Behind the Surge

Why Top Executive Pay in Banking Defies Other Industry Trends

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The banking industry has bucked the trend of decreased CEO pay. A variety of factors lie behind this trend, while even more forces continue to drive the complexity and scrutiny of executive pay.

A closer look at changes by sector and company size within the Russell 3000® underscores that CEO pay in the banking industry increased in 2022, whereas most other industries saw decreases. Top executives in this sector benefited from the boost in net interest income caused by rising interest rates, competition for talent, and innovation as the marketplace became increasingly mobile and tech-focused. Combined, these factors may have contributed to the baking industry's competitive edge in 2022 when it comes to CEO and other named executive officers (NEO) pay.

Following a record year in 2021, global markets fell in 2022. After peaking on January 3, 2022, the S&P 500® index declined for most of fiscal year 2022, finally hitting a low for the year on October 12, 2022. Post-pandemic inflation, due in part to supply chain issues and US fiscal policy, followed by rising energy costs, combined to increase inflation. Supply-side issues now mostly have abated, but high energy costs remain. Nevertheless, the US Federal Reserve increased interest rates to slow inflation. This move also slowed the overall economy in 2022 and 2023.

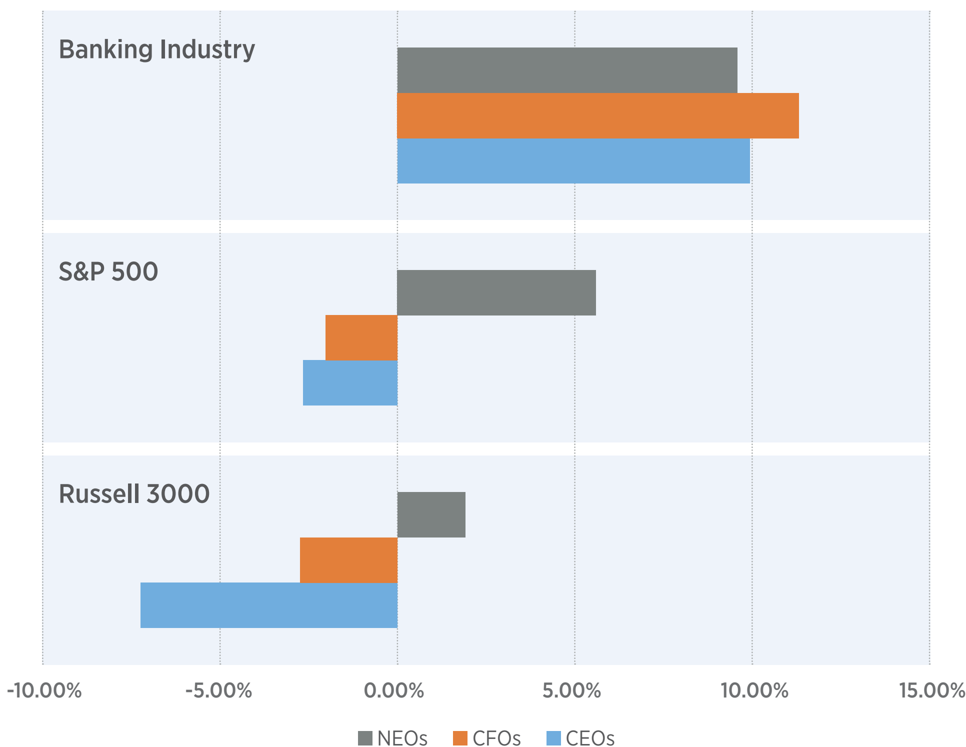
Top executive pay levels reflected the impacts of the economy in 2022, with CEO pay decreasing a surprising 7.3% and 2.7% for the overall Russell 3000 and S&P 500 indexes. These decreases came after CEO pay soared in 2021 when boards rewarded top executives for steering their companies through the pandemic-induced recession.

The following analysis focuses on 2022 pay as reported in 2023 proxy filings and includes compensation data for 2,834 companies in the Russell 3000 Index. We compared the data for the banking organizations within this universe (287 total) against the overall Russell 3000 data set, representing general industry. Of these 287 banking industry companies, most (76%) are classified as "Regional Banks." The remaining 24% include "Asset Management and Custody Banks," "Investment Banking and Brokerage," and "Diversified Banks."

Key Insights From Our Analysis of This Sector Include:

- CEOs in banking realized substantial year-over-year increases in pay at 9.9% (2022 over 2021), eclipsing the overall Russell 3000 and S&P 500 indexes, which showed CEO pay decreasing by 7.3% and 2.7%, respectively.
- Similarly, CFOs in banking enjoyed year-over-year increases in pay at 11.3%, surpassing the overall Russell 3000 and S&P 500 indexes, which showed CFO pay decreasing by 2.8% and 2.1%, respectively.
- While pay for other NEO roles increased in the overall Russell 3000 and S&P 500 indexes (by 1.8% and 5.6%, respectively), banking industry NEOs saw even larger increases of 9.6%.

FIGURE 1. BANKING COMPENSATION CHANGES (2022 VS. 2021) COMPARED TO OVERALL RUSSELL 3000 AND S&P 500 INDICES



Factors Driving Compensation Increases in Publicly Traded Banking

It is difficult to pinpoint the exact force boosting banking executive compensation levels in FY 2022 as other sectors saw decreases. Nevertheless, we expect that a combination of factors drove the increase, as described in Figure 2:

FIGURE 2. COMPENSATION GROWTH IN THE BANKING SECTOR: CONTRIBUTING FACTORS

Factor	Description
Net Interest Income Boost from Rising Increase Rates	For 2022, the high-interest rate environment lifted the net interest margin and increased net interest income growth, which in turn helped boost earnings and profitability. The higher rates led to improvements in net interest margins and led to the sector scoring another banner year from a net income perspective, surpassing 2021 overall. Essentially, 2022 represented a continuation of the record-setting year that was 2021, which likely helps to explain why pay continued to rise.
Competition for Talent	Demand currently exceeds the supply of global talent. This is true in nearly every industry, but the shortage is especially pronounced in the banking sector. A competitive job market allowed both new and existing talent to evaluate what's important. Banks aren't just competing for talent among their peers anymore, they're often going head-to-head with organizations and industries that may offer more entrepreneurial experiences, flexibility, and nontraditional accommodations.
Innovation	The exponential pace of new technologies and the confluence of multiple trends are influencing how banks operate and serve customer needs. The impact of generative AI, industry convergence, embedded finance, open data, digitization of money, decarbonization, digital identity, and fraud has fueled growth in the sector. Banks are looking for solutions and business models that provide value for their customers in new ways, often including products and services historically offered outside this industry. These trends are creating new roles and opportunities within banks that attract younger talent who, until now, looked toward technology-focused organizations and industries when seeking opportunities for innovation.

Other Study Findings

Typically, as assets increase, total direct compensation (or TDC) increases. Figure 3 illustrates the wide difference between CEO TDC for companies with between $1 billion and $4.9 billion in assets (median TDC of $1.4 million) and CEOs at companies with assets of $200 billion and greater ($18.6 billion). See Figure 3.

FIGURE 3. CEO MEDIAN PAY LEVELS BY COMPONENT — BANKING INDUSTRY (2023)

	Asset Value					
	10th Percentile	25th Percentile	Median	Mean	75th Percentile	90th Percentile
$1-$4.9 billion (n=87) — (Median Assets $3.14 billion)						
Base Salary	435	500	568	609	671	770
Annual Bonus	18	231	353	926	619	2,514
Full Value Shares	0	99	235	1,719	600	2,381
Stock Options	0	0	0	127	0	59
Long-Term Cash	0	0	0	75	0	0
Total LTI	0	115	283	1,920	715	3,486
Total Direct Compensation	790	955	1,370	3,455	2,126	6,919
$5-14.9 billion (n=92) — (Median Assets $7.96 billion)						
Base Salary	500	640	712	720	836	935
Annual Bonus	205	395	599	918	946	1,545
Full Value Shares	114	390	706	1,483	1,225	4,902
Stock Options	0	0	0	33	0	0
Long-Term Cash	0	0	0	8	0	0
Total LTI	158	414	706	1,524	1,273	4,902
Total Direct Compensation	1,159	1,514	2,217	3,162	3,000	6,867
$15-49.9 billion (n=58) — (Median Assets $23.81 billion)						
Base Salary	587	785	880	845	1,000	1,067
Annual Bonus	453	884	1,311	1,481	1,828	2,776
Full Value Shares	108	951	1,923	2,650	2,931	7,814
Stock Options	0	0	0	13	0	0
Long-Term Cash	0	0	0	2	0	0
Total LTI	190	951	1,942	2,666	2,931	7,814
Total Direct Compensation	2,193	2,852	4,314	4,992	5,796	10,973
$50-199.9 billion (n=23) — (Median Assets $85.41 billion)						
Base Salary	974	1,005	1,061	1,074	1,162	1,275
Annual Bonus	1,508	1,803	2,140	3,469	3,615	7,950
Full Value Shares	2,447	3,041	4,539	7,263	7,440	10,224
Stock Options	0	0	0	185	0	419
Long-Term Cash	0	0	0	246	0	810
Total LTI	3,001	3,182	4,539	7,694	7,800	12,408
Total Direct Compensation	5,619	6,711	8,479	12,237	10,431	21,239
$200 billion and over (n=18) — (Median Assets $556.26 billion)						
Base Salary	706	1,000	1,250	1,263	1,500	1,650
Annual Bonus	980	1,816	3,417	4,432	5,278	7,080
Full Value Shares	3,538	5,561	10,100	12,631	16,359	27,741
Stock Options	0	0	0	594	0	1,349
Long-Term Cash	0	0	0	107	0	3
Total LTI	4,280	6,760	12,500	13,332	16,909	27,741
Total Direct Compensation	8,456	11,265	18,567	19,027	24,467	32,263

NEOs earned approximately 40% of CEOs in FY 2022. Figure 3 illustrates the difference between NEO TDC for companies with between $1 billion and $4.9 billion in assets (median TDC of $602,000) and CEOs at companies with assets of $200 billion and greater ($7.7 billion).

FIGURE 4. NEO MEDIAN PAY LEVELS BY COMPONENT — BANKING INDUSTRY (2023)

	Asset Value					
	10th Percentile	25th Percentile	Median	Mean	75th Percentile	90th Percentile
	$1-$4.9 billion (n=87 , 289) — (Median Assets $3.14 billion)					
Base Salary	240	278	320	342	392	500
Annual Bonus	21	85	155	601	400	1,603
Full Value Shares	0	37	101	367	214	1,015
Stock Options	0	0	0	62	0	22
Long-Term Cash	0	0	0	2	0	0
Total LTI	0	46	111	431	261	1,484
Total Direct Compensation	361	439	602	1,375	1,112	3,418
	$5-14.9 billion (n=92 , 374) — (Median Assets $7.96 billion)					
Base Salary	272	325	376	391	453	533
Annual Bonus	69	128	214	368	356	655
Full Value Shares	51	115	225	527	400	974
Stock Options	0	0	0	11	0	37
Long-Term Cash	0	0	0	4	0	0
Total LTI	65	125	242	541	409	974
Total Direct Compensation	499	631	864	1,300	1,208	2,177
	$15-49.9 billion (n=58 , 244) — (Median Assets $23.81 billion)					
Base Salary	328	396	458	469	538	620
Annual Bonus	133	298	419	636	749	1,180
Full Value Shares	143	298	491	1,361	877	3,077
Stock Options	0	0	0	9	0	0
Long-Term Cash	0	0	0	1	0	0
Total LTI	162	301	501	1,371	890	3,077
Total Direct Compensation	749	1,027	1,453	2,476	2,385	4,920
	$50-199.9 billion (n=23 , 96) — (Median Assets $85.41 billion)					
Base Salary	450	513	600	616	700	820
Annual Bonus	401	595	902	1,383	1,673	2,664
Full Value Shares	324	668	1,038	2,280	2,250	3,854
Stock Options	0	0	0	43	0	117
Long-Term Cash	0	0	0	80	0	106
Total LTI	515	756	1,169	2,403	2,378	4,342
Total Direct Compensation	1,575	2,033	2,933	4,402	4,694	6,996
	$200 billion and over (n=18 , 77) — (Median Assets $556.26 billion)					
Base Salary	310	625	700	894	1,000	1,500
Annual Bonus	228	1,000	1,960	2,740	4,067	6,700
Full Value Shares	1,013	1,800	4,504	6,491	8,821	14,465
Stock Options	0	0	0	169	0	480
Long-Term Cash	0	0	0	47	0	33
Total LTI	1,264	2,250	4,665	6,708	8,821	14,465
Total Direct Compensation	2,555	4,290	7,690	10,342	16,482	21,672

Generally among the banking category, we see no discernable relationship between CEO bonuses and asset size, with some interesting exceptions: the smallest CEO bonus percentage appears in the largest asset size group of $20 billion and greater.

For NEOs, the bonus percentage for the smallest asset group of $1 billion to $4.9 billion (43.7%) rose to 165% of the bonus percentage for the largest asset size group of $20 billion and greater (26.5%).

Within the five asset value groups, the smallest asset group of $1 billion to $4.9 billion revealed a higher share of LTI to TDC for CEOs as compared to the next two asset groups. NEO results became more normalized, with the share of LTI to TCD increasing in lock-step with asset size.

See Figures 5 and 6 below.

FIGURE 5. CEO COMPENSATION MIX BY ASSET SIZE

	Assets				
	$1-$4.9B	$5-$14.9B	$15-$49.9B	$50-$199.9B	>$200B
Percent of TDC					
Base salary	17.63%	22.78%	16.93%	8.78%	6.64%
Annual bonus	26.79%	29.02%	29.67%	28.35%	23.29%
Total LTI	55.58%	48.19%	53.40%	62.87%	70.07%
Percent of Salary					
Bonus (% of Salary)	60.00%	85.00%	136.00%	190.00%	263.50%
Total LTI (% of Salary)	53.00%	99.50%	197.00%	400.00%	750.50%

FIGURE 6. NEO COMPENSATION MIX BY ASSET SIZE

	Assets				
	$1-$4.9B	$5-$14.9B	$15-$49.9B	$50-$199.9B	>$200B
Percent of TDC					
Base salary	24.91%	30.08%	18.95%	13.99%	8.65%
Annual bonus	43.71%	28.31%	25.68%	31.43%	26.49%
Total LTI	31.38%	41.61%	55.38%	54.58%	64.86%
Percent of Salary					
Bonus (% of Salary)	175.50%	94.11%	135.54%	224.61%	306.36%
Total LTI (% of Salary)	126.00%	138.30%	292.29%	390.08%	750.10%

A review of the 2022 vs. 2021 increase in CEO compensation affirms that the smallest asset size group showed the highest CEO compensation growth. Led by the $1 billion to $4.9 billion asset group with a 15.0% increase, the two smallest size categories saw double-digit increases from 2021 to 2022. The middle grouping of assets between $15 billion and $49.9 billion remained flat (0.0%), while the two largest asset groups saw single-digit increases. The compound annual growth rate (CAGR) for CEOs from 2018 to 2022 landed between 8.2% for the smallest group with assets between $1 billion and $4.9 billion and 15.2% for the second largest group with assets between $50 billion and $199.9 billion.

By contrast, the smallest asset size group delivered the lowest NEO compensation growth from 2021 to 2022, at 5.8% for the $1 billion to $4.9 billion asset group. However, the three largest asset groupings showed double-digit NEO increases year-over-year. The CAGR from 2018 to 2022 came in at 5.3% for the smallest asset grouping and hovered around 10% for all other asset groupings.

FIGURE 7. CEO TOTAL DIRECT COMPENSATION INCREASES

Asset Value	CEO Role Median Data					CEO Role Change	
	2022	2021	2020	2019	2018	Increase over 2021	CAGR (2018–2022)
$1–$4.9B	1,370	1,191	1,161	990	1,000	15.0%	8.2%
$5–$14.9B	2,217	1,950	1,590	1,559	1,344	13.7%	13.3%
$15–$49.9B	4,314	4,315	3,003	3,359	2,931	0.0%	10.1%
$50–$199.9B	8,479	8,360	5,745	5,617	4,819	1.4%	15.2%
>$200B	18,567	17,000	12,441	11,941	11,024	9.2%	13.9%

FIGURE 8. NEO TOTAL DIRECT COMPENSATION INCREASES

Asset Value	NEO Median					NEO Change	
	2022	2021	2020	2019	2018	Change 2022 over 2021	CAGR (2018–2022)
$1-$4.9B	602	569	504	502	489	5.8%	5.3%
$5-$14.9B	864	802	662	644	590	7.7%	10.0%
$15-$49.9B	1,453	1,259	1,087	1,058	995	15.4%	9.9%
$50-$199.9B	2,933	2,540	1,772	1,943	2,010	15.5%	9.9%
>$200B	7,690	6,866	5,136	5,294	5,299	12.0%	9.8%

Looking Ahead — Incentive Plan Focus On ESG Metrics May Increase

Banks must strike a balance between attracting and retaining top talent while addressing stakeholder concerns, ensuring transparency, and aligning compensation practices with long-term value creation and sustainable growth. Banks will need to promote accountability, maintain public trust, and contribute to the overall success and stability of the industry.

The rescue of some and the outright failure of several significant banks in 2023 may lead to increased scrutiny and involvement from federal regulators in an attempt both to reassure depositors and prevent similar future failures. This scrutiny is likely to cause changes in the regulatory environment in 2024. Further, it could see banks investing more heavily into risk management to include embedding risk management principles into executive pay and vesting greater oversight into the Boards of Directors and subsequent committees. Ensuring effective alignment of compensation with prudent risk-taking in support of sound compensation practices will be paramount.

Each week brings new and potentially conflicting signals about the economy. The banking industry will continue to face uncertainty surrounding interest rates, consumer spending habits, inflation, competition for deposits, unrealized losses in bond portfolios, worsening credit conditions, and the overall regulatory environment. Financial performance and incentive plan results will be heavily impacted by interest rates, mortgage origination activity, the economy's impact on loan quality and interest rate spreads, market volatility, and competition for deposits.

Such market turmoil may drive a focus on environmental, social, and governance (ESG) goals as key to the sustainability of the banking enterprise. Other issues that drew the focus for employees, institutional investors, and the public, such as diversity, equity, and inclusion, may become of secondary concern. This trend of shifting the focus to ESG is consistent with other industries.

While larger banks may continue to lead the push for ESG metric incorporation in incentive plans, we may see greater hesitance from small and medium banks as uncertainties abound regarding this hot-button issue.

Navigating Increasing Compensation Complexity

Each bank's financial performance is impacted differently based on asset size, product mix, sector mix/concentration, growth strategy, and loan portfolio. As 2024 progresses, all banks must strike a balance between aligning pay with financial results and shareholder returns. Finding such a balance may be challenging in the current environment of moderate to flat growth and profitability and double-digit decreases in stock price performance.

New Security and Exchange Commission requirements, such as a mandatory clawback provision and pay vs. performance table, illustrate the increased scrutiny of executive pay. Moreover, proxy advisors continue to increase their reach and influence over publicly traded companies, as well as private and pre-IPO companies that want to maintain investor integrity. For example, proxy advisors analyze corporate financial performance to identify poor performers, which influences their voting advisory report. Companies will want to avoid a negative proxy advisor report because it provides substance to active investors seeking seats on the board in order to change a company's leadership team and strategic direction.

Continued economic uncertainty and heightened regulations will continue to exacerbate business challenges and public scrutiny. To discuss your organization's specific needs and questions, contact Gallagher's Executive Compensation team, ajg.com/exec-comp.

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