



Compensation and Workforce Trends in Financial Services

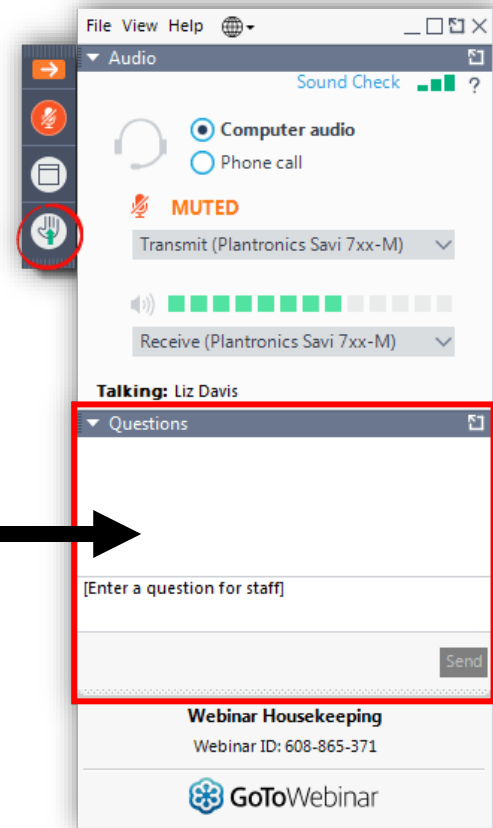
November 16th, 1pm EST

Housekeeping



Today's web seminar is being recorded.

All questions should be submitted via the Questions Panel.



Welcome and Introductions



Bill Choi
*Vice President,
Research &
Industry Services*
ELFA



Steven Hurd
Partner
AON Human
Capital
Solutions



Dave Rosenthal
Senior Consultant
AON Human
Capital
Solutions

Compensation Information Within the ELFA



Performance, Reward & Human Capital Trends

It's Been Another Interesting Year

We Asked HR Leaders | What is your biggest professional challenge in 2022?



Talent & Staffing

- Diversity & Inclusion initiatives
- Retention and employee development
- Recruitment efforts
- Determining proper headcounts going forward



Return to Office

- Employee motivation & engagement
- Getting People into the Office / Balance with WFH Policies
- Generational divides and desires



Managing Banker Expectations

- Impacted by the unknown economic outlook (inflation, possible recession, etc.)
- How to manage comp with a shift in performance
- Following / chasing new salary levels
- The expectation to pay everyone to the market, irrespective of Firm and individual performance



Continuous Improvement

- Desire to innovate, design and enhance best-in-class talent programs with a thin HR team

Mixed Messages Broadly – How Things Have Changed

Uncertainty

- Market volatility, inflation, geopolitical challenges/pressures, higher rates, recession fears
- Nasdaq down ~25% in 2022 / a lot of uncertainty around markets
- Equity markets down ~20% in 2022; bond market hit with higher rates
- Layoffs/slower hiring at GS, Amazon, Meta, Twitter, Netflix, Carvana, Uber, Snap, Robinhood, Lyft, Coinbase, BlackRock

Optimism

- Brian Moynihan's comments about the state of the consumer
- Some companies still hiring at a consistent clip
- Demand still exists and supply isn't necessarily there – tax, fund accounting, tech, risk
- October's stock market performance and jobs report
- Inflation slowing
- Continued focus on DE&I and ESG

Our Reality

- Performance challenges + 3.5% unemployment + hiring and firing + evolving workforce & culture
- Mismatch in sentiment; but changing. Employers are getting in the driver seat
- Despite some market headwinds, firms need to remain focused on their best people
- Managing talent is really hard
- Recession is looming but your best people still need to get paid in order to retain, reward and motivate

Performance and Reward Overview

Caution follows strong '21 pay cycle

Looking Back 2021

- Strong global growth post Covid - **banking industry profits up materially**; ROE at or above historical levels
- **Higher pay across revenue areas**: record I-Banking and AM performance; Markets up double digits; Corp/Commercial lifted by reversals of provisions
- **Infrastructure compensation up high single digits** (above salary spend)
- Junior banker salary increases impact other revenue areas; infrastructure graduate rates also increase
- Salary spend up 6%+ for most global banks driven by tight talent market and increasing inflationary pressures

2022 Performance

- Interest rate increases and NII **lifts top-line revenues, but offset by higher expenses** at most banks
- **Economic headwinds and energy crisis impacting UK/Eur more** than US and other regions
- **Business mix benefits Universal and Regional Banks vs. IB-focused firms**
- **Leasing Volume up 6% YTD vs 2021. Extremely low delinquencies & charge-offs, indicating that end users of commercial equipment continue to make on-time payments to their finance providers**
- Credit quality and loan growth good for now, but increasing risk of recession into 2023

People and Pay

- **Tight labor market continues to drive wages and favors employee** – but slowing from beginning of year
- **EVP importance grows** – total rewards, career development, culture, wellbeing, flexibility
- **Inflation driving expensive salary round and FX driving noise** - USD vs non-USD denominated firms
- **Q3 earnings pulse** – YTD performance better than forward looking sentiment (more downside)

Quick Look Back on '21 Pay Outcomes & Considerations for Year-End

3 areas of focus remain across Infrastructure with particular pressure on the more junior levels

#1

Technology

Roles include App developers / software engineers inc. AI/Machine learning, Digital, Cyber security & Data Privacy, Data science.

These are also roles with high attrition rates due to high market demand and increased competition for talent across industry verticals.

#2

Control Functions

Control functions in general still continue to be front of mind for firms particularly across the continent.

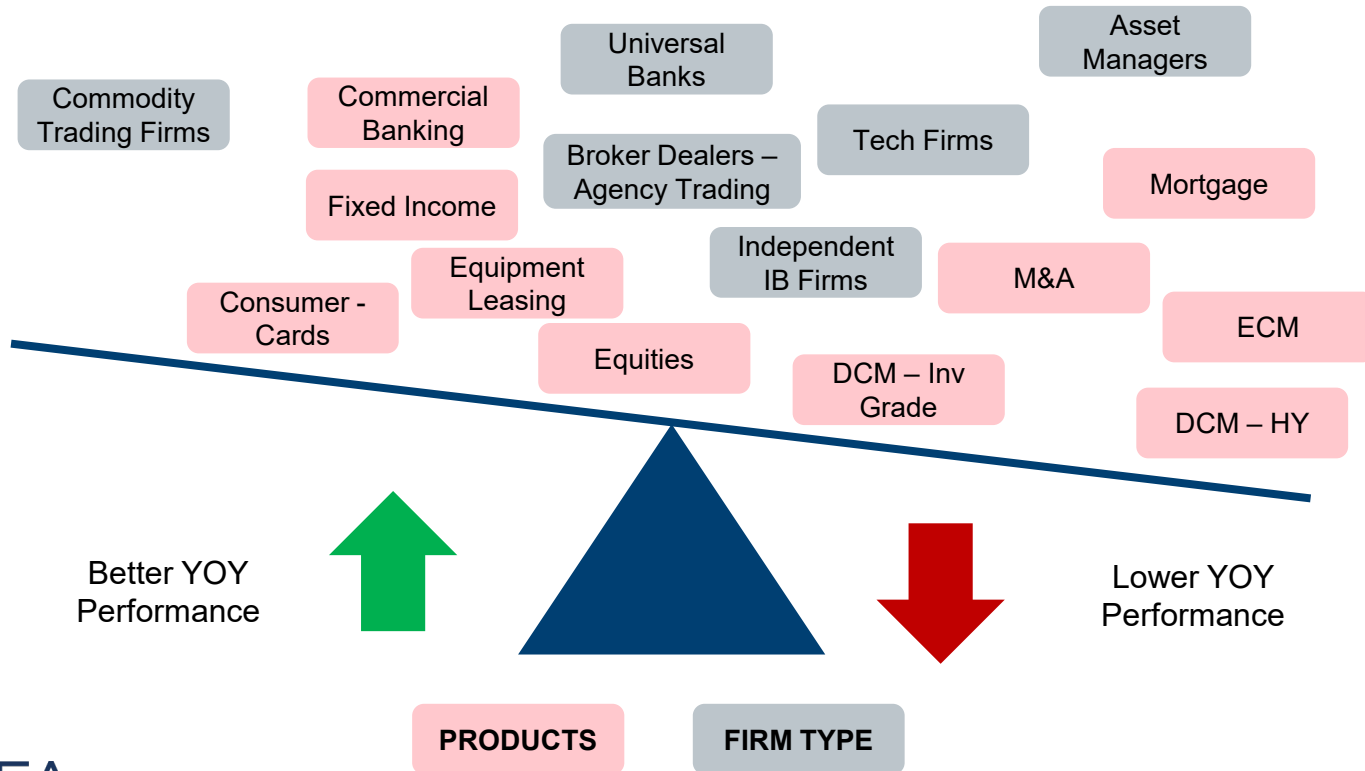
Roles include Compliance, Financial Crime, Credit / Quant Risk, and roles with regulatory focus.

#3

Other Notable Call Outs

Knock on impact of Investment Banking Analyst changes, ESG Investment Professionals, Research, and DE&I led initiatives.

Significant Variances in Performance Across Firm Types and Divisions within Firms



Front of Mind: Inflation and Salary Budgets

Impact of Higher fixed expenses – this year end and going forward



- Firms are focused on taking care of their employees – especially lower paid hit hardest by inflation
- Salary spend will be historically high for a second year in a row: 5%+ increases in fixed pay expense projected in the US (6+% in UK)
- A number of firms made mid-year adjustments in '22 after missing the mark on salary budgets

Four Levers for firms:

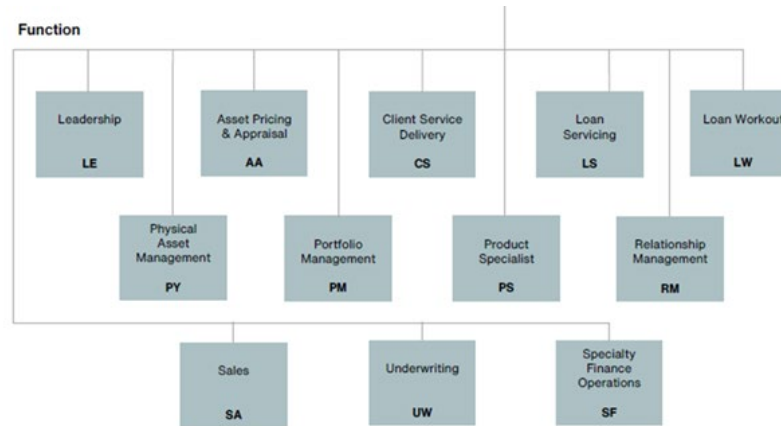
- Lower shareholder returns – NOT LIKELY
- Increase deferrals – NOT LIKELY
- Headcount reductions – MODEST / PERFORMANCE DRIVEN **LIKELY** (small RIFs)
- Lower incentive pool – **LIKELY**

Considerations:

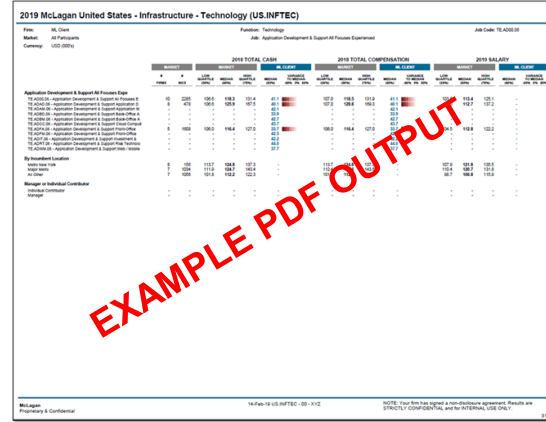
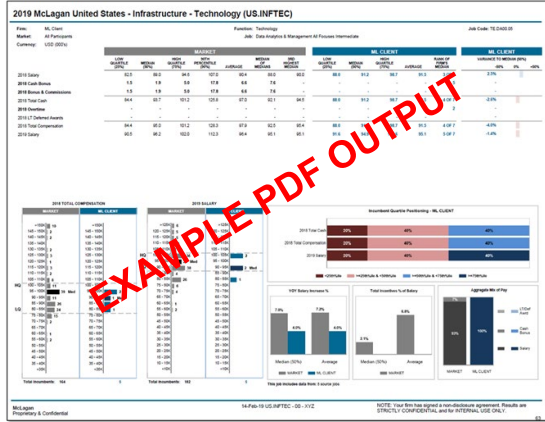
- Historically high salary budgets and pressure on incentives = fixed pay decisions are more important this year!
- Implement a more rigorous salary process, in line with bonus pool approach, to differentiate and ensure effective use of spend

Overview of McLagan's Equipment Leasing & Finance Survey

- McLagan (a subsidiary of Aon PLC) is the financial services industry's leading global compensation consulting firm.
- Each year, the ELFA and McLagan partner to conduct the Equipment Leasing & Finance compensation survey, which covers market pay rates for base salary and incentives across common front-office jobs in the business.
- McLagan covers a cross-section of the sector, including independent, bank-owned and captive leasing firms.
- The program covers front-office functions across the industry.



Example Output



2019 United States - Infrastructure - Technology (US.INFTEC) - Extract Report

Firm: MC Client
Market: All Participants
Currency: USD (000)

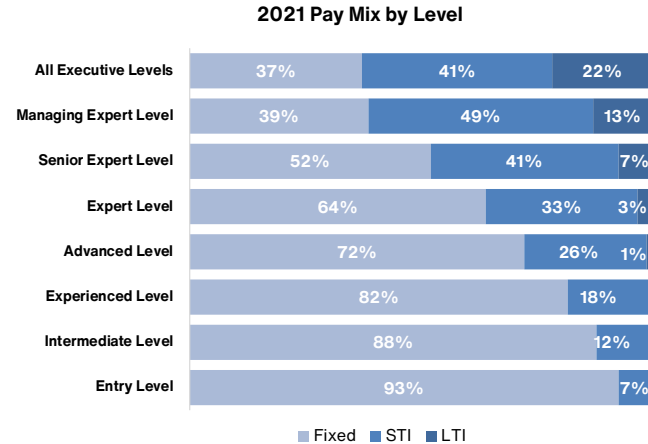
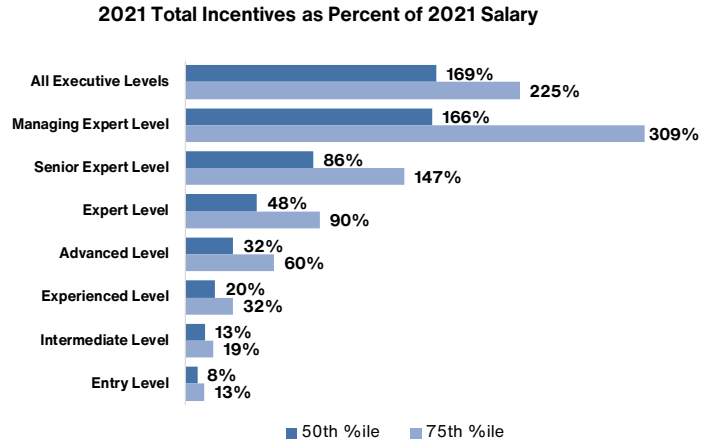
EMP #	FUNCTION/DEPARTMENT	TECHNOLOGY/SUBAREA	MC CODE	MARKET	FUNCTION GROUP	SALARY BAND	2018 Salary				2018 Cash Bonus					
							ALL	ADV	INT	ENT	ALL	ADV	INT	ENT		
X1220	US.INF.TEC.TE.ADA04.09	US.INF.TEC.TE.0000.09		United States - Infrastructure - Technology	Technology	All Areas - Senior Expert	67.0	209.3	225.1	250.0	202.3	22.3	45.9	71.9	112.1	90.0
X1221	US.INF.TEC.TE.ADA05.09	US.INF.TEC.TE.0000.09	X	United States - Infrastructure - Technology	Technology	Application Development & Support - All Focuses - Senior Expert	67.0	209.3	225.1	250.0	202.3	22.3	45.9	71.9	112.1	90.0
X1222	US.INF.TEC.TE.ADA06.09	US.INF.TEC.TE.0000.09	X	United States - Infrastructure - Technology	Technology	Application Development & Support - Application Development - Senior Expert All Participants	67.0	209.3	220.8	236.5	226.3	22.3	50.8	55.1	117.5	102.5
X1223	US.INF.TEC.TE.ADA07.09	US.INF.TEC.TE.0000.09	X	United States - Infrastructure - Technology	Technology	All Areas - Expert	68.0	56.0	101.1	150.0	200.0	22.3	8.2	26.6	45.0	68.0
X1224	US.INF.TEC.TE.ADA08.09	US.INF.TEC.TE.0000.09	X	United States - Infrastructure - Technology	Technology	Application Development & Support - All Focuses - Expert	68.0	56.0	101.1	150.0	200.0	22.3	8.2	26.6	45.0	68.0
X1225	US.INF.TEC.TE.ADA09.09	US.INF.TEC.TE.0000.09	X	United States - Infrastructure - Technology	Technology	Application Development & Support - Application Development - Expert	68.0	56.0	101.1	150.0	200.0	22.3	8.2	26.6	45.0	68.0
X1226	US.INF.TEC.TE.ADA10.09	US.INF.TEC.TE.0000.09	X	United States - Infrastructure - Technology	Technology	All Areas - Advanced	40.6	120.0	122.8	147.5	160.0	14.1	21.9	28.3	37.5	
X1227	US.INF.TEC.TE.ADA11.09	US.INF.TEC.TE.0000.09	X	United States - Infrastructure - Technology	Technology	Application Development & Support - All Focuses - Advanced	40.6	124.6	127.0	150.0	161.1	14.1	21.9	28.6	36.6	
X1228	US.INF.TEC.TE.ADA12.09	US.INF.TEC.TE.0000.09	X	United States - Infrastructure - Technology	Technology	Application Development & Support - Application Development - Advanced	40.6	122.2	125.0	150.0	162.7	20.9	21.9	24.0	48.6	
X1229	US.INF.TEC.TE.ADA13.09	US.INF.TEC.TE.0000.09	X	United States - Infrastructure - Technology	Technology	All Areas - Entry	43.1	94.0	105.0	117.1	131.1	6.7	10.0	14.3	21.0	
X1230	US.INF.TEC.TE.ADA14.09	US.INF.TEC.TE.0000.09	X	United States - Infrastructure - Technology	Technology	Application Development & Support - All Focuses - Experienced	43.1	98.0	108.2	120.0	132.4	6.9	11.1	14.2	23.0	
X1231	US.INF.TEC.TE.ADA15.09	US.INF.TEC.TE.0000.09	X	United States - Infrastructure - Technology	Technology	Application Development & Support - Application Development - Experienced All Participants	43.1	95.0	111.9	124.5	131.1	11.9	10.8	12.0	43.9	
X1232	US.INF.TEC.TE.ADA16.09	US.INF.TEC.TE.0000.09	X	United States - Infrastructure - Technology	Technology	All Areas - Intermediate	36.0	76.0	87.1	94.4	105.1	1.9	4.1	5.0	23.2	
X1233	US.INF.TEC.TE.ADA17.09	US.INF.TEC.TE.0000.09	X	United States - Infrastructure - Technology	Technology	Application Development & Support - All Focuses - Intermediate	36.0	82.7	94.0	100.0	112.0	1.9	3.7	7.2	22.0	
X1234	US.INF.TEC.TE.ADA18.09	US.INF.TEC.TE.0000.09	X	United States - Infrastructure - Technology	Technology	Application Development & Support - Application Development - Intermediate All Participants	36.0	75.9	97.0	113.3	122.5	4.9	10.9	20.1	28.0	
X1235	US.INF.TEC.TE.ADA19.09	US.INF.TEC.TE.0000.09	X	United States - Infrastructure - Technology	Technology	All Areas - Entry	14.6	43.2	48.0	53.3	57.5	2.5	3.9	5.0	16.4	
X1236	US.INF.TEC.TE.ADA20.09	US.INF.TEC.TE.0000.09	X	United States - Infrastructure - Technology	Technology	Application Development & Support - All Focuses - Entry	14.6	43.0	48.0	52.6	63.9	2.6	3.9	5.0	16.4	
X1237	US.INF.TEC.TE.ADA21.09	US.INF.TEC.TE.0000.09	X	United States - Infrastructure - Technology	Technology	Application Development & Support - Application Development - Entry	14.6	43.0	48.0	52.0	57.0	2.6	3.9	4.3	16.4	
X1238	US.INF.TEC.TE.ADA22.09	US.INF.TEC.TE.0000.09	X	United States - Infrastructure - Technology	Technology	All Areas - Senior Expert	73.3	203.9	225.1	250.0	202.3	21.4	45.9	71.9	112.1	90.0
X1239	US.INF.TEC.TE.ADA23.09	US.INF.TEC.TE.0000.09	X	United States - Infrastructure - Technology	Technology	Application Development & Support - All Focuses - Senior Expert	73.3	203.9	220.6	236.5	226.3	21.4	50.9	55.0	118.0	102.5
X1240	US.INF.TEC.TE.ADA24.09	US.INF.TEC.TE.0000.09	X	United States - Infrastructure - Technology	Technology	All Areas - Expert	67.0	56.0	101.1	150.0	200.0	11.3	8.2	26.6	45.0	68.0

2022 Survey Participant List

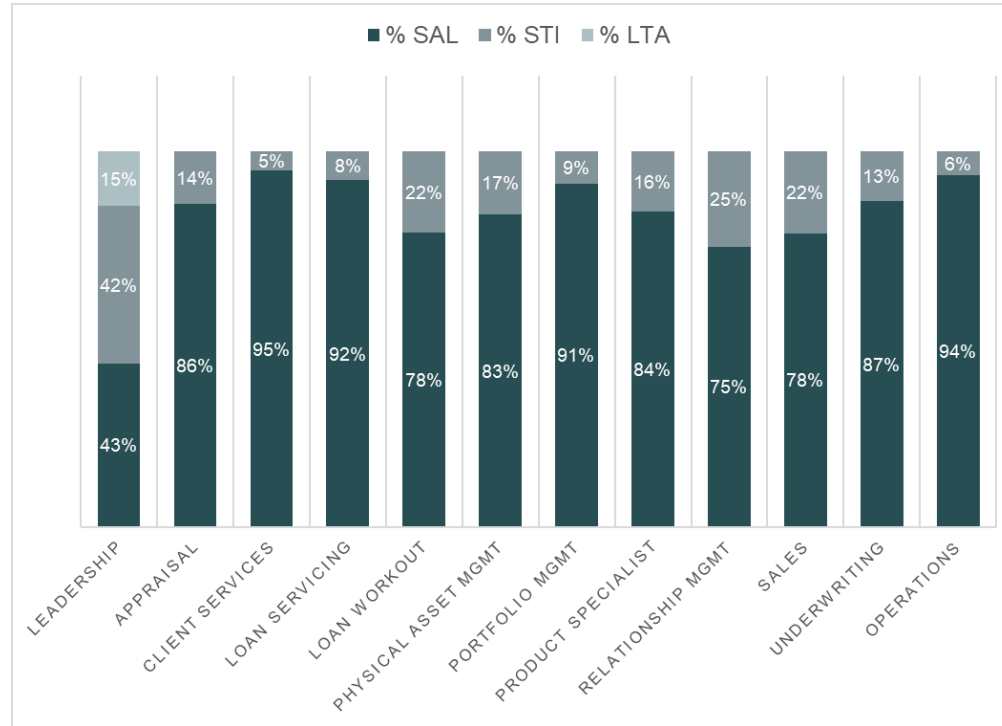
1st Source Bank	East West Bancorp, Inc.	KeyCorp	Siemens Financial Services
Ally Financial Inc.	Eastman Credit Union	Landmark Credit Union	Signature Bank – NY
Arvest Bank	Element Fleet Management	M&T Bank Corporation	Societe Generale
Atlantic Union Bank	Ent Credit Union	Macquarie Bank	Stearns Bank National Association
Bancorp, Inc.	Fifth Third Bank	Mechanics Bank	Suncoast Credit Union
Bank Midwest	First Business Financial Services	Midland States Bancorp	TD Securities
Bank of America	First Citizens Bank - NC	Mountain America Federal Credit Union	TIAA
Bank of Hawaii	First Financial Bancorp - OH	NBT Bancorp Inc.	TowneBank
Bank of the West	First Hawaiian Bank	Northwest Bank – PA	Truist
Bank OZK	First Interstate BancSystem, Inc.	Numerica Credit Union	U.S. Bancorp
Banner Bank	First Technology Credit Union	Old National Bank	Univest Financial Corporation
BMO Financial Group	Fulton Financial Corporation	Old Second Bank	Valley National Bancorp
BOK Financial Corporation	GATX Capital Corporation	PacWest Bancorp	Volvo Commercial Finance LLC
Caterpillar	Georgia's Own Credit Union	Patelco Credit Union	VyStar Credit Union
Citizens Financial Group	Hancock Whitney Bank	Pentagon Federal Credit Union	Webster Bank
CoBank	Hitachi Capital	PNC Bank	Wells Fargo Bank
Comerica	HomeStreet Bank	QCR Holdings, Inc.	Wintrust Financial Corporation
Compeer Financial	HomeTrust Bancshares, Inc	Regions Financial Corporation	Zions Bancorporation
Deere & Company	Huntington Bancshares, Inc.	Safe Federal Credit Union	
DLL	JP Morgan Chase	Security Service Federal Credit Union	

High Incentive Upside for Leadership and Senior Staff

Executive Summary (USD 000)



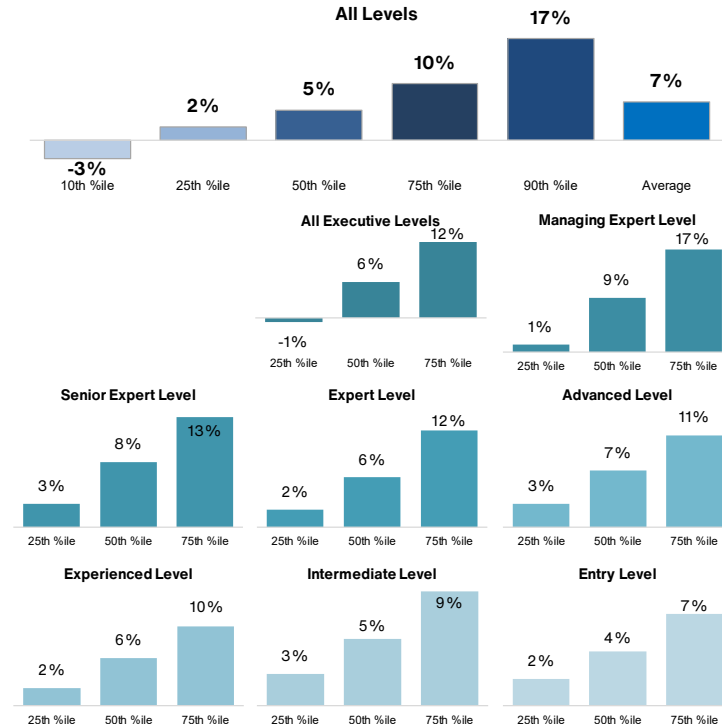
Incentive Opportunities Differ by Function



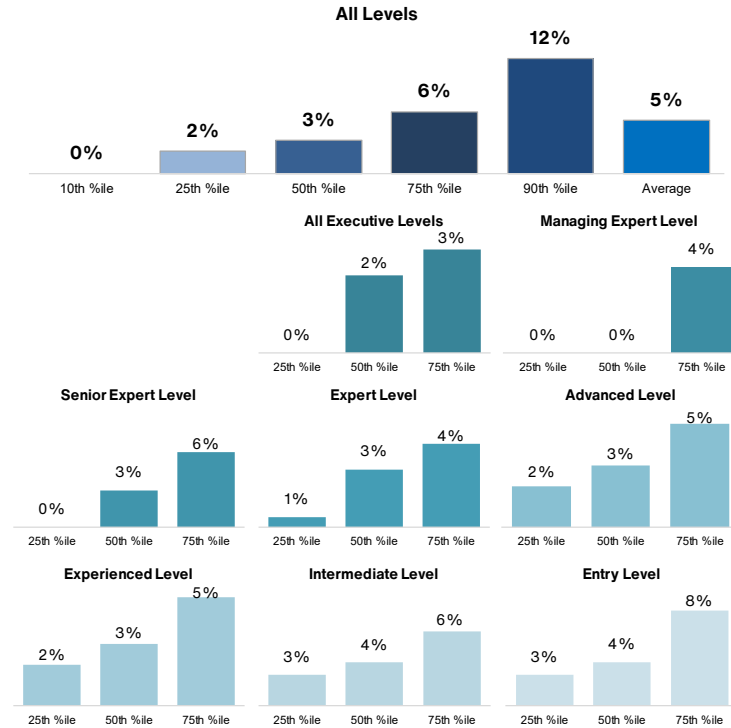
Total Compensation Increased Notably, Especially at Senior Levels

Consistent Employee Analysis - By Level

Total Compensation Trend (2020 to 2021)



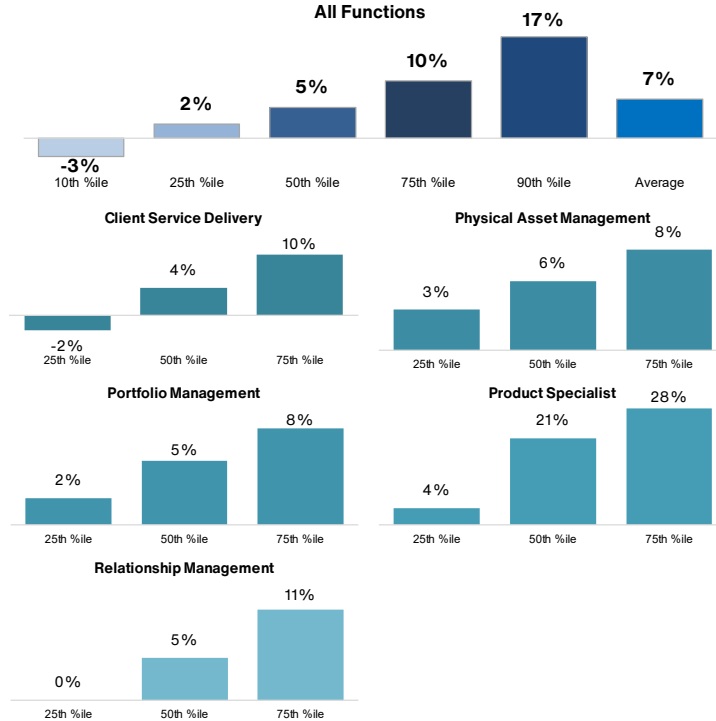
Salary Trend (2021 to 2022)



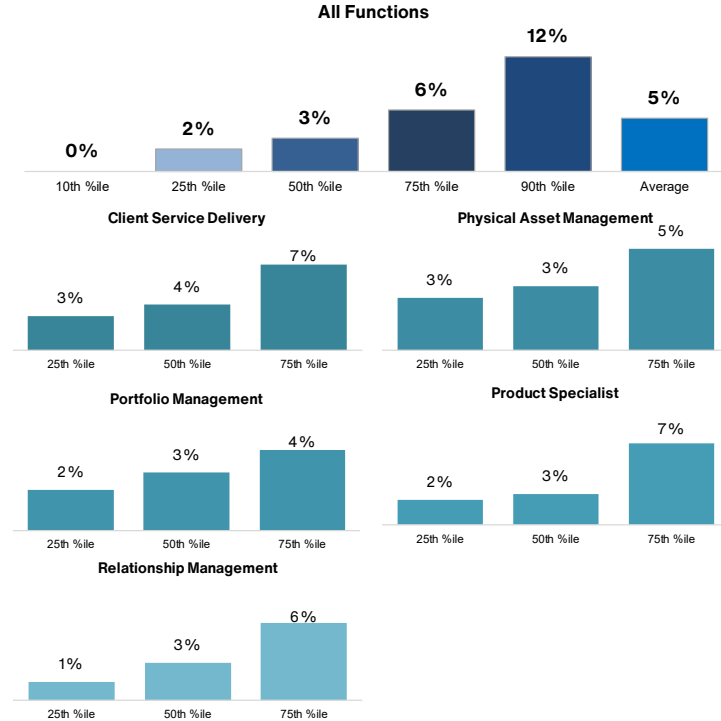
Total Compensation Generally Increased by 5-10% Year-over-Year

Consistent Employee Analysis - By Function

Total Compensation Trend (2020 to 2021)



Salary Trend (2021 to 2022)

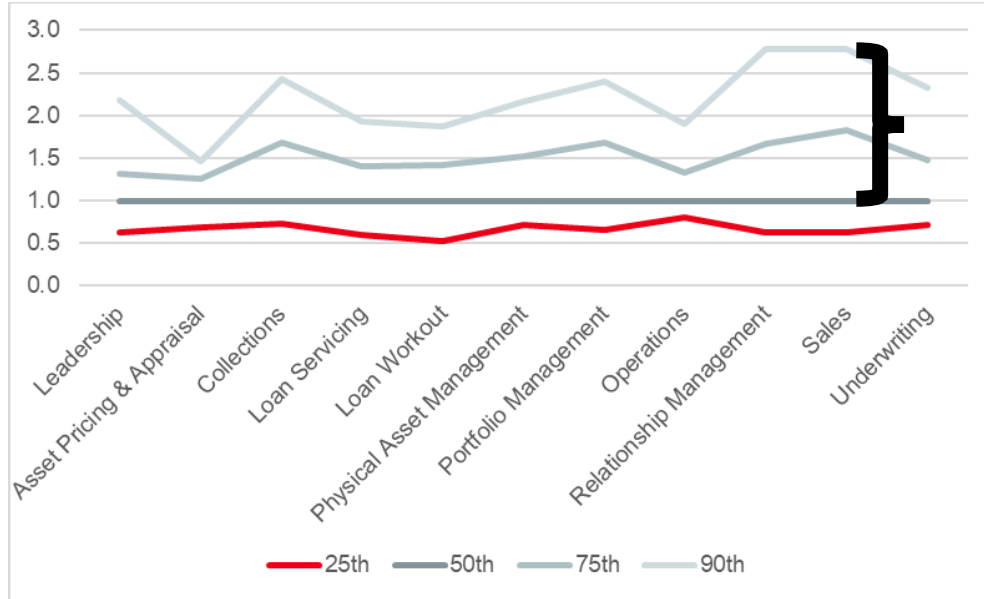


Compensation Increases Were Notably Higher for High Producers

	Total Compensation % Change: 2020 to 2021					
	# of Incs	10th	25th	50th	75th	90th
\$0 to \$50K	1,350	-2.0%	2.3%	4.2%	6.4%	12.6%
\$50K to \$75K	2,003	-2.3%	2.4%	4.9%	9.1%	17.1%
\$75K to \$100K	1,395	-3.6%	3.1%	6.5%	12.9%	25.4%
\$100K to \$150K	1,569	-15.7%	1.8%	6.8%	15.8%	30.5%
\$150K to \$200K	886	-17.0%	1.4%	7.7%	16.7%	50.4%
\$200K to \$300K	859	-18.0%	0.0%	8.4%	21.2%	50.0%
\$300K+	969	-13.5%	3.0%	12.5%	36.1%	70.0%
Total	9,031	-7.9%	2.3%	6.1%	14.6%	32.3%

	Salary % Change: 2021 to 2022					
	# of Incs	10th	25th	50th	75th	90th
\$0 to \$50K	1,350	0.0%	2.3%	3.2%	6.1%	11.6%
\$50K to \$75K	2,003	0.0%	2.0%	3.1%	6.3%	12.0%
\$75K to \$100K	1,395	0.0%	2.0%	3.1%	5.9%	12.0%
\$100K to \$150K	1,569	0.0%	1.5%	3.0%	6.0%	11.1%
\$150K to \$200K	886	0.0%	1.0%	2.9%	5.1%	10.2%
\$200K to \$300K	859	0.0%	0.0%	2.1%	3.5%	6.8%
\$300K+	969	0.0%	0.0%	0.0%	3.5%	8.2%
Total	9,031	0.0%	0.9%	3.0%	5.3%	10.8%

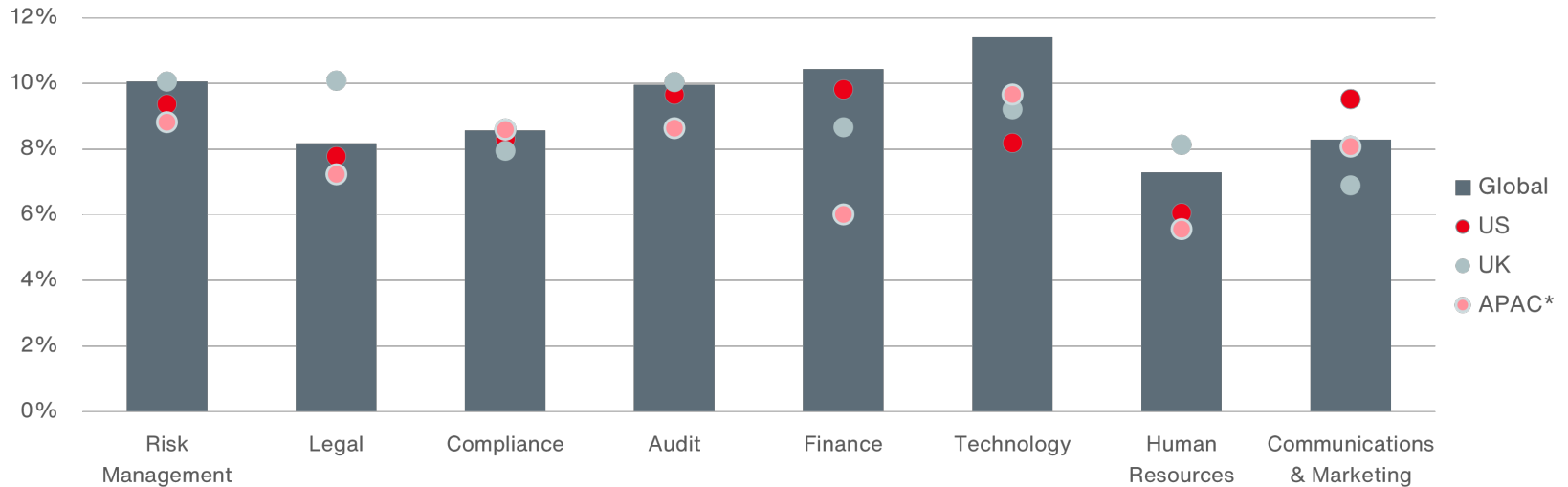
Pay Differentiation is Higher in Origination and Sales than Support Roles



RM / Sales professionals at the 90th percentile are paid ~3.0x the market median for the same role.

Infrastructure Trends: Infrastructure compensation increases 8-10% across Technology and Control functions

Total Compensation Change - 2021 vs. 2020
Infrastructure Functions - Same Store Employees

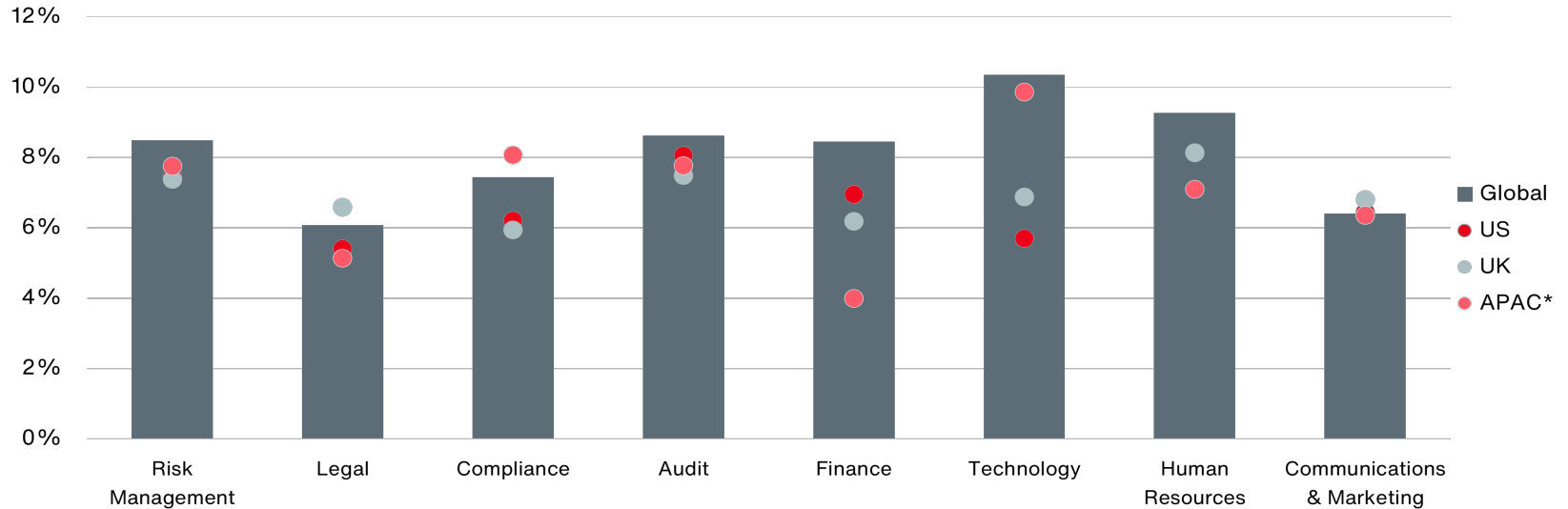


Based on the Largest Global Banks

* APAC excludes India and the Philippines which are included in the Global calculations

Infrastructure Trends: 2022 salary increases average 6 – 8% across functions in most hub locations

Current Year Salary - 2022 vs. 2021 Change
Infrastructure Functions - Same Store Employees

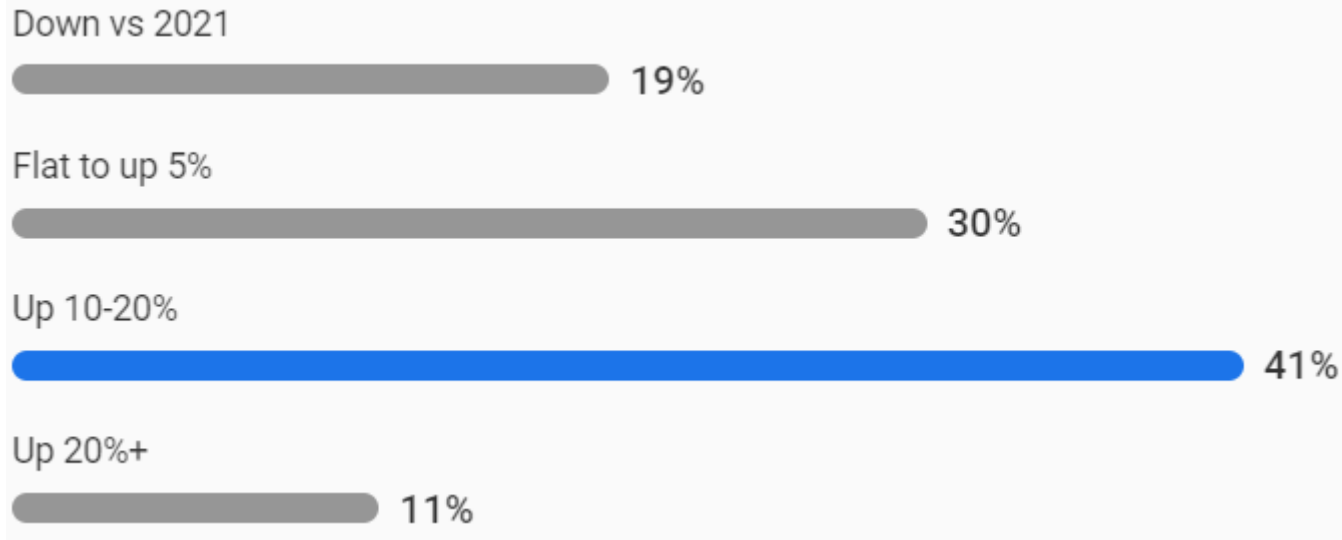


Based on the Largest Global Banks

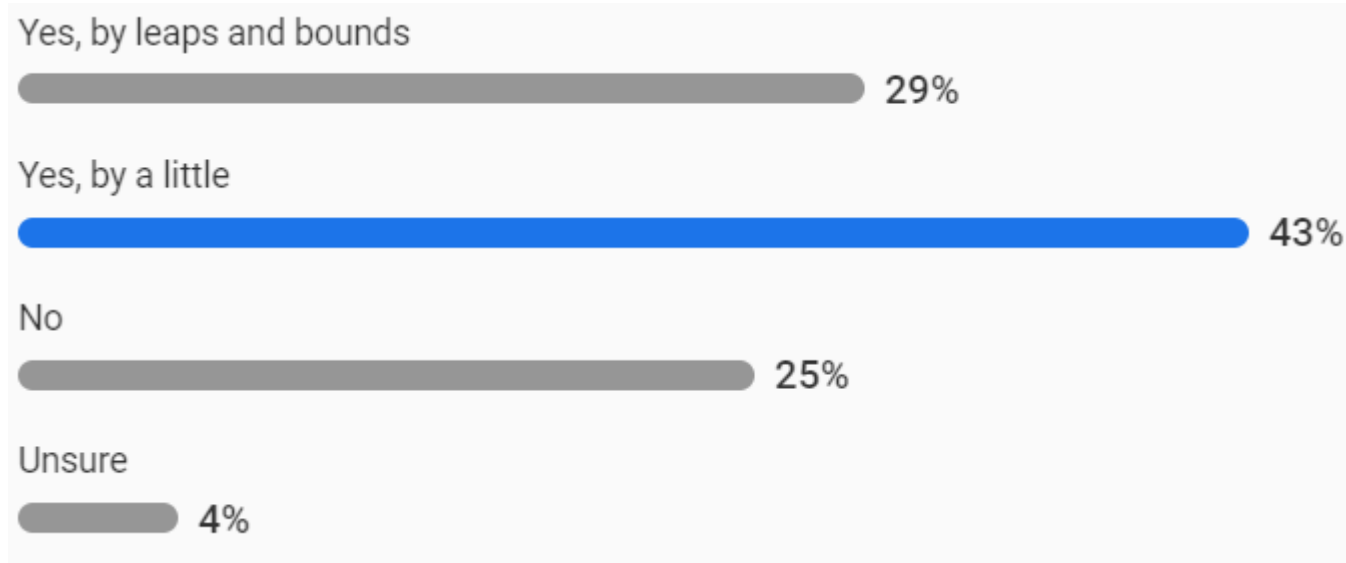
* APAC excludes India and the Philippines which are included in the Global calculations

Interactive Polling

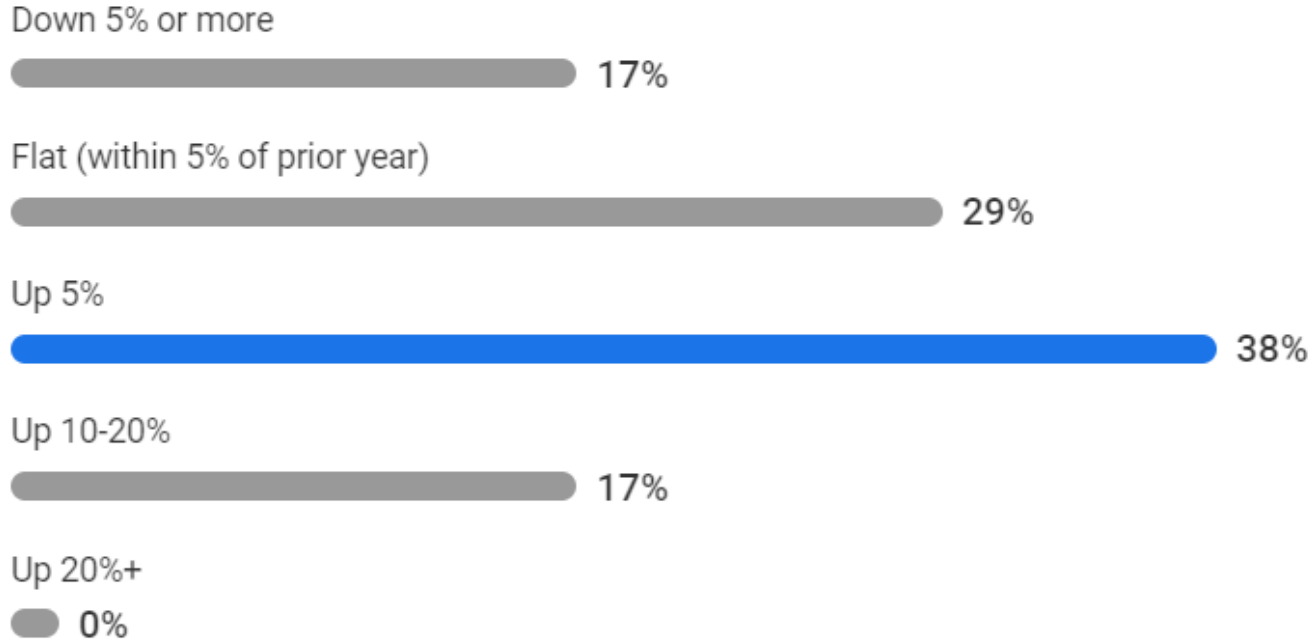
What do you project revenue levels to be versus 2021 for your firm?



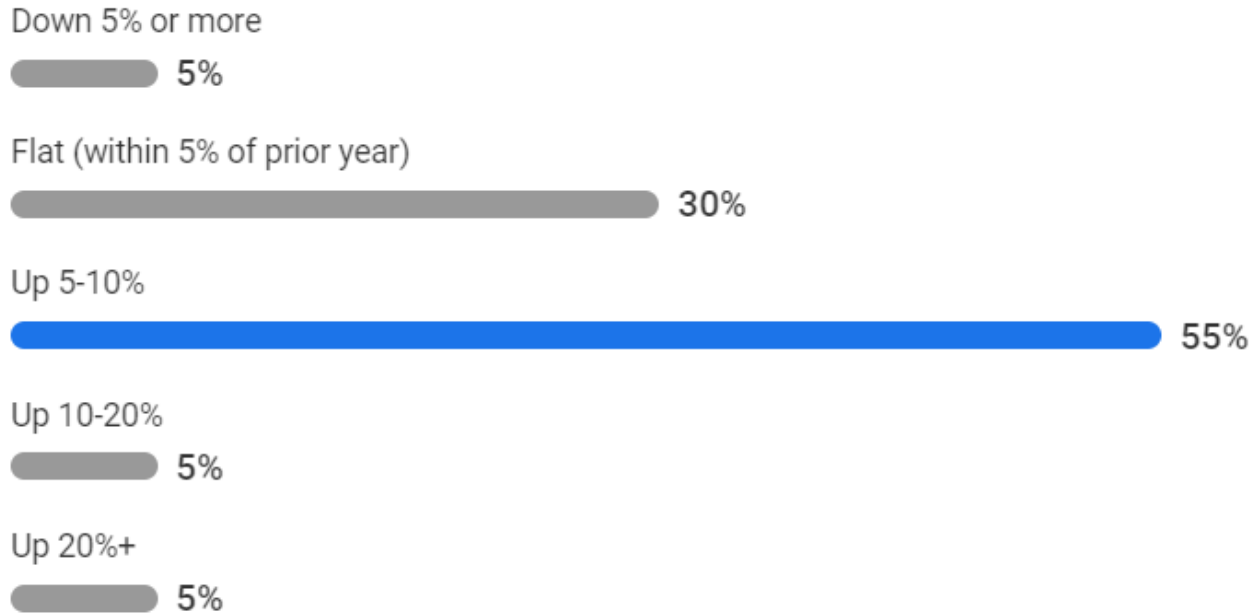
Is 2022 projecting to be a record year for your firm?



Given 2022 business performance, where do you anticipate average 2022 total compensation to be for your firm's origination staff?



Given 2022 business performance, where do you anticipate average 2022 total compensation to be for your firm's support staff (portfolio management, underwriting, etc.)?



Is your firm mandating that staff return to the office?

Yes, 5 days a week



Yes, 2-3 days a week



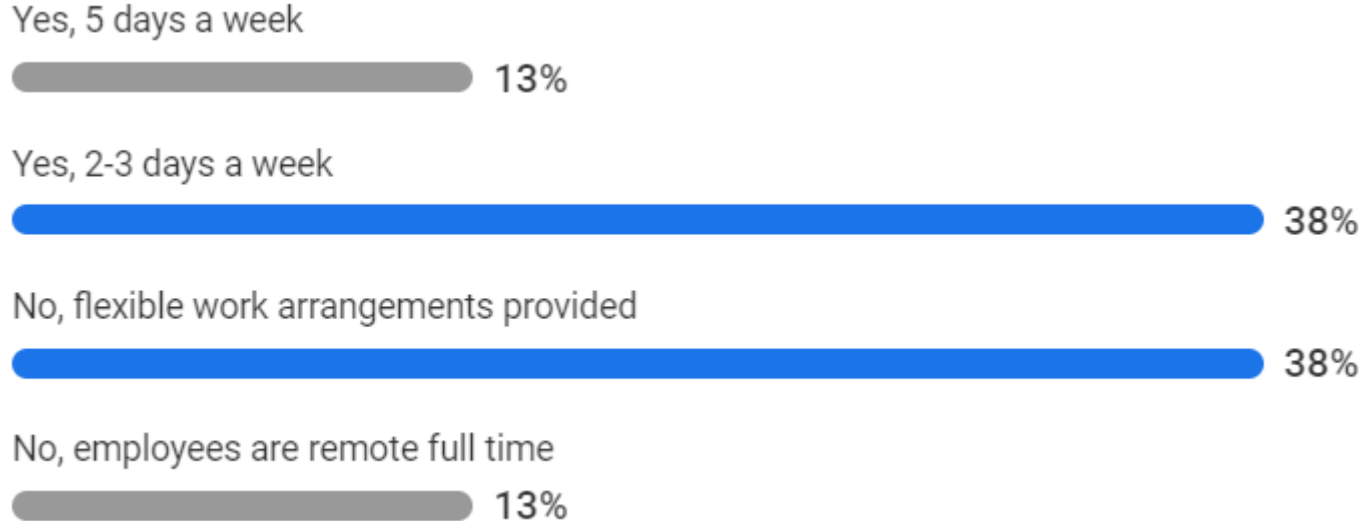
No, flexible work arrangements provided



No, employees are remote full time



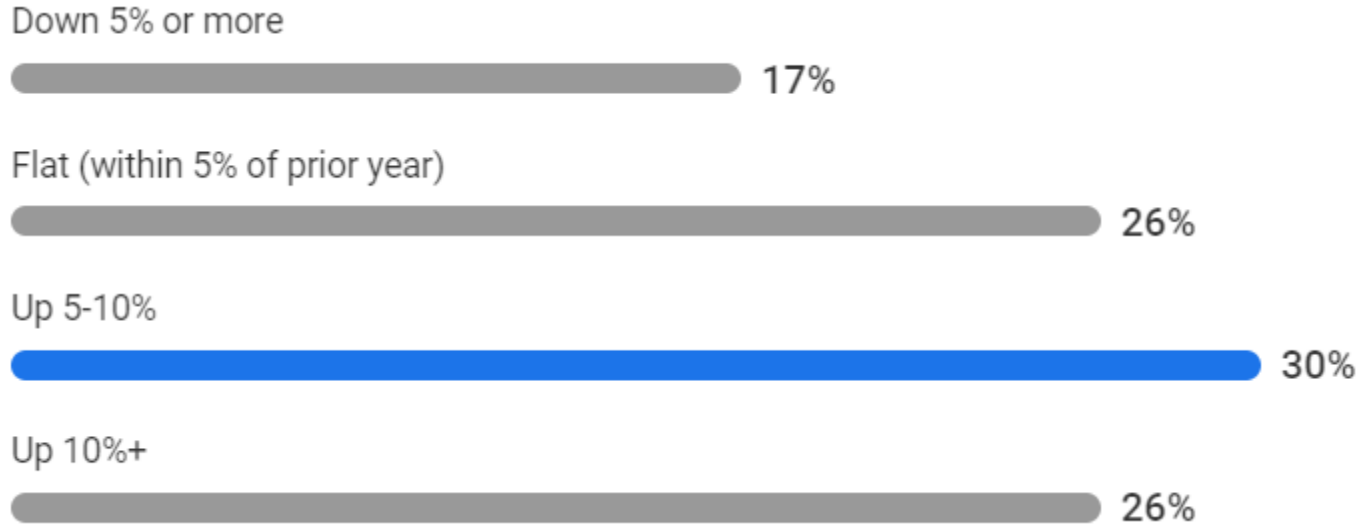
Is your firm mandating that staff return to the office?



What levels of turnover is your firm experiencing?



How has headcount changed for your firm's origination staff from the prior year?



How has headcount changed for your firm's support staff (non-originator roles) from the prior year?

Down 5% or more



Flat (within 5% of previous year)



Up 5-10%



Up 10%+



Our Guidance for the 2022 PY – Talent and Reward

1. **Internal equity and pay disparity challenges exist – manage to a multi-year plan.**
2. **Pay will be challenged in some sub sectors of FS for 2022. However, firms continue to hire and there’s always a place for great talent to go. Pivot to retention of your best people. Employee engagement, belonging and culture.**
3. **Pay regulation and transparency are here to stay. Add more structure, discipline and rigor to your compensation program.**
4. **Assess your compensation philosophy. Considerations:**
 1. All back-office professionals should be more insulated than origination staff when it comes to firm performance. Stability versus variability.
 2. Individual contributors in the back office should have stable incentive compensation.
 3. Senior back-office professionals should have more money at risk.
 4. Always pay for performance. Compensation should be tightly correlated to performance. Differentiate
5. **Communicate well and often. 2023 is going to be a bumpy ride.**



Thank You!



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