KPMG

Remuneration Levels and Practices in the Nigerian Banking Industry

Background

For close to a decade, KPMG has supported the People Agenda of the Nigerian Banking Industry via its annual Banking Industry Remuneration Survey (BIRS). The survey provides market intelligence and insights for banks to develop performance-driven and cost-effective rewards strategies to facilitate strategy execution. The BIRS was KPMG's response to the call of three (3) banks in 2010 for a reliable and robust industry-wide data for taking informed pay decisions. Today, most banks leverage the BIRS in developing people strategies to drive achievement of corporate objectives.

Based on current trend, the challenge of optimising returns on investment, amidst rapidly changing consumer taste and behaviour, stiffer competition from disruptors, as well as keeping up with technological changes, has become heightened. Technology is not only changing the approach to service delivery, but banks are also fast realising the need to relook their strategies for attracting, retaining and motivating top talent, especially IT/Technology talent, who are now critical to driving their transformation agenda.

In addition to the banking sector, KPMG focuses on supporting other sectors such as: Consumer Markets, Insurance, Investment Banking & Asset Management, Legal Services, Oil and Gas, Pension, and Fintech with valuable market insights, through our various industry remuneration surveys that facilitate informed pay decisions.

This publication provides key highlights of the KPMG 2018 BIRS. The objectives of the survey are to:

- Assist banks determine market competitiveness of their pay
- Provide robust information on key HR / Reward policies and practices
- Create a platform for participants to collaborate, on a regular basis, to share information, while maintaining professionalism and confidentiality
- Provide reliable and robust information to take informed pay decisions
- Contribute to the development of sound reward practices in the banking sector

Profile of Survey Participants

- Eighteen (18) banks
- Staff strength of 132 to 6,728 employees
- Turnover of between ₦5 billion and ₦480 billion.
- Grade-by-grade benchmarking (Graduate Entry to Executive Management)
- One hundred and four (104) Job Positions analysed

Survey Methodology

Source of Data: We utilised annual payroll of incumbents and, in line with global standards, ensured the age of data was at least three (3) months old.

Valuation of Benefits: We adopted current market value of benefits or spending limits, amortising over the replacement period, as applicable. For Pension & Gratuity, we considered the annual employer contribution and benefit accrual, respectively.

Job Matching: We adopted the Whole-Job Classification Methodology in determining equivalent job positions/grades across the banks, based on job content and compensable factors, rather than title. The job matching results formed the basis of benchmarking compensation across staff levels.

Pay Elements Covered: In line with our Total Remuneration (TR) approach to surveys, we considered all pay elements and their mix, as shown below:

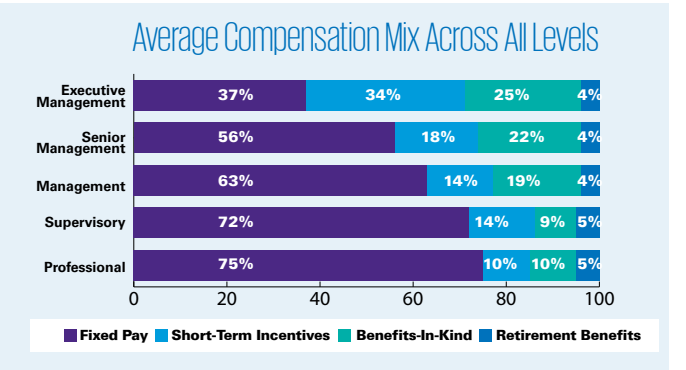| Remuneration Elements Covered	
Fixed/Guaranteed Cash Pay	Short Term Incentives (STI)
Non-discretionary/guaranteed compensation e.g. basic salary & cash allowances (13th month, leave allowance, housing, etc)	Pay-at-risk which changes directly with the level of performance or results achieved e.g. profit-sharing, bonuses & equity-based incentive schemes
Benefits-in-Kind (BIK)	Retirement Benefits
Non-monetary programmes such as status car, medical, mortgage subsidy and lunch, provided to supplement cash compensation	Income protection programs to provide post-employment benefits. Examples include pension and gratuity schemes
Total Cash Compensation (TCC)	Total Cost of Employment (TCE)
This comprises Fixed Pay and Short Term Incentives (STI)	This comprises TCC, BIK, STI and Retirement Benefits
Guaranteed Total Cost of Employment (GTCE)	
This comprises TCE less payout from STI i.e. comprises Fixed Pay, BIK and Retirement Benefits	

Summary of Survey Findings

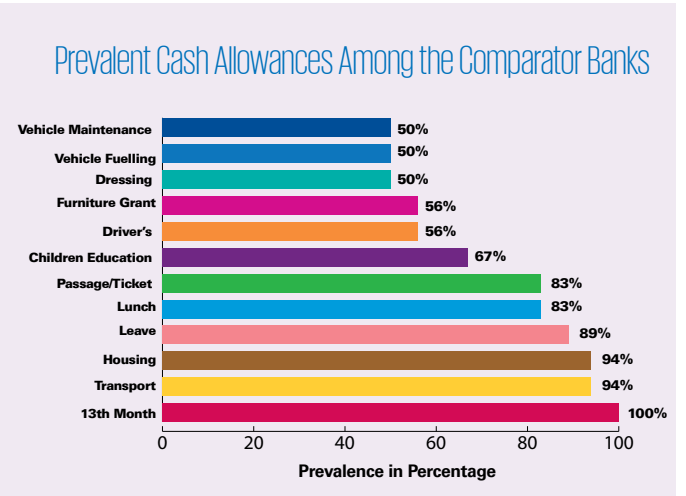The percentile ranges for Fixed Pay and TCE are presented below:

FIXED PAY RANGES (₦ 'million)			
Employee Staff Category	PERCENTILES		
	10th	50th (Market Median)	90th
Executive Management	53	83	122
Senior Management	24	34	49
Management	13	18	25
Supervisory	7	10	13
Professional Staff	3	5	7

TOTAL COST OF EMPLOYMENT (TCE) RANGES (₦ 'million)			
Employee Staff Category	PERCENTILES		
	10th	50th (Market Median)	90th
Executive Management	99	174	296
Senior Management	35	55	79
Management	19	25	38
Supervisory	8	13	19
Professional Staff	3	6	9

Market Movement: The average salary review in 2018 was 12% of Fixed Pay, compared to 6% in 2017. The projection for 2019 is 10%.

Remuneration Mix: As shown in the chart below, Fixed Pay comprises the largest portion of pay across levels. STI is higher at more senior levels, but generally low, when compared to leading edge practices that require STI to be about 100% of Fixed Pay at Executive levels.

Average Compensation Mix Across All Levels

	Fixed Pay	Short-Term Incentives	Benefits-In-Kind	Retirement Benefits
Executive Management	37%	34%	25%	4%
Senior Management	56%	18%	22%	4%
Management	63%	14%	19%	4%
Supervisory	72%	14%	9%	5%
Professional	75%	10%	10%	5%

Fixed Pay: The prevalent cash allowances are presented below:

Prevalent Cash Allowances Among the Comparator Banks

Allowance	Prevalence in Percentage
Vehicle Maintenance	50%
Vehicle Fuelling	50%
Dressing	50%
Furniture Grant	56%
Driver's	56%
Children Education	67%
Passage/Ticket	83%
Lunch	83%
Leave	89%
Housing	94%
Transport	94%
13th Month	100%

The number of cash allowances a company provides no longer offers any major tax advantage to employees, given the 2011 amendments to the Personal Income Tax Act, Cap P8, Laws of the Federation of Nigeria, 2004. Based on the amendments, most of the hitherto numerous reliefs available under the old law have been rolled into a single consolidated relief computed as a percentage of the employee's total income.

Short Term Incentives (STI): Majority (83%) of the comparator banks operate STI. However, only 72% made payout in respect of 2017 financial year, with payout ranging from 1% to 620% of Fixed Pay across employee grade levels.

Benefits-in-Kind: The prevalent BIK items per employee category are shown below:

Prevalent BIK in the industry	Staff Categories				
	Executives	Senior Management	Management	Supervisory	Professional
Medical	✓	✓	✓	✓	✓
Professional Membership	✓	✓	✓	✓	✓
Loan Interest Subsidy	✓	✓	✓	✓	✓
Club Membership	✓	✓	✓	✓	
Status Cars	✓	✓	✓		
Vehicle Insurance	✓	✓	✓		
Vehicle Maintenance	✓	✓			
Drivers	✓				
Vehicle Fueling	✓				
Generator Set (including Fueling & Maintenance)	✓				
Mobile Phone	✓				

Retirement Benefits: All the comparator banks operate pension schemes, in line with the requirements of the Pension Reform Act, 2014. In addition to pension, only 2 of the 18 comparator banks still operate gratuity schemes. Generally, companies are winding down or restructuring their gratuity schemes due to the escalating costs.

Pay Trends:

- **Emphasis on Pay-for-Performance:** More banks are leveraging merit pay systems to drive a high-performance culture. 67% of the comparator banks now leverage pay band systems to achieve this, compared to 50% in 2017. Also, the banks are focusing more on incentive pay to drive alignment of interest.

- **Focus on Role Criticality:** As part of their role-specific retention strategy, some banks are tilting towards tailored remuneration practices for critical roles such as information technology and treasury. .

- **Leveraging Long Term Incentives:** The use of equity-based long term incentives at Senior and Executive Management levels, to drive long term value creation.

- **Severance and Clawback Policies:** Given past events in the Industry, banks need to articulate severance pay policies to mitigate potential legal tussles. Also, clawback policies help organisations recoup underserved incentive pay as a result of financial misstatements and other misconduct.

Conclusion

Rewards remains a key tool for organisations to attract, motivate and retain talent. In light of this, KPMG supports companies in articulating winning Rewards Strategies through its annual Industry Remuneration Surveys. For the BIRS, the support we have provided is engendering critical changes to banks' approach to leveraging remuneration for driving strategy execution.

We also provide open and in-plant tax, rewards and immigration training services. Some of our upcoming programmes are as follows:

Training Programmes	Date	Training Programmes	Date
Pay-for-Performance: Strategies for Driving Employee Engagement	5 - 6 Mar 2019 3 - 4 Oct 2019	Leveraging Employee Recognition Program for Business Performance	14 May 2019
Designing Reward Strategies that Drive Business Objectives	12 Mar 2019 14 Aug 2019	Optimising Value for Compensation Survey	11 Jun 2019 6 Aug 2019
Understanding Executive Remuneration	19 Mar 2019 9 July 2019	Managing Total Rewards for Value Creation	2 - 3 July 2019
Fundamentals of Base Pay Structure Design	7 May 2019	Implication of IFRS Adoption for HR & Rewards Practitioners	16 Jul 2019
Managing Expatriate and Immigration Issues	9 May 2019 7 Nov 2019	Analytical Skills for HR and Rewards Practitioners	8 Oct 2019

www.home.kpmg/ng
kpmg.com/socialmedia