

Prudent banking requires fair bonuses and remuneration

By John R Wright

An awful lot has been written on this topic in recent weeks; in my view not much of it bears very much resemblance to reality. There is a great deal of wishful thinking and of course with a very well deserved underlying theme and that is to “do a hatchet job on these greedy bankers”.

One cannot disagree with that sentiment!

Let us cut to the chase. At the basic level, probably well over 95% of all the people employed with banks spend their time dealing with millions of customers in branches, call centres, etc. How are these folk remunerated? They get a fair but unspectacular level of salary, probably are able to earn a small bonus equal to perhaps one or two months salary and they subscribe to a staff share/purchase scheme (that has fairly bombed!).



Career paths in banks used to be crystal clear, if somewhat unspectacular. The outlook now is pretty murky and cloudy and the folk who deal with nearly all the customers don't ever get to the top! Why is that? Let's return to that aspect later.

When we look at capital markets/investment banking staff, who deal with a tiny fraction of the customers, we find massive incentivisation, often a profit share in transactions, which has driven and continues to drive excessive risk taking. Skill sets are technical and the attitude/culture is self-centred and introspective. Like the old Buskers litany “we're not here today and gone tomorrow, we're gone in half an hour!”

Most individuals, who scale the heights to the top management come out of this stable or are often corporate lawyers, accountants or other ‘whizzes’.

Consequently the ‘tone at the top’ is basically ‘gungho’; risk-driven with the focus always on the ‘next deal’ – how do I get rich? How can I ramp up the share price and cash up? In terms of any sense of what we traditionally define as being ‘fit and proper’, this type of culture is utterly inimical to prudent banking practice. I do wish the regulators would cotton-on to this.

Now back to the coalface. How is it possible to expect tens of thousands of customer facing staff to feel in any way happy about the work they do for their customers when they see a relative handful of people taking bonuses and profit share of millions of pounds. In short they cannot and do not.

Leading by example is a crucial element on the way out of this crisis and it is simply not happening, if we don't change we're headed back into the mire. The recent furore about Barclays putting £30mn on the table for a gang of four or five is but one example. From the perspective of almost all bank staff and bank customers such arrangements are unimaginable and inconceivable.

This article was published in Gulf Times, 28 September 2009

In essence all bank staff expect senior executives to be properly remunerated for the levels for the responsibility they assume, but please have a little bit of commonsense!

The way forward, as I have indicated in previous articles, is to remove this type of investment banking activity from any proximity to the deposits of ordinary customers. Create investment banks where shareholders who like risk can invest and leave the rest of it to the 'stodgy' old commercial bankers. The care about their customers and are willing to provide service, to live life at the lower end of the risk matrix and to provide fair but unspectacular returns to their shareholders and similar levels of remuneration to their staff.

I have to say that I deeply regret the trend in recent years to refer to everybody in the broader banking industry as Bankers. The vast majority of us, as I have pointed out, are ordinary working folk, who deeply resent being classified with investment bankers or merchant bankers as we used to make the distinction. It would be really helpful if the media could start to distinguish between the twain!