitisations that will be difficult to refinance. The bank has warned that when the emergency support it is providing expires, some banks may find it difficult to raise enough funds.

Hester’s improved pay deal, courtesy of the taxpayer, follows the lavish pension to Sir Fred Goodwin, RBS’ former CEO from 2001, who presided over its collapse. The pension for Goodwin, who is only 50, kicked in immediately, providing him with £703,000 per year for life. He has grudgingly agreed to take just £342,000 after a public uproar over the deal.

Hester’s pay packet is more than twice Goodwin’s compensation package and even higher than that of the CEOs at other banks. The highest paid is HSBC chief Michael Geoghegan, whose total package includes £7.5 million in long-term awards on top of a £1.1 million salary.

Standard and Chartered Bank’s Peter Flavel stands to get £2.9 million in perks, while Eric Daniels, chief executive of Lloyds Banking Group—which, like RBS, is part-nationalised—is paid a £1 million salary and has a long-term incentive plan of £2 million.

The RBS deal had the approval of the Treasury, UK Financial Investments (which controls the state's 70 percent stake in RBS), and the Financial Services Authority, the banks’ regulator.

Only last February, Hester told the House of Commons Treasury Committee, "I do think banking pay in some areas of the industry is way too high and needs to come down, and I intend us to lead that process."

At the time, the Treasury announced that it was considering a £25,000 cap on cash bonuses for bankers, with the remainder being taken in share options, in a bid to silence the public outcry over the City's bonus culture. Bank of England Governor Mervyn King had declared that exorbitant pay and bonuses were responsible for the banks' problems.

The Treasury scheme would require any institution that received insurance to cover its bad assets to reach a contractual agreement with the Treasury on bonuses.

Prime Minister Gordon Brown had said that performance-related pay would have to be tied to long-term, not short-term, objectives. Declaring there would be no reward for failure, he promised to claw back bonuses to those who did not deliver. He also announced that a review committee under Sir David Walker, a leading City of London grandee, tasked with examining banking governance and bankers' pay, would report by the end of the year.

What Brown really meant can be seen from David Walker's record. In 2007 he was commissioned to produce a report into private equity which, though toothless, was opposed by private equity dealers and has since languished on the shelf. He described media interest in private equity pay levels as "prurient" and insisted that pay disclosure was "unenforceable" because big earners would move offshore to escape scrutiny. The bankers would have nothing to fear from him.

Now, less than five months later, instead of curbing bankers' pay, the Treasury's new arrangements have served to increase Hester's pay. His deal will set the benchmark for other bankers. For all the talk of ending short-termism and the fixation on share price, in favour of more sustainable measures of performance, the Treasury has institutionalised these practices.

This is the real response of the financial oligarchy and its political agents to the crisis: they have no intention of ceding one penny of their wealth. While the financial and economic crisis has been provoked by their actions—according to the Bank of England, total losses from the financial crisis have reached $13 trillion—it is the working class who must shoulder the burden.

Hester intends to generate a 15 percent rate of return for shareholders and expects to pay dividends to shareholders in 2010. This can only come from wholesale job cuts and rapacious banking charges to retail customers. Last April, RBS said that it was axing 9,000 jobs worldwide, on top of the 2,700 announced earlier in the year. This should put paid to any illusions that "we are all in this together."

Hester's enhanced pay deal is just the most extreme example of the money-grubbing of the bankers. Goldman Sachs' employees are looking forward to the biggest payouts in the bank's 140 year history, while Credit Suisse, Deutsche Bank, Barclays Capital, JP Morgan and Morgan Stanley are also expecting bumper profits.

Business is booming again in the City of London on the back of the government's bailout of the banks, the unprecedented issue of Treasury bonds to finance the bailout, and the volatility in foreign exchange markets, which is providing an opportunity for the few to make a killing at the expense of the many.

In the last week, Network Rail, which owns and manages the national railway infrastructure, announced that its top bosses will get bonuses of more than £1.2 million despite criticism of the firm's performance. Chief Executive Ian Coucher will get more than £150,000 in incentive payments for the performance of the company over the last three years, on top of his basic salary of £605,000. He recently agreed to waive a separate incentive payment—an annual bonus of £300,000—after a public outcry. His fellow directors have no such scruples. Peter Henderson and Ron Henderson will each get bonuses of more than £300,000, while Robin Gisby will get £140,000.

Network Rail relies on the government for nearly two-thirds of its funding. None of this is a reward for good performance.

Network Rail's profit for 2008-2009 fell to £1.52 billion, from £1.59 billion the previous year, and its debt—guaranteed by the government—rose to £22.3 billion from £19.7 billion. It failed to meet its efficiency savings targets set by the rail regulator, while its performance on the recently upgraded West Coast Main Line, at a cost of £9 billion, could constitute a breach of its licence and result in a multi-million-pound fine.

Elsewhere, companies are laying-off workers. Unemployment is expected to reach 3.5 million by the end of the year. As well as slashing jobs, companies are demanding wage cuts and freezing pension benefits. At British Airways, which called for workers to work without pay for a month in order to cut costs, 800 workers have volunteered to work for nothing for up to a month. Another 4,000 employees are taking unpaid leave, while 1,400 people have volunteered to work part-time.