Rt Hon Frank Field MP  
Chair, Work and Pensions Select Committee  
House of Commons  
London  
SW1A 0AA

1st October 2019

Dear Mr. Field

Executive Remuneration & Pensions

In the course of his evidence to the Work and Pensions Select Committee, Mr. Stuart Sinclair, Chairman of Lloyds Banking Group’s Remuneration Committee, made two remarkable statements. He said he had visited branches to find out what staff were thinking on key issues like executive pay and pensions and that those staff he spoke to considered Mr. Antonio Horta-Osorio, Group Chief Executive of Lloyds Banking Group to be “charismatic” and a “winner” and deserved his £6 million pay package.

Following the Committee hearing, we sent a survey to a representative sample of members in Lloyds, covering all the main business units, asking for their views on some of the issues raised by Mr. Sinclair in his evidence.

The Survey Results

The full results of that survey are as follows:

- 98% of staff responding to the survey said they had never been contacted by Mr. Sinclair directly or by the bank asking them for their views on executive pay and pensions.
- 98% of respondents said they were not aware of anyone in their office or branch who had been contacted either by Mr. Sinclair directly or by the bank asking for their views on executive pay and pensions.
- 90% of respondents said the Group Chief Executive didn’t deserve his £6 million pay package.
• 91% of respondents said the Group Chief Executive didn't deserve the £50 million package he'd earned since taking up his executive role in Lloyds.

• Only 12% of respondents said that they would describe Mr. Horta-Osorio as a "Charismatic Winner".

• Only 7% of respondents said they would consider putting their views on Mr. Horta-Osorio’s pay and pensions package on Hive, the bank’s internal social media site.

• 81% of respondents said it was greed that drove Mr. Horta-Osorio decision not to apply the 0% pensions cap to his own final salary pension.

• 93% of respondents agreed with us that the bank’s annual engagement survey should include questions about executive pay and pensions.

The union’s full evidence to the Work and Pensions Select Committee’s investigation into executive pay and pensions is attached. If you require any further information from the union please do not hesitate to contact me.

Yours sincerely,

Mark V Brown
General Secretary

Cc Members of the Work and Pensions Select Committee.
### Executive Pay And Pensions – Percentages

1. **DO YOU THINK THE CEO DESERVES HIS £6M A YEAR PACKAGE?**
   - **YES** 5.58%
   - **NO** 89.96%
   - **DON'T KNOW** 4.18%

2. **DO YOU THINK MR. HORTA-OSORIO DESERVES THE £50 MILLION PACKAGE HE'S RECEIVED SINCE HE BECAME LLOYDS CEO?**
   - **YES** 4.74%
   - **NO** 91.49%
   - **DON'T KNOW** 3.49%

3. **HAVE YOU EVER BEEN CONTACTED BY MR. SINCLAIR OR THE BANK ASKING FOR YOUR VIEWS ON MR. HORTA-OSORIO'S PAY AND PENSIONS PACKAGE?**
   - **YES** 0.70%
   - **NO** 98.19%
   - **DON'T KNOW** 0.88%

4. **ARE YOU AWARE OF ANYONE IN YOUR OFFICE/BRANCH WHO HAS BEEN CONTACTED BY MR. SINCLAIR OR THE BANK ASKING FOR THEIR VIEWS ON MR. HORTA-OSORIO'S PAY AND PENSIONS PACKAGE?**
   - **YES** 0.70%
   - **NO** 98.05%
   - **DON'T KNOW** 1.12%

5. **WOULD YOU DESCRIBE MR. HORTA-OSORIO HAS A “CHARISMATIC WINNER”?**
   - **YES** 12.27%
   - **NO** 72.94%
   - **DON'T KNOW** 14.09%

6. **WOULD YOU EVER CONSIDER PUTTING YOUR VIEWS ON ANTONIO’S PAY AND PENSIONS PACKAGE ON HIVE?**
   - **YES** 7.11%
   - **NO** 82.29%
   - **DON'T KNOW** 10.18%

8. **HAVING INTRODUCED THE 0% PENSIONS CAP FOR ALL STAFF IN 2014, DO YOU BELIEVE IT WAS GREED THAT DROVE MR. HORTA-OSORIO NOT TO APPLY THE SAME CAP TO HIS OWN PENSION ARRANGEMENTS?**
   - **YES** 81.31%
   - **NO** 5.58%
   - **DON'T KNOW** 12.69%

9. **SHOULD THE ANNUAL ENGAGEMENT SURVEY OF STAFF INCLUDE QUESTIONS ABOUT EXECUTIVE PAY AND PENSIONS?**
   - **YES** 93.31%
   - **NO** 3.21%
   - **DON'T KNOW** 3.07%
Rt Hon Frank Field MP  
Chair, Work and Pensions Committee  
House of Commons  
London  
SW1A 0AA  

31st July 2019  

Dear Mr. Field  

Executive Pensions - Correspondence With Benedict Brogan  

I refer to your recent correspondence with Mr. Benedict Brogan, Group Public Affairs Directors, Lloyds Banking Group regarding the evidence provided by Mr. Stuart Sinclair, Chairman of the Group’s Remuneration Committee, at the recent evidence session of the Work and Pensions Select Committee.  

In seeking to challenge your interpretation of what Mr. Sinclair said at the evidence session, Mr. Brogan says in his email that he’s “gone back to the transcript” and reviewed what was said. In your response you refer to an answer Mr. Sinclair gave when he said: “We also have a wonderful system called Hive, where everybody can make anonymous [my emphasis] comments. We look at that very closely to see whether people are saying, “Our boss is living in a fantasy world. He is not worth it”. You do not get that”.  

The “wonderful system called Hive” referred to my Mr. Sinclair is not in fact anonymous. Hive is the bank’s internal social media network, which staff are encouraged to use. According to the Bank: “Hive is an enabler for collaboration. It is a platform to help colleagues break down geographical and business barriers, share knowledge and find people and information quickly”. The Bank Guide also says: “Alongside each contribution is the colleague’s name which shows in a pop up where they work and their role”. I understand that Hive works using individual staff numbers and comments can’t be made anonymously. It’s not surprising, therefore, that staff have not posted comments criticising Mr. Horta-Osorio’s pay and pensions package because to do so could be seen as career limiting. Moreover, such comments can also be reported back to individual line managers.  

If one was being cynical, one could conclude that the lack of disparaging comments by Lloyds staff on Hive about Mr. Horta-Osorio’s pay and pensions was useful to the bank’s case and it therefore decided not to point out to the Committee that Mr. Sinclair’s evidence was factually
incorrect. I will let the Committee come to its own conclusions about the bank’s motives for not correcting Mr. Sinclair’s evidence on this issue.

In respect of Mr. Brogan, he must have known that Hive was not anonymous because he last used it on 29th May when his name will have popped up next to his comments. Given that he personally reviewed the transcripts, with a view to correcting your interpretation of what was said, I find it surprising that Mr. Brogan chose not to point out to you - given that he also wants discussions on this issue to “proceed on the basis of facts” according to his email - that a key part of Mr. Sinclair’s evidence was incorrect. Again, I leave it to the Committee to determine Mr. Brogan’s motives.

Yours sincerely

Mark V Brown
General Secretary
22nd March 2019

Dear Mr. Cummings

Lloyds Banking Group – Executive Remuneration & Pensions

I refer to my letter dated 13th March regarding Antonio Horta-Osorio’s pension allowance.

Since we published that letter on the union’s website and following a number of newspaper articles, Mr. Horta Osorio has chosen to relinquish the final salary part of his defined benefit pension scheme. However, whilst that climbdown by Mr. Horta-Osorio is to be welcomed, it’s simply a clumsy attempt to distract attention away from his pension allowance. That’s the real issue which the Investment Association needs to deal with now.

Mr. Horta-Osorio’s pension allowance was worth £573,000 (46% of salary) last year. This year it is being reduced to £419,000 or 33%. That is a reduction of £154,000. However, Mr. Horta-Osorio is being compensated for the reduction in his pension allowance in the form of fixed shares worth £150,000. Taking those two elements together, Mr. Horta-Osorio’s fixed pay is only being reduced by £4,000. In fact, it’s even worse than that because Mr. Horta-Osorio’s total fixed pay will increase from £2,876,000 in 2018 to £2,895,288 in 2019, an increase of £19,288. And that’s despite the fact that his pension allowance has been reduced from 46% to 33%. That is simply outrageous and the most blatant attempt by Lloyds Banking Group to circumnavigate the Investment Association’s rules on executive pay that we have seen.

The Bank has sought to argue that Mr. Horta-Osorio is taking on new responsibilities in the ring-fenced bank but that’s another attempt to distract attention away from his pension allowance. Mr. Horta-Osorio was the Group Chief Executives in 2018 and he’ll be the Group Chief Executive in 2019. Nothing is changing. In the Report and Accounts it says in respect of the ring-fenced bank that:
"As a predominantly UK retail and commercial bank, the effect on the Group has been relatively limited, with minimal impact on the majority of the Group’s retail and commercial customers. As the vast majority of the Group’s business has continued to be held by Lloyds Bank plc and its subsidiaries there has not been a material impact on the financial strength of Lloyds Bank plc."

Other than the desire to want to compensate Mr. Horta Osorio for the ‘reduction’ in his pension allowance, there is a complete absence of any rational productivity justification by the Remuneration Committee for handing him £150,000 worth of fixed shares. Moreover, other banks have introduced ring fencing – some with more complicated business models – but they haven’t sough to increase the pay of their chief executives for taking on extra responsibilities.

The Bank is also being disingenuous when it tells commentators that staff can get employer pension contributions of up to 25%. That is not true. Only members of the Group Executive Committee (9 males and 2 females), which includes the Executive Directors, get employer pension contributions of 25%. The overwhelming majority of the 65,537 staff in Lloyds get employer pension contributions of between 8 – 13%, depending on employee contributions. Even if you ignore Mr. Horta-Osorio’s £150,000 compensation payment, he will still get a pension allowance which is worth 20% more than the maximum that’s available to ordinary members staff.

In a speech to the Scottish CBI, Mr. Horta-Osorio said: “We must remember that the way we see ourselves is not always the way others perceive us”. The perception amongst staff, shareholders, customers and the wider public – who are sick to death of overpaid executives feathering their own nests – will be that it’s one rule for Mr Horta-Osorio and another for everyone else.

The Investment Association should immediately ‘red top’ Lloyds Banking Group and make it clear that its members will oppose the Remuneration Report at the Annual General Meeting. Equally, it should make it clear that those members of the Association who refuse to oppose the Remuneration Report will be named and explanations sought for their actions. The credibility of the Investment Association is on the line and everyone expects you to do the right thing.

Yours sincerely

Mark V Brown
General Secretary
Dear Mr. Cummings

Lloyds Banking Group – Mr. Chalmers & Pensions

Affinity is the largest independent trade union representing staff in Lloyds Banking Group.

Lloyds Banking Group recently appointed Mr. William Chalmers to be its next Chief Financial Officer (CFO). Mr. Williams will be replacing Mr. George Culmer who will be retiring from the Group in Q3 2019. Lloyds will pay Mr. Chalmers around £4.4m in deferred cash and shares to make up for awards he will forfeit on leaving Morgan Stanley. We understand that his fixed pay will be £1.3m a year. Lloyds has confirmed in its latest report and accounts that the CFO designate will be entitled to a pension allowance of 25% of base pay.

The Investment Association has said that it will highlight companies who pay pension contributions to executive directors at rates above the majority of the workforce. Andrew Dixon, Director of Stewardship and Corporate Governance at the Investment Association said:

“"The IA’s Remuneration Principles set out shareholder expectations on executive pension contributions and our members have been clear this is an issue of fairness and pension contributions should be aligned with the majority of the workforce. The new IVIS approach reflects our members’ view that newly appointed directors should receive a pension contribution equal to that of the majority of the workforce. IVIS will highlight those companies that pay higher pension contributions to newly appointed directors”.

The vast majority of Lloyds staff are in defined contribution pension schemes and the maximum employer contribution is 13% of base salary. That’s significantly less than the 25% being given to the new CFO.
Given the Group’s decision to ignore the IA remuneration principles when setting the pension allowance for the new CFO, we would urge you to ‘red top’ Lloyds and, more importantly, to tell your members to oppose the Group’s remuneration report when it’s presented to shareholders at the Annual General Meeting in May.

I would welcome your comments on this issue.

A copy of my letter and your response will be shared with MPs and members of the Treasury Select Committee in due course.

Yours sincerely

Mark V Brown
General Secretary
Dear Mr. Field

Executive Remuneration & Pensions

The Investment Association has said that it will highlight companies who pay pension contributions to Executive Directors at rates above the majority of the workforce. Andrew Dixon, Director of Stewardship and Corporate Governance at the Investment Association said: “The Investment Association’s Remuneration Principles set out shareholder expectations on executive pension contributions and our members have been clear that this is an issue of fairness and pension contributions should be aligned with the majority of the workforce”.

It is clear from the recent press coverage on this issue that a number of the biggest banks have used a variety of mechanisms to try to circumnavigate the Investment Association’s Remuneration Principles.

Lloyds Banking Group’s most recent announcement on executive remuneration said that Mr. Horta-Osorio’s pension allowance would be reduced from 46% to 33% of base pay from 2019. However, the Group’s Remuneration Committee has said that Mr. Horta-Osorio’s fixed share award - which he gets for turning up to work - will increase from £900,000 to £1,050,000. The Remuneration Committee having been forced to reduce Mr. Horta-Osorio’s pension allowance have ignored the spirit of the new rules by increasing his fixed share award so he’s no worse off. Furthermore, the vast majority of staff in Lloyds are in defined contribution pension schemes and the maximum employer contribution is 13% of base salary, that’s significantly less than the 33% being given to the Group Chief Executive and other Executive Directors.

Moreover, it was only as a result of the union’s campaign on pensions that Mr. Horta-Osorio was forced to give up his final salary pension benefit. Mr. Horta-Osorio was the only member of staff in Lloyds Banking Group who still had a final salary pension based on his salary before he retires. Staff who are members of one of the Group’s defined benefit pension
schemes had the salary accrual element of their pensions withdrawn a number of years ago by Mr. Horta-Osorio.

Standard Chartered has sought to redefine basic pay in order to boost the pension allowance of its Chief executive, Mr. Bill Winters. Its new pay policy shows that the ratio of pension contributions to salary fell from 40% to 20% in 2019. But the Bank changed the definition of basic pay and included share-based payments, which resulted in the Chief Executive’s pension allowance rising to £474,000 this year from £460,000 in 2018.

HSBC originally tried to argue that after taking into account tax and national insurance payments, the pension allowance for its Chief Executive was in line with the maximum contributions paid to staff. Shareholders said that the bank was undermining the new rules and the Group reduced its payments to Executive Directors from 30% to 10% of base pay.

The explanations offered by the various Remuneration Committees for their actions are specious and it’s clear they are part of the problem and not the solution. In Lloyds Banking Group, the Remuneration Committee under the Chairmanship of Mr. Stuart Sinclair and previously, Ms. Anita Frew, did nothing about the fact that the Group Chief Executive was still entitled to a final salary pension despite the fact that such a benefit had been removed from all staff in 2014.

The Investment Association will decide how it intends to deal with Remuneration Committees who have attempted to undermine its rules. Many shareholders, customers, employees and the general public are sick to the back teeth of chief executives and boards who are only interested in feathering their own nests. You recently said: “the gap between those at the top and ordinary workers seems bigger than ever. If voluntary measures to curb bosses’ pensions are proving easy to game, then Parliament ought to ask whether the government needs to step in.”

We would urge the Work and Pensions Select Committee to launch an inquiry and make Remuneration Committee Chairmen explain their actions

Yours sincerely

Mark V Brown
General Secretary
Is António Horta-Osório the Unacceptable Face of Capitalism?
INTRODUCTION

In the course of his evidence to the Work and Pensions Select Committee, Mr. Stuart Sinclair, Chairman of Lloyds Banking Group’s Remuneration Committee, made two remarkable statements.

He said he had visited lots of branches to find out what staff were thinking on key issues like executive pay and pensions and that those staff he spoke to considered Mr. Antonio Horta-Osorio, Group Chief Executive of Lloyds Banking Group to be “charismatic” and a “winner” and deserved his £6 million pay package. That was news to us.

Mr. Sinclair’s statements were all the more remarkable because it would be fair to say that the average member of staff had never heard of him before, even though he professed to know what they were thinking on executive pay and pensions.

Following the Committee hearing, we sent a survey to a representative sample of members in Lloyds, covering all the main business units, asking for their views on some of the issues raised by Mr. Sinclair in his evidence.

THE SURVEY RESULTS

The full results of that survey, which are set out in Appendix 1, are as follows:

- 98% of staff responding to the survey said they had never been contacted by Mr. Sinclair directly or by the bank asking them for their views on executive pay and pensions.

- 98% of respondents said they were not aware of anyone in their office or branch who had been contacted either by Mr. Sinclair directly or by the bank asking for their views on executive pay and pensions.

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• Only 12% of respondents said that they would describe Mr. Horta-Osorio as a “Charismatic Winner”.

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• 81% of respondents said it was greed that drove Mr. Horta-Osorio decision not to apply the 0% pensions cap to his own final salary pension.

• 93% of respondents agreed with us that the bank’s annual engagement survey should include questions about executive pay and pensions.

CHARISMATIC WINNER?

In his evidence, Mr. Sinclair said he had spoken to staff directly on executive pay and pension issues including asking them about Mr. Horta-Osorio’s benefits package.

At Question 25, he said:

“I try and stay in touch as part of my job, not just with what is leading thinking on pay, but also what people believe in the bank. I will go to branches quite a lot and I do not do royal visits. I just go and hang around and I will try and stay in touch with people…..”

At Question 26, he said:

“Let me make the final point here, Mr. Field. People like a winner, I think, and when I go out to see people who are on £22,000, £30,000 or £40,000, they see Antonio as a winner because he brought this bank back from the brink.”

We have seen no evidence that Mr. Sinclair has engaged with any front-line branch/office staff on the issue of executive pay and pensions, and that is borne out by our survey results. Which branches did Mr. Sinclair “hang around” in and when did he “hang around” in those branches? What offices did Mr. Sinclair visit and when did he visit those offices? How many staff did he speak to in total and where are the notes of those conversations?

In response to Question 25, Mr. Sinclair said:

“We also have a wonderful system called Hive, where everybody can make anonymous comments. We look at that very closely to see what people are saying, “Our boss is living in a fantasy world. He is not worth it”. You don’t get that. The point I would make is when you go to see people……”.

The Committee will be aware from my letter dated 31st July 2019, a copy of which is set out in Appendix 2, that the Hive system is not anonymous.
In a response to our survey, one Lloyds member of staff said:

“Because HIVE has your name & it also has a picture of you. The site is monitored & your comments are removed if you say something they don’t like. I have known colleagues in our office be asked by management to remove their comments. Hive is the opposite of anonymous & when I saw that comment made it showed how out of touch they all are. Eric Daniels salary was £1 million a year when Antonio took over. Our bonus is capped at 5% which is not much after tax especially if you work part time. Yet the managers can earn up to 50% of their salary off the back of Band A & B staff hard work. The GEC also brought the Fixed payment award from nowhere when the EU took action to reduce their bonuses so a work around to ensure they still get a big bonus. I am pleased this is been looked at as most staff are appalled unless you are management & they toe the party line. Fantastic for doing this hope we see some change”.

Another member said:

“HIVE is not anonymous it has your name and your picture so any comments you make has your details with the comment. I work with colleagues who have been asked to remove comments they have made on HIVE. I have also seen comments moderated on the site. I was incensed when I read the MP’s were advised HIVE is anonymous as it is the total opposite. Lower grade staff A-B if they are awarded a bonus, receive a maximum of 5% but when you work part-time and are a lower grade the amount of annual bonus is a few hundred pounds after tax”.

HUBRIS OR GREED?

In response to a question by the Chairman on greed, Mr. Horta-Osorio said: “Mr. Field, it is very difficult to accept the word “greed” that you used, according to your own example, when my total fixed compensation at £2.8 million, as Mr. McCabe defined it, is lower than the group chief executive of HSBC”. Mr. Horta-Osorio was comparing apples with pears. Lloyds is a fraction of the size of HSBC. HSBC is a major international bank with assets of $2.6 trillion across 80 countries. By comparison, Lloyds is a predominantly UK retail and commercial bank. Last year, Lloyds made profits of £6bn compared to $19.6bn made by HSBC. There is no comparison between the two banks.

The issue of greed referred to by Mr. Field should be directed to Mr. Horta-Osorio’s action in respect of his second pension. In addition to his current pension allowance of £419,00, Mr. Horta-Osorio was also entitled to a second defined benefit pension which was worth 6% of his base salary in the 12 months before he retired. Mr. Horta-Osorio’s was, until we began our campaign, the only person out of 67,000 staff in Lloyds who was entitled to a final salary pension based on his final salary. Those staff who are members of one of the Group’s defined benefit pension schemes had their salary accrual element of their pensions removed by Mr. Horta-Osorio in 2014.
It was only following the union’s letters to the Investment Association and the subsequent media publicity that Mr. Horta-Osorio decided to give up the final salary element of his pension. If we had not raised the issue, Mr. Horta-Osorio would have continued to collect his full second pension. In a speech to the CBI Scotland Annual Dinner in 2012, Mr. Horta-Osorio quoted from the late moral philosopher Phillipa Foot who said: “one shouldn’t think that morality must pass the test of rationality, but that rationality should pass the test of morality”. In respect of his defined benefit pension, Mr. Horta-Osorio took the rational decision to leave his own pension intact, whereas his moral response should have been to ensure that he was in the same position as those colleagues who were losing such a valuable benefit. This is still a continuing source of resentment for those staff that had their final salary accrual element removed because every time they receive a salary increase they must confirm to the bank that it’s non-pensionable.

The Lloyds Remuneration Committee under the Chairmanship of Mr. Sinclair and his predecessor, Ms. Frew, failed to address the inequality in treatment between the Group Chief Executive and the rest of the staff in the bank. What’s clear from the tone of the evidence from Mr. Sinclair is that some of the non-executive directors have simply become cheerleaders for the Group Chief Executive. That’s an unacceptable state of affairs. Ms. Frew, who did nothing to address the final salary issue, has been board a member for 9 years. We note that in addition to her role as Senior Independent Director of Lloyds, Ms. Frew is also on the Board of Croda International and a non-executive director of at BHP Billiton. Given the size and complexity of these different organisations one could argue that the time commitment required to do each one justice is significant.

Finally, let’s be clear, Mr. Horta-Osorio only decided to give up the final salary element of his second pension once it had become a significant news story and not before. Furthermore, he did it because he and his advisers thought that it would divert attention away from his pension allowance. It did the opposite.

The union’s letters to the Investment Association and to Mr. Field can be found in Appendices 3 & 4 respectively.

Mark Brown
General Secretary