VOLUME 2

PERFORMANCE PAYS

REMUNERATION FRAMEWORK OUTLINE AND WORKED EXAMPLES

PRICEWATERHOUSECOOPERS

FIDE

> "We learn by example and by direct experience because there are real limits to the adequacy of verbal instruction."

Malcolm Gladwell, author

Definitions

Designations

CEO	Chief Executive Officer
Ch	Chairman
ED	Executive Director
MD	Managing Director
NED	Non-Executive Director
NEDI	Independent Non-Executive Director
NEDNI	Non-Independent Non-Executive Director

Statistical definitions

Lower Quartile (LQ)	Indicates the point at which a quarter of the sample is less than the LQ value
Median	Indicates the point at which half the sample is below, and half above the median value
Upper Quartile (UQ)	Indicates the point at which three-quarters of the sample is less than the UQ value

Country abbreviations

AU	Australia
HK	Hong Kong
IN	India
MY	Malaysia
SG	Singapore
TH	Thailand
UK	United Kingdom
US	United States of America

Others

AGM	Annual General Meeting
Audit Com	Audit Committee
BAFIA	Banking and Financial Institutions Act
BIK	Benefits-in-kind
BNM	Bank Negara Malaysia
Bursa	Bursa Malaysia
CG	Corporate governance
DFI	Direct Foreign Investment
FI	Financial institution
GLC	Government-linked company
GLIC	Government-linked investment company
HC	Human Capital
KPI	Key Performance Indicator
LBG	Local banking groups (covers Affin, Alliance, Ambank, CIMB, EON, Hong Leong, Maybank, Public and RHB)
M&A	Mergers and acquisitions
Nom Com	Nomination Committee
Other banks	All other banks which are not part of LBG
p.a.	Per annum
PCG	Putrajaya Committee on GLC High Performance
PLC	Public-listed company
Rem Com	Remuneration Committee
Risk Com	Risk Committee
RM	Ringgit Malaysia
The Code	Malaysian Code on Corporate Governance

In this document, Directors refers to Non-Executive Directors unless explicitly otherwise noted.

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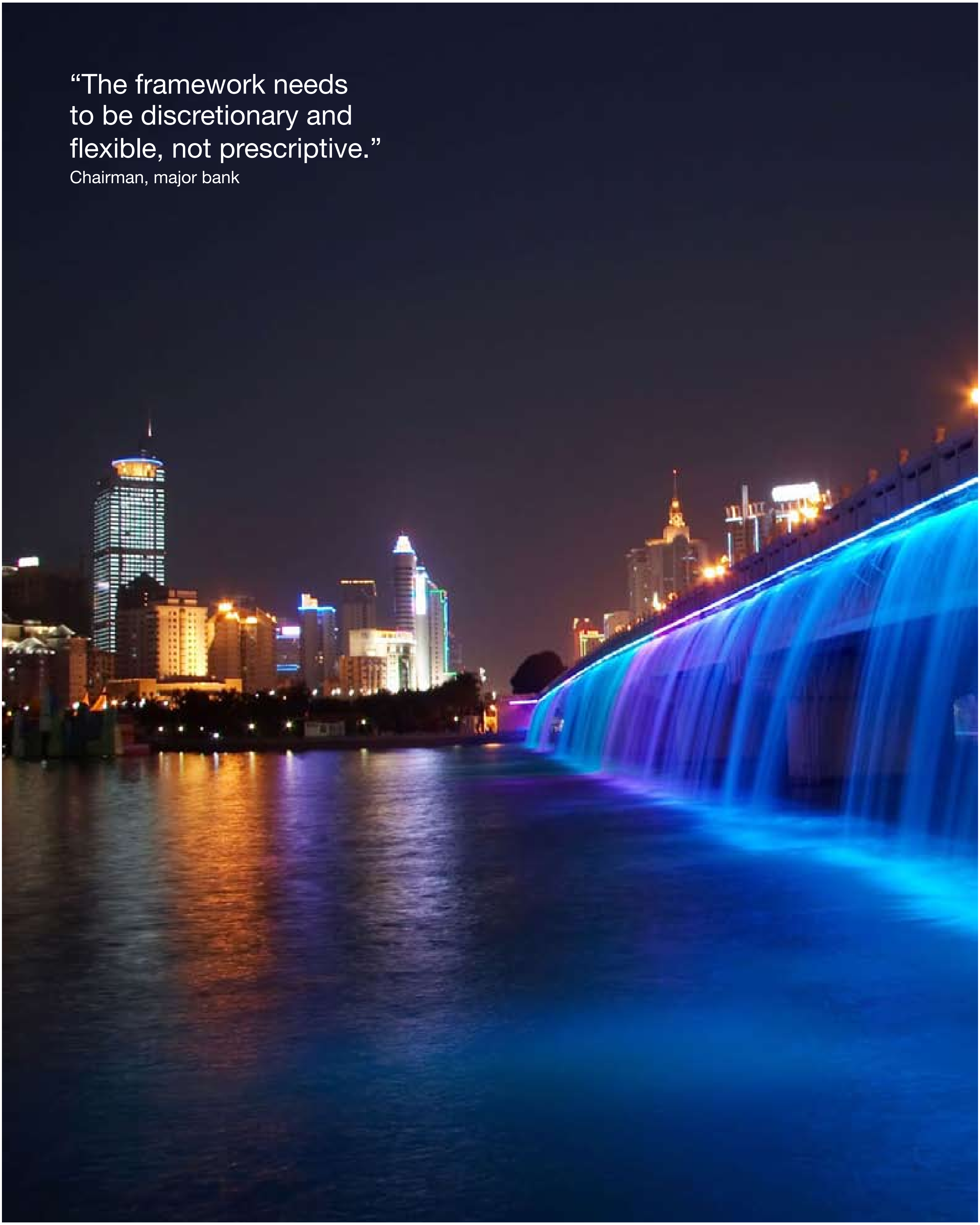


"The framework needs to be discretionary and flexible, not prescriptive."

Chairman, major bank

OVERVIEW OF FRAMEWORK

The remuneration of Directors is directly linked to expectations of their role and performance. While remuneration is not the key motivation for Directors, it does need to fairly reflect responsibility and contribution and address the concerns of existing and future Directors. These include considering opportunity cost and not just market practice, differentiating more significantly individual responsibilities (especially Committee and subsidiary memberships), extending the range of remuneration mechanisms used and consideration of Director time commitment across individual and group scenarios.

Objective of remuneration

The fundamental objective of remuneration is to reflect the ongoing responsibility of Directors as well as to ensure that different contribution levels (in terms of work, effort and time) are considered. Hence, the complexity and intensity of roles need to form the basis for the setting of remuneration. The different roles include the Chairman of the Board, and Committee Chairman and members, and need to be suitably reflected on an individual basis. This achieves the objective of differentiating the contribution of work, effort and time between Directors. At the same time, the levels and different remuneration mechanisms need to manage potential conflicts of interest.

In order for Board performance to improve, it is not enough for remuneration to change; but all Directors also need to be involved in the 4-step framework and understand the rationale behind the change.

Guiding principles for the framework

The traditional approach to setting remuneration levels for Directors has primarily been driven by an analysis of market practice. Remuneration Committees usually obtain a copy of the latest remuneration survey, after which they will assess among themselves the possible market position that they feel “makes sense” and proceed to put this through. Sometimes an external consultant is commissioned to validate the desired levels, usually against market practice.

While this approach ensures parity with market practice, it usually ignores the individual situation of the Board – such as risk and responsibility undertaken, skill and expertise required and time to commit. It also ignores additional work or work out of the ordinary such as during mergers and acquisition (M&A) and business transformations. In addition, it ignores the opportunity cost for the Directors who are spending their time on the Board.

We propose a 4-step framework to setting remuneration to address the shortcomings of the current practice and to put in place the enablers of Board performance.

The 4-step framework is described to a practical level of detail to enable institutions to apply the framework and derive the remuneration levels and structures for themselves.

Framework principles

The development of this framework is guided by the following set of principles to ensure the framework is fair and comprehensive:

1. Remuneration levels should be described in relation to skill/experience requirements and expected time commitment
2. Remuneration levels must be considered from both the perspectives of market practice as well as opportunity cost
3. Remuneration structures must utilise the full range of mechanisms as deemed suitable to fit the situation the FI is in
4. Remuneration structures must be validated against group as well as individual experience under various scenarios

Summary of the 4-step framework

1 Assess context to determine Board mix and time requirements	2 Set remuneration level	3 Determine remuneration structure	4 Validate remuneration
• Assess FI and Board context (e.g. position, strategy, challenges and plans) • Assess Board talent requirements, including skills and expertise and Board mix, based on context • Where skill requirements can be addressed by training, identify suitable training programmes to upskill talent • Estimate and determine time commitment required, as well as changes and improvements to Board practices, to optimise time commitment	• Assess current levels of fees for Board membership at holding company and in subsidiaries • Conduct opportunity cost analysis and peer group analysis to benchmark fees • Assess current levels of fees for Board membership and contributions in Committees • Set target total fees for each individual Director and Chairman	• Review remuneration structure objectives to achieve and remuneration tools to consider • Select and configure appropriate remuneration tools accordingly to achieve desired objectives	• Aggregate time commitments and fees earned for each Director at Board, Committee and subsidiary levels • Review reasonableness of aggregate time commitments and fees • Make adjustments to memberships in Boards, Committees and subsidiaries

In addition to the step by step description of the framework, a worked example is also in this volume to illustrate its application.

“A minimum criteria for NEDs of an FI needs to be defined. Our Board just approved four criteria for getting Directors.”

Chairman, major Islamic bank

STEP 1

ASSESS CONTEXT TO DETERMINE SKILL AND TIME REQUIREMENTS

1

This step of the framework provides the context on which the remuneration levels can be determined. Boards will need to assess their role moving forward and highlight the composition of the Board required to deliver on this role. The skill and time requirements derived from this assessment will be used to determine reasonable per day rates for the skill and expertise required.

Assess skill requirements based on strategic direction, challenges and targets

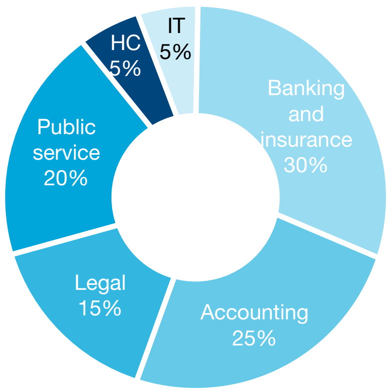
The main considerations for the FI will include:

- the strategic direction (regional expansion, domestic consolidation)
- the challenges (external issues like competition, internal issues like talent management)
- the targets (stretched in comparison to pervious year or peer group, or not)

The composition of the Board needs to be assessed in terms of its suitability in managing these responsibilities. If gaps are identified, then the additional consideration of attracting the right individuals to fill in those gaps arises. The current composition of Boards and the additional skills required are discussed next.

Current skills and expertise on Boards

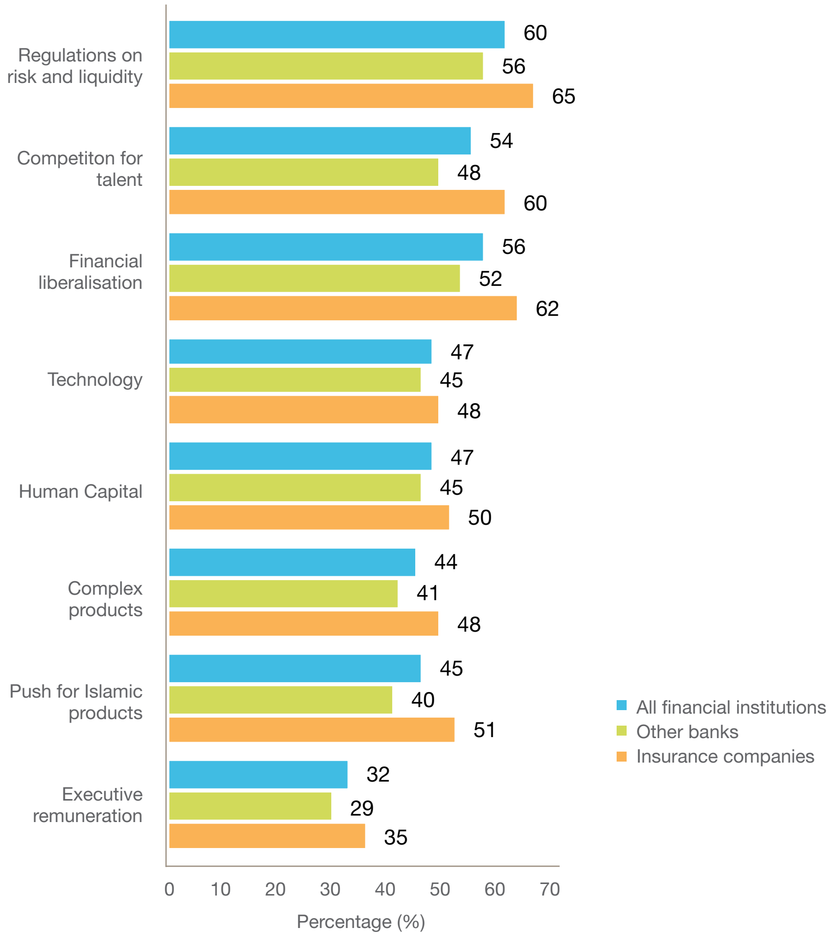
A snapshot of the current composition of Boards and the mix of professionals is set out in the chart below. Interestingly, banking and insurance skills and expertise are significant but do not dominate. A large proportion is derived from the public service. HC and IT professionals are increasingly found. Going forward, this mix will change depending on the strategic direction, issues and challenges facing the FI.



Main challenges and trends are liberalisation, risk and regulations

- From our discussions with Directors, it is clear that the main challenges revolve around liberalisation and regulations in terms of the industry moving forward
- In addition, the LBG and insurance Directors highlighted that they are concerned with how management is dealing with talent issues
- Boards will need to assess if the issues need to be addressed with new Board members or an upskilling of existing Board members is required

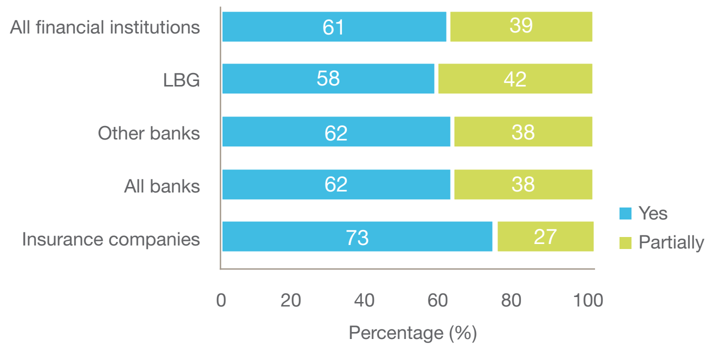
Challenges and trends facing Boards



A substantial number of Boards will be making changes in response to the challenges of increasing competition from liberalisation, risk and regulations

- While approximately 60% of Directors felt that they are prepared to face expected changing trends and challenges, nearly 40% felt that their Boards are only partially ready

Readiness of Boards to face trends and challenges



In order to be better prepared for these challenges, Boards are looking for more skills and expertise in risk management and strategic planning

- Risk management and strategic planning expertise (at 73% and 63% respectively) were the most critically needed skills identified
- The need for strategic planning expertise was also expressed by many Chairmen who cited effective monitoring of the CEO’s implementation and achievement of the organisational strategy, as one of the major challenges of the Board

A significant number of institutions are also looking for Directors with more regional and international experience

- Many of the FIs also felt the need for more Directors with regional/ international experience (ranging from 44% of insurance companies to 55% of LBG)
- Some FIs already have at least one to two foreign Directors, and experience working in Hong Kong, Singapore and Europe being the most commonly found

Board composition by international expertise

International expertise	Respondents (%)		
	LBG	Other banks	Insurance companies
Hong Kong	16%	14%	8%
Singapore	12%	19%	16%
Europe	8%	10%	10%
Canada	7%	9%	6%
India	5%	11%	7%
Thailand	1%	8%	7%

As Boards apply Step 1 of the framework, they will need to take a closer look at the skills and talents required

Besides the identified industry-wide trends and challenges, each institution will also have its own specific issues. They need to assess their skill and talent requirements and gaps. Some examples of factors and skills to consider are provided below.

Potential skills and talent requirements

Factors	Potential skills and talent required
FIs undergoing corporate transformation and implementing high performance culture	Accomplished former CEOs and Managing Directors with general management and strategy execution expertise, and professional consultants with deep experience in strategy, turn-around strategy, HC and IT
FIs undertaking expansion into international and regional markets	Bankers, lawyers and accountants with international and regional experience, including foreign Directors
FIs investing heavily in innovation and new product development	Bankers with expert knowledge in specialist products
Increasing risk and regulation	Former regulators and expert professionals in risk management
Increasing competitiveness	Professionals experienced in cutting costs and “turning around” operations

Boards need to consider these factors against the expected duration of the event. If the factor is a short-term one (e.g. an acquisition), Boards need only set up an ad-hoc Committee instead of adding Board members.

Boards should assess whether skill and talent gaps require different Directors or can be addressed by training

Not all gaps need to be filled by appointing more Directors or talent. Boards should also consider the option or possibility of upskilling their Directors. This is a cost effective and practical approach to maintaining the performance levels of the Board, especially for areas such as:

- knowledge of regulatory and compliance requirements
- industry, market and product knowledge
- understanding and awareness of strategy and execution

Next steps

The skill requirements derived from this assessment will be used as input to determine reasonable per day rates for the skill and expertise required in Step 2. Before proceeding to Step 2, Boards will still need to assess their time requirements.

In addition to setting remuneration, Boards will have to take action to close skill gaps indentified.

Determine time commitment based on Board agenda, practices and mode of engagement

Along with skills and expertise, time commitment is one of the critical considerations of remuneration as it is used to measure the contribution of a Director. Time commitment will be used in Step 2 to calculate fee levels so that fees are commensurate with contribution. The time commitment is also used to estimate the effective fee per day for a Director and compare it to what the Director could earn elsewhere ("opportunity cost"), so that it can be worked out whether it is "worth his while".

The inputs into the targeted time commitment of Directors will, at this stage, include the Board agenda, practices and mode of engagement with management. The more engaged and "hands on" the Board is, the more time will be required. There are certain steps the Board can take to derive the expected Board commitment as set out in the following guide.

Guide to derive expected Board commitment

Recommended steps Boards can use to determine expected time commitment and identify improvements in Board practices:

- Plan agenda* for the year upfront for the Board and Committees, including number of meetings required, based on the issues to be dealt with
- Assess current Board practices, mode of engagement with management, and current time commitment requirements
- Estimate time commitment required of the Board and Committee members, based on number of meetings, duration and time required for preparation and attendance. Time commitment should be estimated based on current Board practices and mode of engagement with management
- Identify opportunities for improvement in Board practices and mode of engagement, and recalculate estimated time commitment requirements

* In addition, inclusion of last minute agenda items should be discouraged and additional agenda items should be agreed to, at least one week ahead

FI Directors are spending significant amounts of time on Board commitments

- FI Directors spend 60 days p.a. on average preparing and attending meetings
- This average time commitment is nearly double the recommended practice set out in the 2009 UK review of Corporate Governance in UK banks and other financial industry entities
- In addition, a significant proportion spends more than 110 days preparing and attending meetings (LBG: 44%, other banks: 13%, insurance companies: 16%)

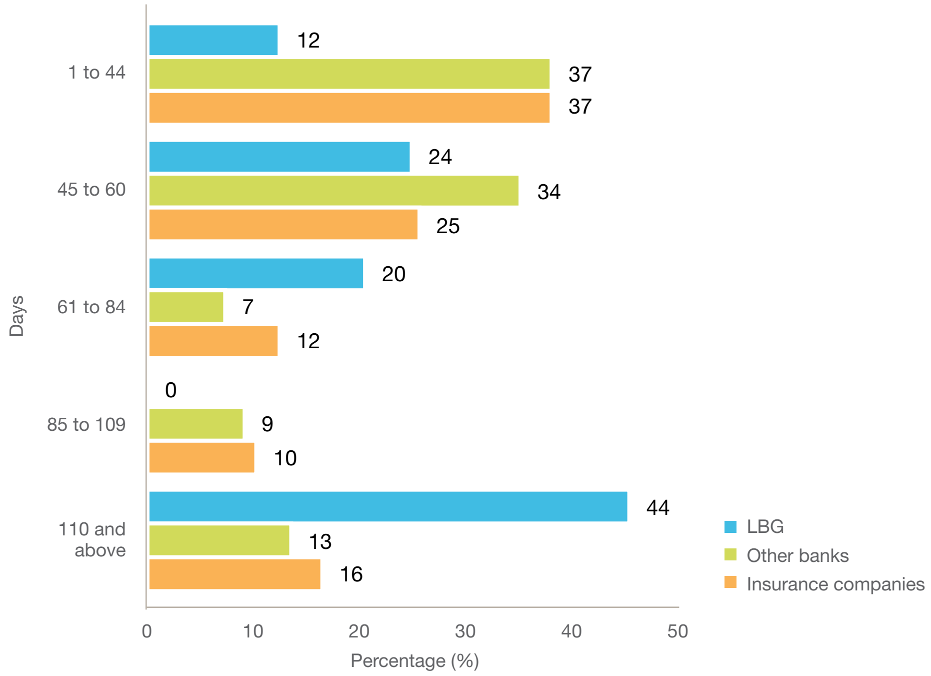
The significant time commitment suggests that many FIs need to review and improve their Board practices

- A time commitment of 110 days p.a. is a heavy commitment and represents almost half of the available working time in a calendar year after considering holidays

No. of days in a year	365
Less	
Weekends	104
Public holidays	17
Annual leave	20
Working days in a year	224
Potential time commitment (in days)	110
Potential time commitment as a proportion of working days in a year	49%

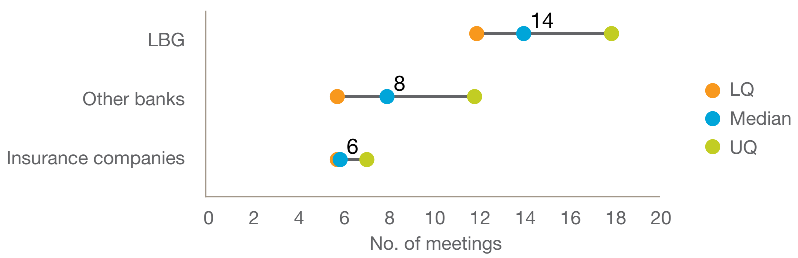
- We believe that FIs will need to make improvements to their Board practices to optimise efficiency and effectiveness while ensuring that Board and Committee objectives are still met. They should also explore how to identify the right management teams which they can empower and monitor appropriately

Summary analysis of time spent preparing for and attending meetings



Summary analysis of Board meetings held in last financial year

No. of meetings	Board		
	LBG	Other banks	Insurance companies
UQ	18	12	7
Median	14	8	6
LQ	12	6	6
Average	15	9	7



Putting it all together

The skill and expected time commitment of a typical Director are critical considerations in assessing the adequacy of remuneration. The remuneration needs to be commensurate with the skill and expertise of the Director (based on per day rates and what the Director could earn per day elsewhere) and with the Director's contribution to the Board as measured by time (based on the number of days the Director commits to the Board).

If the time commitment on an actual basis exceeds the time estimate, then the per day rates of Directors are affected (since the total fee has already been set) and it is up to the Board and its Directors to question why and arrive at a conclusion as to its sustainability.

The monitoring of time commitment can be easily tracked by the company secretary and incorporated into the regular reviews of the remuneration framework. The regular reviews are discussed at greater length at the end of Step 4.

"Top talent will demand top dollar. As financial institutions seek to constitute their Boards with the best and brightest, market levels will be forced to increase."

Human Resource Advisory Leader,
PricewaterhouseCoopers Advisory Services

"There's no reason why Director fees can't go down as well as up."

Member, FIDE Steering Committee

STEP 2

SET REMUNERATION LEVEL

Based on the context defined in Step 1 as well as the likely skill and time requirements of Directors, the target remuneration levels can be set. The current practice has been to compare remuneration levels to peer groups and market levels. However, as illustrated in the Case for Change chapter in Volume 1, this has resulted in levels which do not take into consideration levels of risk and responsibility, expertise or contribution.

Director fees should be set using opportunity cost, in addition to peer groups and market benchmark

- FIs need to set remuneration levels relative to "opportunity cost" or the amount of money a professional of similar calibre could earn elsewhere on a per day rate basis
- By considering the expected time commitment required from Directors (Step 1), the target level can now be analysed in terms of its resulting day rate. Day rates provide a basis to compare between Boards with different workloads and complexity, as fees are normalised
- In addition, the skill requirements in the form of additional Directors can now be considered from a practical perspective. For example, if a professional is considering whether to accept an appointment or not, the incumbent can compare the expected time commitment against the expected fee and work out if the opportunity cost is acceptable. The same argument can be extended to businessmen or other corporate figures who will have a choice of how they can spend their time. Directors' opinion on what is considered fair remuneration should also be taken into consideration

Current market practice is based on peer groups and market practice

- In Malaysia, we found that there was no significant correlation of remuneration levels across asset size
- However, we found correlation based on type of institution. Banks in LBG pay higher across the range than other banks and insurance companies. At the median, LBG Directors are paid double their counterparts in other banks, who in turn are paid 60% more than their insurance counterparts (note that these figures refer to singular entity practice and are not aggregated across groups)
- In addition, within the banks, there were also some differences in levels based on the type of bank. For example, commercial bank Directors are paid three times more than their DFI counterparts at the median. There was no significant difference in pay patterns in practice for the insurance companies from an asset size or type perspective

Comparing to peer groups and market practice to find out whether pay is competitive relative to "what others are paying"

- As a first step, comparison to peer group and market practice is useful as it provides a snapshot of what FIs are currently paying and an initial indication of the fees to be examined. This will ensure the external equity part of the equation, i.e. matching what other Directors are getting
- Selection of the appropriate peer group is therefore the first step in matching to market practice. This is followed by choosing an appropriate market position. This means that the Board will need to choose the positioning relative to its selected peer group that it feels fairly reflects the FI's situation. This is where the output from Step 1 will come into use

Summary of fee levels by type of FI

	Total fees (RM p.a.)					
	LBG		Other banks		Insurance companies	
	Ch	NED	Ch	NED	Ch	NED
UQ	196,000	118,000	99,500	70,000	61,200	51,000
Median	129,000	99,500	72,000	50,000	34,500	29,500
LQ	119,000	72,000	31,496	13,000	14,724	14,000
Average	168,889	108,389	107,083	45,491	43,064	34,985

Fee levels by type of FI

	RM p.a.							
	Commercial		Investment		Islamic		DFI	
	Ch	NED	Ch	NED	Ch	NED	Ch	NED
UQ	133,500	94,625	96,500	68,750	99,500	69,500	84,000	24,000
Median	80,000	69,500	69,000	51,000	76,000	28,000	76,000	24,000
LQ	35,500	25,750	31,496	23,128	48,000	18,000	72,000	23,000
Average	101,280	64,772	74,730	47,334	80,923	40,880	87,000	22,200

After taking into consideration time commitment, complexity of work, risk and responsibility, remuneration is not so competitive

- Fees vary widely by type of institution. However, when time spent by different Directors in different FIs are factored in, the gap between the different groups shrinks
- This is because even though the fees for LBG Directors are higher than others, they also meet more often. Hence, the differential no longer appears. In fact, on a per day basis, LBG Directors are paid even less than their counterparts
- On the basis that the larger or more complex the FI is, the responsibility and exposure to risk increases, this is currently not being fairly reflected in the fees

	Time spent p.a./RM per day					
	LBG		Other banks		Insurance companies	
	Time	NED	Time	NED	Time	NED
UQ	36	3,833	24	5,000	14	3,786
Median	28	3,000	16	3,500	12	2,650
LQ	24	2,893	12	1,252	12	875
Average	30	3,622	18	3,375	14	3,035

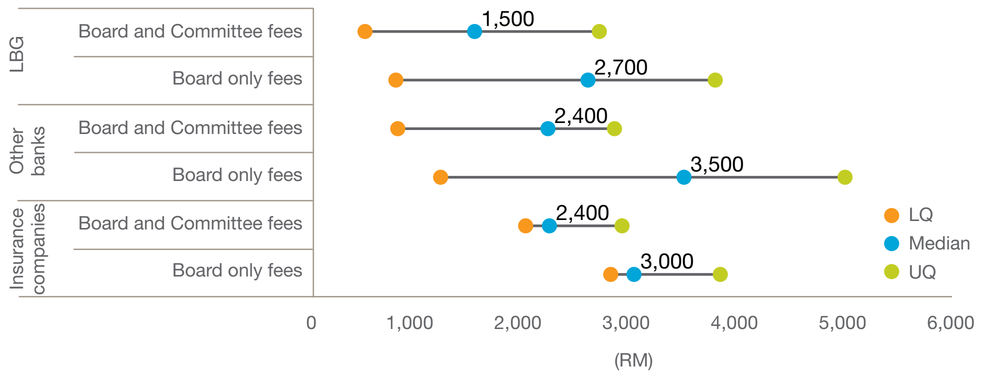
Furthermore, fees become disproportionate to role, responsibility and contribution when Committee work is factored in

- When Committee work is factored in, time commitment can increase by as much as double, but total fees increase by 10 to 20%, and per day rates drop by 30 to 40%

Comparison of per day rates

Fees per day compared between 'Board only' work and 'Board and Committee' work, assuming membership on two Committees.

	LBG		Other banks		Insurance companies	
	Board and Committee fees	Board only fees	Board and Committee fees	Board only fees	Board and Committee fees	Board only fees
UQ	2,800	3,800	2,800	5,000	2,900	3,800
Median	1,500	2,700	2,400	3,500	2,400	3,000
LQ	500	800	800	1,200	2,000	2,800



To address these shortcomings, remuneration needs to be set on a per day basis and using opportunity cost

- Remuneration needs to be set as a product of the fee per day and number of days needed (i.e. time commitment)

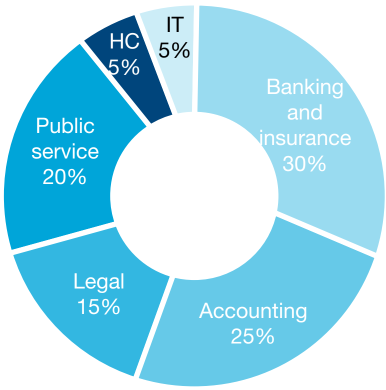
Fee per day	x	Time required	=	Total remuneration
Input: • Opportunity cost of existing and desired Directors • Market practice of FI industry • Market practice of other relevant industries		Input: • Structure of Board and Committees • Efficiency of Board processes • Preparation time and meeting time • Non-meeting time		

- The fee per day can be adjusted to reflect the skill and expertise required, the complexity of the work and the risk and responsibility
- By setting the fee per day to a level commensurate with opportunity cost, the fee will be commensurate with the skill and expertise required and attractive to potential talent. This will help to address the shortage of talent and narrow the fee expectation gaps of Directors
- In addition, this approach will ensure Directors are not disincentivised for their extra effort through memberships on Committees and increases in time commitments

Determine per day rate or opportunity cost by first identifying the skill and talent requirements and their equivalent charge out rates

- A reasonable per day rate may be determined by comparing to opportunity cost or equivalent charge out rates that professionals of similar calibre would earn elsewhere. The Board composition and the skill requirements assessed in Step 1 should be used to determine the professionals to derive the opportunity cost for calculating the reasonable per day rate

Current skills and expertise on Boards



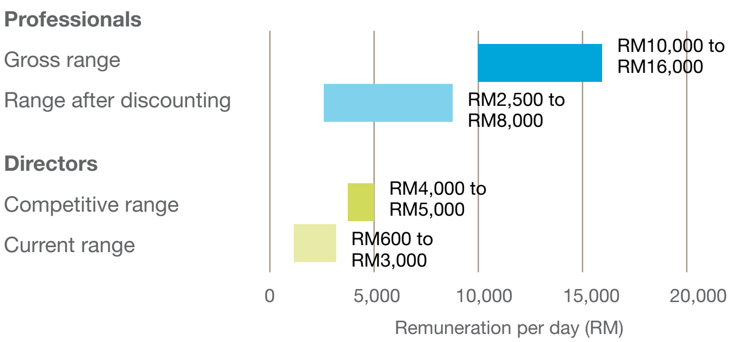
The current daily rates for Directors are below opportunity cost and need to increase significantly

- The competitive range is estimated to be between RM4,000 to RM5,000 per day
- The current daily rate of RM600 to RM3,000 per day is below the competitive range
- Based on this comparison, fees may need to increase between 20% to 100%
- FIs on the middle to lower end of the current range (i.e. median and lower quartile) will need to make much larger increases to be competitive
- A comparison of the opportunity cost to Directors' input on desired levels shows that their expectations have some justification but not to the extent they proposed

Opportunity cost - analysis of per day rates

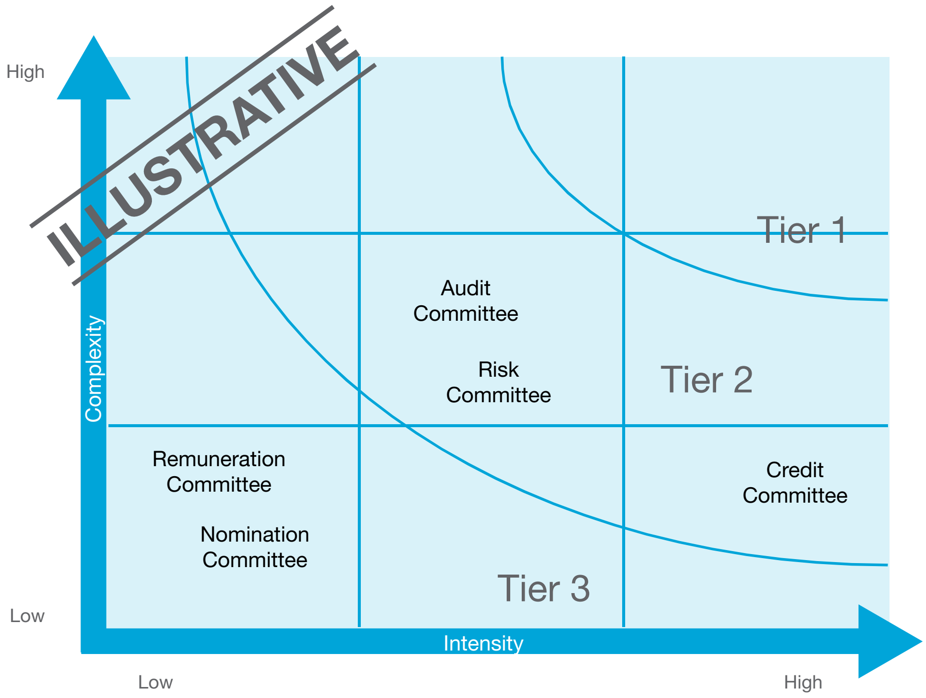
- Comparable daily rates are estimates based on rates a top professional or executive from industry would earn or businessman might make e.g. charge out rate for professional is RM10,000 to RM16,000 depending on seniority, and RM8,000 to RM15,000 for top executives from the banking/insurance industry
- Discount for overheads such as rental, business development and training ranges from 50% to 75%
- After discount, comparable fee ranges from RM2,500 to RM8,000
- Competitive range can be estimated by applying the discount range to the gross daily rates
- Bottom of range is RM16,000 less 75% discount = RM4,000 (to derive lowest figure)
- Top of range is RM10,000 less 50% discount = RM5,000 (to derive highest figure)

Comparison of current range to potential ranges of opportunity cost for professionals of equivalent calibre



Fees need to reflect contributions, roles and responsibilities on Committees

- Committee work varies in complexity and intensity (how much work there is, or how many times the Committee needs to meet)
- The process for setting fees for Committee members is similar to that for Board members. However, in order to be fair to members of Committees, the complexity and intensity of Committee work need to be assessed and Committee fees differentiated accordingly
- Boards need to work out the time commitment expected of Directors for each Committee based on intensity, and determine an appropriate per day rate based on complexity or skill and expertise required
- Such an assessment of the complexity and intensity of the Committees should result in the tiering of Committees and reflect appropriate premiums for different tiers. Based on market practice, an indicative and illustrative tiering assessment is set out below:



- This tiering assessment is supported by the median and average Committee fees as shown in the following table

Fee levels by type of Committee

	Total fees (RM p.a.)					
	LBG		Other banks		Insurance companies	
	Median	Average	Median	Average	Median	Average
Audit Com	26,375	30,906	10,500	16,180	11,250	13,522
Risk Com	20,000	18,781	7,100	14,487	8,000	10,185
Rem Com	10,500	10,958	4,000	6,802	2,050	6,169
Nom Com	10,000	10,792	5,250	6,619	2,625	7,163

- While the table above illustrates the current tiering of the fees by Committee, we do not advocate that FIs directly follow the same rates. As noted earlier, these rates effectively disincentivise Directors for their contributions on Committees
- In practical terms, the likely effect of the remuneration adjustment for Committee work is an increase in total Committee fees by two to three fold, in line with the actual time requirement to discharge responsibilities and to address the current issue of disproportionate remuneration

After Director fees are set, Chairman fees should be set based on their roles, responsibilities and time commitment

Stakeholders recognise the importance of the Chairman as the leader who brings the Board together and to perform as a team. The Chairman's responsibilities are extensive and include:

- Setting meeting agendas and prioritise strategic, important and complex matters. Facilitating meetings effectively, including providing leadership and setting a consultative and open climate for Directors to interact
- Ensuring the Board's work is effectively governed, and that the Board establishes appropriate processes and structures for the Board and Management that enhance long-term shareholder value through corporate performance and accountability
- Ensuring that Board and Management receive clear definition of limits to responsibilities, standards as well as key performance objectives to ensure proper management of the Company's operation
- The Chairman is also the person who most often has to represent the FI to the authorities to respond to queries and complaints, and is the "face" of the FI in dealing with external stakeholder on governance-related matters

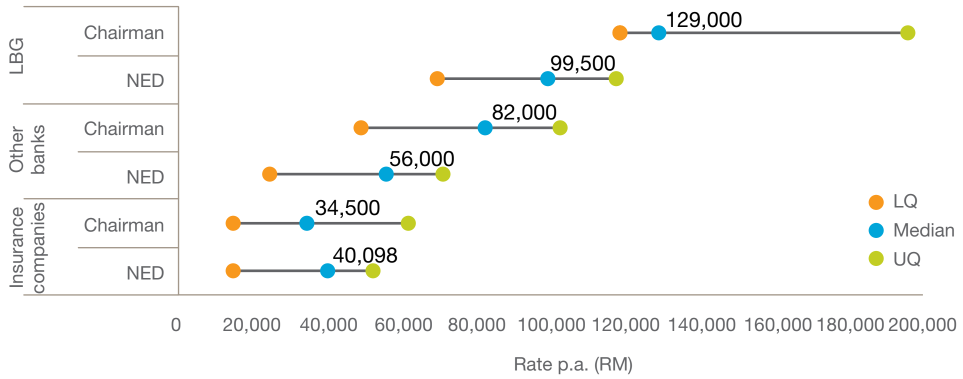
Correspondingly, with the extensive responsibilities of the Chairman, a much greater time commitment is required. The Chairman fees should therefore be determined after taking into account the greater time commitment, the roles and responsibilities. The calculation of the Chairman fees is similar to that used for determining Directors' remuneration, and is the product of the time required and the per day rate.

In addition to determining the Chairman's remuneration based on time and rate, the Board may also consider calculating the remuneration based on a premium or multiple of the fee for Directors. This will act as a check and balance to verify the reasonableness of the fee.

It was commonly agreed in interviews with Directors that the Chairman role should command a premium which is between 50% and 200% of Director fees. A review of the study data shows that the market practice already supports this. The following table and chart show the total fees for Chairman against Directors and compares Chairman fees as a factor of Director fees based on medians.

Chairman fees compared to Director fees (excluding Committee fees)

	LBG		Other banks		Insurance companies	
	Chairman	NED	Chairman	NED	Chairman	NED
UQ	196,000	118,000	102,875	71,000	61,200	52,250
Median	129,000	99,500	82,000	56,000	34,500	40,098
LQ	119,000	69,000	49,500	24,000	14,724	14,625
Average	160,000	101,722	116,235	51,269	43,064	40,796



Chairman fee as factor of Director fees (based on median)

	Current market median	Directors' opinion
LBG	1.3	1.8
Other banks	1.4	1.7
Insurance companies	1.2	1.3

On this basis, the Chairman fees will be determined once the Director fees have been worked out. This provides a practical approach to developing the Chairman fees, instead of trying to develop it separately from Director fees. In addition:

- If internal equity has been addressed for the Director fees, then it does not need not be redefined again for the Chairman
- Rather than just the factor of Director fees, the premium needs to be discussed and justified
- The calculations are quick and simple, once the premium factor has been agreed upon
- The fee consideration for Committee Chairman can also follow the same considerations of increased responsibility and effort. However, this differential will likely be smaller than that between Directors and the Chairman of the Board

Putting it all together

In setting remuneration level, per day rates provide the most accurate comparison as they normalise across the workload between different Boards and provide a suitable comparison against professional rates.

Once target fee rates are determined as a whole, it is important to check the proportion of the fees between the Board and Committees. All too often, Committee fees are usually a small fraction of Board levels, as described earlier. Moving forward, Boards may consider adjusting Committee fees as one of the key strategies in adjusting Director remuneration. This has a number of positive consequences, including:

- Increasing Committee fees more significantly means that there will be greater differentiation between Directors who sit on Committee and those who don't. In addition, if the Committees are tiered on the basis of complexity and intensity of involvement, there will be added differentiation
- Increasing Committee fees means that there will be a more transparent application of fee increases in that it is more aligned to effort and time contributed by individual Directors
- Committee fee increases can achieve the objectives without increasing the Board fee directly

Tracking and monitoring changes to the remuneration levels

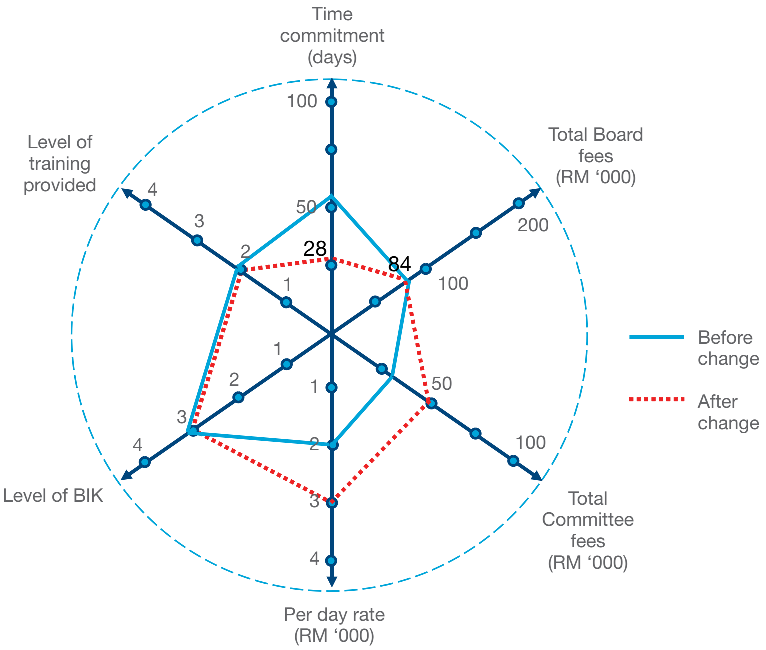
As Boards make changes to their remuneration, it is useful to keep track of the key parameters and effects of the changes. For this purpose and to aid Boards in their processes, we have developed a spider chart monitoring tool, as illustrated below. The spider chart tool tracks the following parameters and their changes:

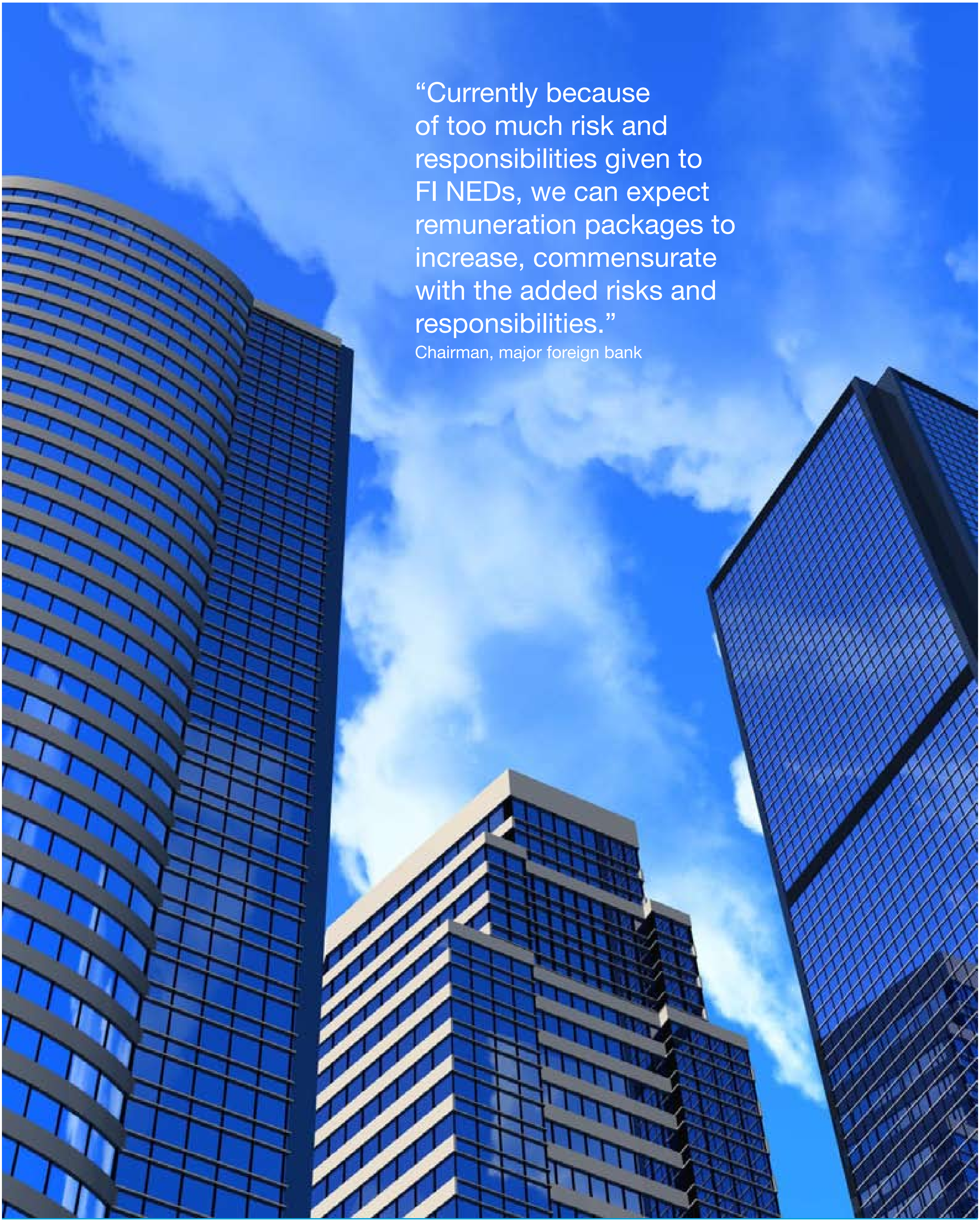
- Time commitment
- Total Board fee (usually fixed fee plus meeting fee multiplied by number of meetings)
- Total Committee fee (usually fixed fee plus meeting fee multiplied by number of meetings)
- Per day rate (total of Board and Committee fees divided by time commitment)
- Level of BIK
- Level of training received

Boards can use the tool to see the effects of proposed changes at-a-glance. As Boards become more sophisticated in setting remuneration, the axes of the tool can be added, removed or changed, according to drivers and remuneration mechanisms which are more relevant to the FI.

Spider chart tool for monitoring changes in remuneration

Chart shows remuneration effect of maintaining Board fees, increasing Committee fees and reducing time commitment, resulting in an effective increase in remuneration through higher per day rates.





"Currently because of too much risk and responsibilities given to FI NEDs, we can expect remuneration packages to increase, commensurate with the added risks and responsibilities."

Chairman, major foreign bank

STEP 3

DETERMINE REMUNERATION STRUCTURE

The target levels arrived at in Step 2 provide the landscape for the design of the remuneration delivery mechanisms in Step 3.

Step 3: Determine remuneration structure

Different remuneration mechanisms have different roles in driving behaviour and these are detailed in this step. The main objective is to try and maximise the effect from the desired remuneration structure.

Consideration of the context and challenge from Step 1, and demographic of the Board, will provide input into the best mechanisms to employ. Similarly, Boards of a more established nature will likely have larger capacity to pay fixed fees while a start-up FI will probably want to bias remuneration to the variable mechanisms like per meeting fees. Market practice will also provide some guidelines in terms of an appropriate configuration. This extends to practices outside of FIs which might be applicable.

Another key consideration of mechanisms is the ease of communicating any adjustments to stakeholders and shareholders. For example, assuming the desired level is 50% more than existing levels, the increase may be implemented using increased Committee fees. This has the result of only Directors who sit on Committees receiving the increased benefit. It also means that fee increases are not arbitrary and increased contribution from work and time spent on Committees is recognised and rewarded.

Remuneration structure objectives

1. Motivate responsibility (which as an FI Director, you have a responsibility to discharge extending beyond participation in meetings)
2. Incentivise commitment during periods of intense change or activity (there are periods of time when the FI may be undergoing intense activity requiring extensive Director involvement, such as during corporate transformations, M&A and divestments)
3. Encourage and recognise outstanding contributions (certain Directors may contribute more than others, according to their skills and expertise and the issue at hand to deal with)
4. Cultivate long-term perspective and give a sense of belonging (Directors act as stewards and need to have a long-term perspective of the FI. As many are Directors of other companies and have only a limited presence in the FI, they have a limited sense of belonging to the organisation)
5. Attract talent (potential talent who have been approached to join the Board may already be considering the opportunity but need “sweeteners”)
6. Release talent (current talent who have been strong contributors in the past but whose services are no longer required, or who are underperforming, to exit the Board)

Pros and cons of remuneration mechanisms/tools

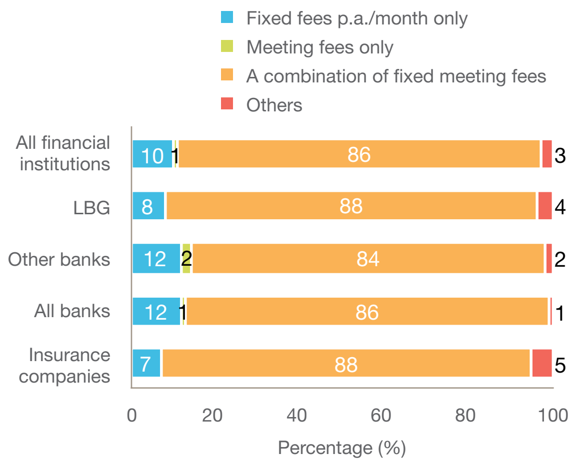
Mechanism & description	Pros	Cons
Fixed fees are fixed retainer fees paid for being a Director. Fixed fees serve to remunerate for the ongoing role, responsibility and risks of NEDs which NEDs carry regardless of the number of meetings attended.	• Remunerates NEDs for ongoing role, responsibility and risks which they carry regardless of number of meetings attended	• Used in isolation, may not adequately remunerate NEDs for time spent in preparing and attending meetings
Meeting fees are fees paid based on the number of meetings attended. Meeting fees serve to remunerate for preparation and attendance in meetings and thus, for the time and effort.	• Rewards for time and effort in preparing and attending meetings	• May encourage excessive number of meetings • Used in isolation, signals that the responsibilities of Directors are limited to preparing and attending meetings and ignores the ongoing responsibilities and risks
Performance loading is an increment or premium which is applied to existing fees for a specified period of time, usually a time when heavier than normal commitment is required e.g. when the organisation is undergoing major changes.	• Incentivises and remunerates for temporary increases in time commitment requirements • Simple to administer • Can be withdrawn when no longer applicable or required	• Not commonly practised in the market and no readily available market data to determine what is a reasonable quantum for the performance loading
Ex-post and ex-gratia payments are voluntary payments made by Boards at the end of a period or service, and typically to recognise outstanding/long service and valued contributions by Directors.	• Rewards long/outstanding services, and sends message to other Directors that such service is appreciated by the Board	• Payment is not determined with reference to any clear terms of reference or achievement of KPIs • Lacks transparency

Mechanism & description	Pros	Cons
Stock awards are payments of remuneration in the form of shares. Stock awards may also specify conditions such as minimum shareholding and vesting/ tenure requirements. Stock awards serve to align NEDs' interests with shareholders' and enhance long-term focus.	• Cultivates long-term perspective and focus. Creates a sense of belonging and aligns to shareholder interest. Projects confidence in FI • When used in conjunction with major increases in remuneration, reduces immediate negative impact on Directors' cash remuneration	• Aligns NEDs to management and may compromise independence of NEDs • Complicated to administer and manage
Benefits-in-kind (BIK) are remuneration payments in the form of benefits such as medical insurance, provision of car and driver, secretarial support, and reduced charges for banking/insurance services, etc. BIK serves to increase the attraction and retention capability of the FI.	• Increases the attractiveness of the appointment to the holder • Value for money – has minimal cost to the FI, especially where benefits relate to services provided by the FI	• In most cases, BIK is only a small component of the overall remuneration package and not enough to make a big difference
Sign-on "Bonus" is a one-time fee paid upon acceptance of the appointment and is paid to incentivise acceptance.	• Increases attraction to potential talent and may even "swing" the decision to join the Board • A one-time fee only	• An extra cost and cash outgoing to the FI • Lacks transparency
Sign-off "Bonus" is a one time fee paid upon departure of the talent. It can be used to recognise good service rendered in the past, sending a signal to other Directors that they will likewise be recognised.	• Recognises good service rendered in the past • A one-time fee only	• An extra cost and cash outgoing to the FI • Lacks transparency

Fixed and per meeting fees are the most common remuneration mechanisms

This is understandable as it is cash-based and the easiest to administer. Fixed fees are fixed retainer fees paid for being a Director and serve to remunerate for the ongoing role, responsibilities and risks of Directors, regardless of number of meetings attended. Meeting fees are fees paid based on number of meetings attended and thus serve to remunerate for the time and effort put in. An appropriate balance between fixed and meeting fees needs to be found and will vary between institutions.

The Directors in this study overwhelmingly (almost 90%) indicated a preference towards a combination of fixed and per meeting fees. Our view is that this practice is not harmful as long as the bulk of the fees remain in the fixed form in order to avoid excessive meetings. Where meeting fees are used, it would be useful to also define the length of a standard meeting.



Alternative remuneration mechanisms are not commonly practised

Variable fees refer to either a variable fee dependent on achievement of certain objectives or targets, or a pre-agreed fee that will be paid in addition to existing fees as a top-up to reflect situational needs. This is not a common practice in Malaysia but in the region, some Thailand and Singapore FIs have reported the use of these in their annual reports. Although these are unconventional tools and not currently widely practised in the market, they are still relevant and should be considered, depending on the objectives of the FI. Two such mechanisms are proposed below:

- Performance loading, where an increment or premium is applied to existing fees for a specified period of time
- Ad-hoc Committees, where Boards establish temporary task forces to deal with specific issues facing the FI as and when required, resulting in Committee fees being paid for the duration of its existence

Directors in this study are divided in their opinion on variable fees, but LBG Directors are most open to this mechanism. They also suggest that the criteria for this fee be set against Board performance as a whole and not linked to individual performance nor commercial targets.

Stock awards are payments of remuneration in the form of shares. They have come under scrutiny as a result of the global financial crisis and some Directors hold the view that it compromises Directors' independence, while others feel it encourages long-term focus and belonging. It is currently not a common mechanism used for Director pay and there is no strong indication that Directors are in favour of it. Again, LBG Directors are the most amenable to alternative mechanisms where almost 60% indicated that this could work. This compares to only a 40% acceptance rate for other banks and insurance Directors. If stock awards are used, then serious consideration needs to be given to the quantum, the proportion of total fees to be paid in stock, and the vesting periods in order not to compromise independence and to avoid conflicts of interest.

Stock awards is a powerful remuneration tool. However, it needs to be designed carefully to address the drawbacks highlighted previously. Stock options might not be a good idea if the basis for award aligns Directors' interests to management, but paying a portion of the fees in the form of shares is one way of implementing this tool without compromising Directors' independence.

In this case, Directors build up an amount of shares up to a prescribed limit (e.g. one year's fixed fee) which they have to hold over their tenure. This achieves the objective of creating alignment with shareholders while managing the potential conflict of interest by limiting the exposure of the Director.

BIK are remuneration payments in the form of benefits such as medical insurance, provision of car and driver, secretarial support, and reduced charges for banking/ insurance services, etc. and serve to increase the attraction and retention capability of the FI.

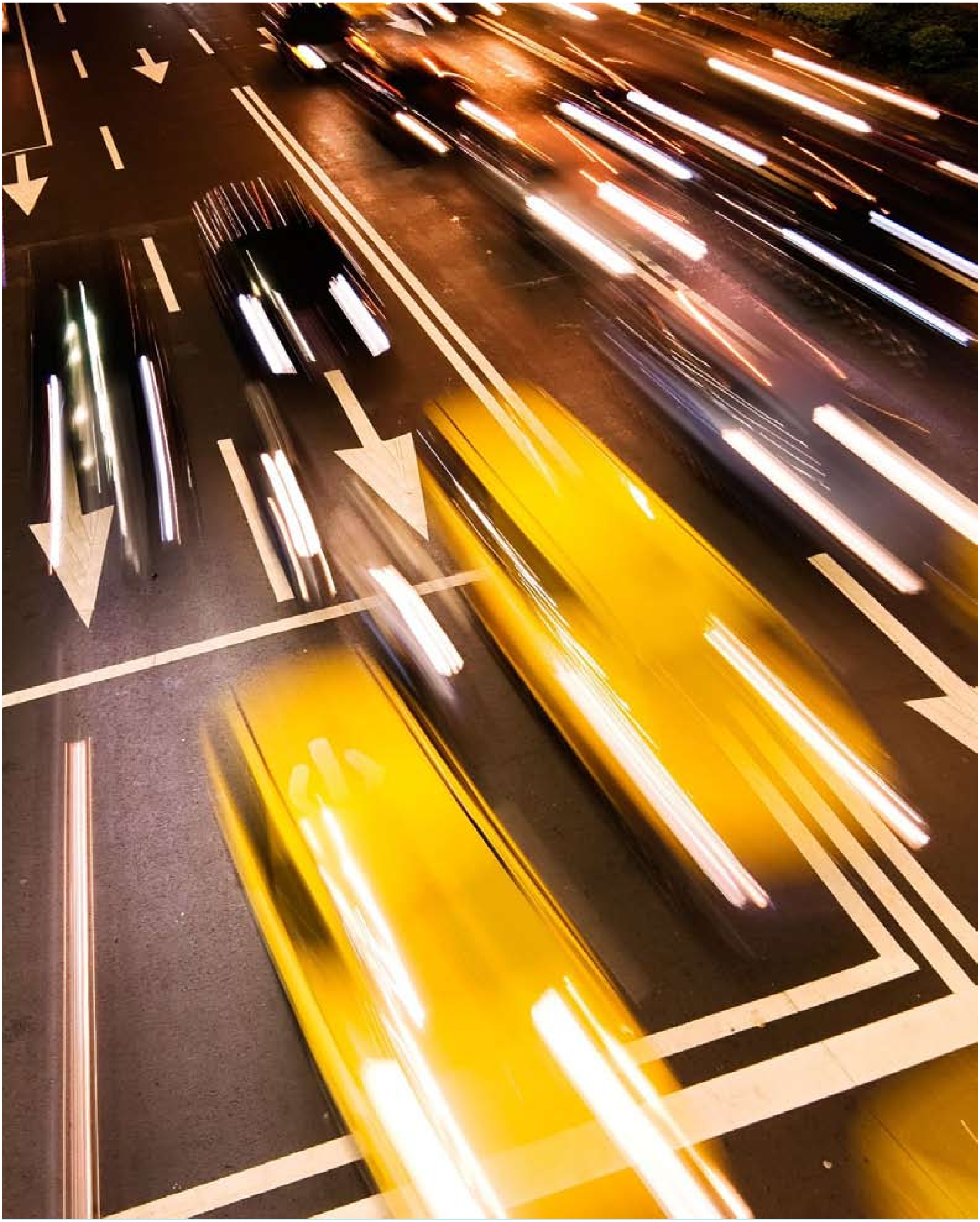
Directors are overwhelmingly (almost 90%) in favour of this mechanism, indicating that they value benefits given.

Medical coverage and insurance were unanimously identified as benefits that would be appreciated. Given the favourable support for this mechanism, we believe that FIs need to give more attention as to how this mechanism can be adopted and leveraged.

As the value of some of these insurance and medical benefits can be significant, FIs may wish to consider making provision for the Directors to carry the plans and premiums with them after they leave the Board in order to reduce the risk of conflict of interest or impairment of independence.

Putting it all together

In a nutshell, different remuneration mechanisms drive different behaviours and the particular role of remuneration will guide the choices.



"Different stakeholders may react differently to the remuneration levels. Institutions need to anticipate their reactions in advance and manage them."

Advisory leader, PricewaterhouseCoopers Advisory Services

STEP 4

VALIDATE REMUNERATION

4

At this point, we should have a good idea of the challenges facing the Board, the rates we are aiming to pay Directors as well as the likely structure of the remuneration. It might seem that the hard work has been done. However, we have only considered the remuneration from a single entity perspective whereas many FIs are not stand-alone entities. The validation step will be to consider the effect of the framework from a group and individual perspective. At this juncture, it is a useful reminder that this is an iterative process which means that at the end of Step 4, Steps 2 and 3 might need to be revisited.

The total time commitment of Directors across a group environment needs to be managed

While Directors need to know how much time to commit to their responsibilities, and be remunerated for it, there is a limit to how much they can reasonably commit. To determine what is reasonable, Boards need to aggregate and review the time and fee commitment of each Director, taking into account all the Board and Committee positions held in the group.

As set out in Step 1, Directors of FIs are already spending significant periods of time to discharge their duties, with spending in excess of 100 days. Based on a working year of approximately 220 days, Boards may need to consider limiting the number of appointments a Director can hold to a maximum of two to four entities. Individuals who are Directors of other entities outside the relevant FI group will also need to consider whether they are able to devote sufficient time to all their appointments to discharge their responsibilities.

A top-down and bottom-up approach to subsidiary remuneration will drive different philosophies

Boards for Groups may wish to review their approach to remunerating Directors on an aggregated basis. Two approaches are commonly adopted by FIs i.e. top-down and bottom-up.

In the top-down approach, the bulk of the Directors' remuneration is paid at the Group holding company level with marginal fees paid for subsidiary membership. The effect of centralised Committees will be the same. The advantage of this is that there will be general parity in terms of fees for holding company Directors as subsidiary membership is a small portion of total fees. The drawback is that differentiation between Directors who sit on many subsidiaries versus those who do not, is minimal. Further, there is the added complication that other Directors on the subsidiary Board might need to be paid a different fee to be commensurate with their responsibility.

The bottom-up approach alleviates this problem by considering each individual entity as a stand-alone. This means that there could be wide variations in total fees for Directors sitting on the holding company depending on the subsidiaries that they sit on.

Regardless of approach, Boards need to ensure that the remuneration levels are fair and transparent, and reflect the needs of the moment.

Putting it all together

This final step in the framework is a critical step and provides the value proposition of the changes in remuneration. It is during this step when the Board conducts a check on the proposed changes to the remuneration, ensures that the changes make sense from a group and individual perspective, and "road tests" the remuneration iteratively with stakeholders to ensure the levels and structure are fit for use.

Summary of the 4-step framework

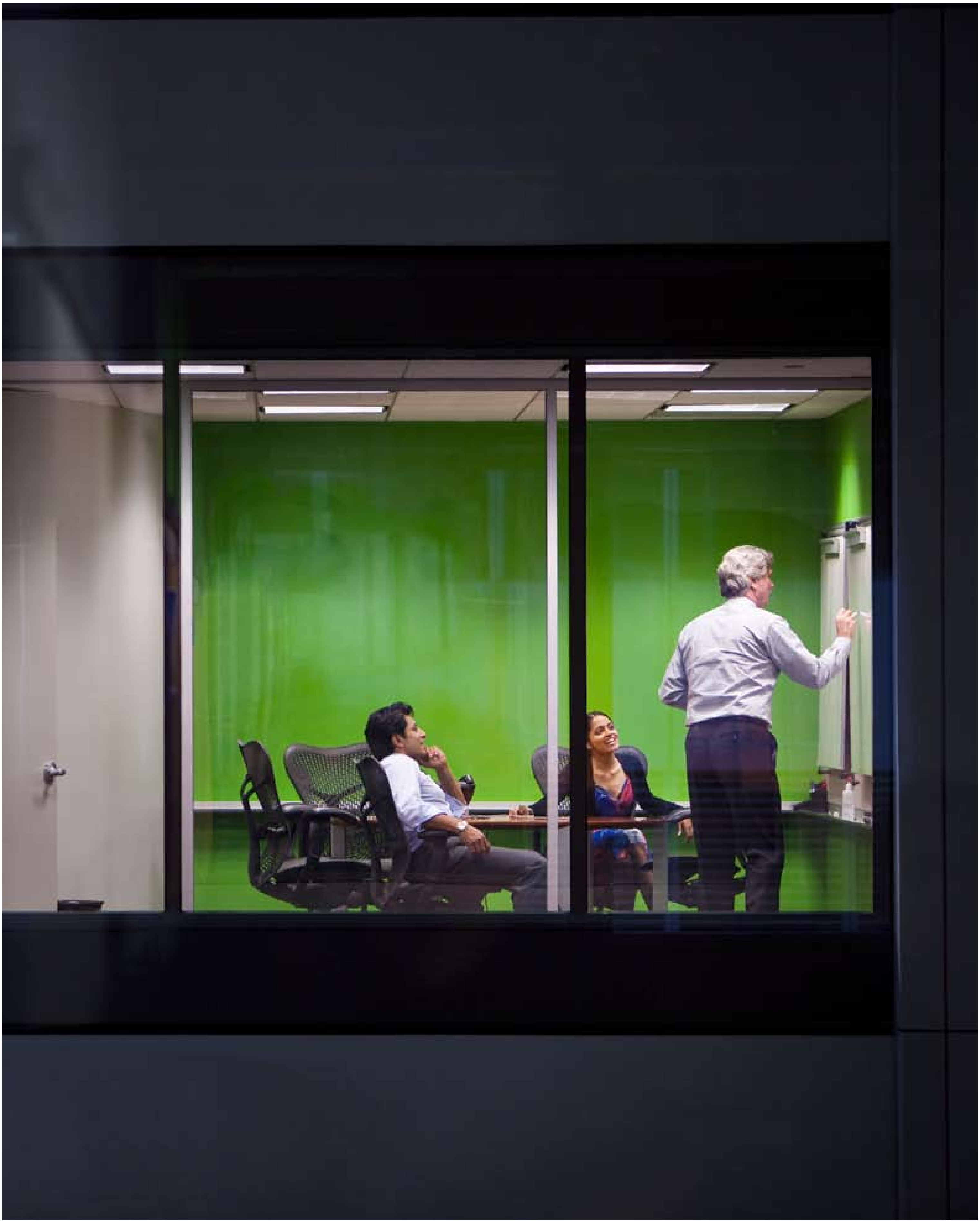
The 4-step framework has been developed following numerous interactions with Directors, Chairmen, internal specialists and industry experts. It must be highlighted that the approach is meant to focus on key considerations and principles in developing individual frameworks for FIs, and needs to be implemented considering every case individually. Boards should feel confident in introducing additional perspectives in coming up with a framework that works for them.
A few points to note:

- FIs do not have to apply all of the 4 steps in the same depth and breadth, for example, when remuneration frameworks are being maintained in the second year of implementation. This is an important point as we are not suggesting that every remuneration adjustment being considered be predicated on deep technical analysis. It is important to understand the principles behind the steps and to consider them when appropriate
- The 4-step framework is meant to be used to set remuneration for all Directors. The fees may differ significantly between Directors according to responsibility and expertise
- The 4-step framework is meant to provide an iterative approach to finally arrive at a robust framework. It is likely that at least three cycles of Steps 2 to 4 need to be completed before the framework developed can be deemed to have been tested properly
- Remuneration is by no means the primary reason why Directors decide to sit on the Board on an FI. This study indicates that it is a medium priority for Directors. Other higher ranking reasons include prestige, networking opportunities and learning and development. The innovative FI is able to leverage these reasons and will be able to minimise increases in remuneration

Once the remuneration has been determined, Boards need to clearly understand the impact of the changes and benefits, and manage communication with all relevant stakeholders. Some questions Boards can ask themselves to help do this include:

- Is there a significant change in time commitments, remuneration level or structure?
- Is it clear how the changes will impact individual Directors?
- Have all the changes been identified, determined and communicated?
- Will the changes really improve performance?
- Can the changes in remuneration be substantiated?
- What will be the reaction of key stakeholders such as shareholders, minority shareholders, investors, depositors, and the media?
- What communication processes and messages need to be developed to ensure all stakeholders understand the rationale and benefit of the changes?

Going forward, the FI needs to maintain the remuneration framework for changes in the business. Each FI will need to determine for itself the appropriate level of detail with which to revisit each step in order to maintain the remuneration. We suggest that a reasonable approach would be to revisit the remuneration levels and time commitment annually or biannually, and review the structure every three years.



WORKED EXAMPLES

Worked examples are provided for various scenarios to illustrate the 4-step framework in action and bring to life the approach developed. While it is not possible to plan for every scenario, the worked examples illustrate the principles to apply and FIs should be able to tailor the application to their own circumstances. The various scenarios considered in the worked examples are:

- If this was a large local banking group
- If the large bank had major issues in constituting the Board
- If this was a small bank starting out
- If this was a large insurance company
- If this was a foreign-owned FI

Example 01:
If this was a large local banking group

Details of the bank

- Established 50 years ago, with a large domestic footprint and recent foreign acquisitions in the region
- Second largest market capitalisation and third largest asset size
- Three significant subsidiaries (A, B and C) in full range of financial services
- In the third year of a 5-year transformation plan, with most of the transformation objectives on track

The Directors of the Group

Board size	11 Board members: Non-Executive Chairman with nine Directors, one of whom is a foreigner, and the MD
Tenure profile	Of the 11, six are new Directors (including the Chairman) assembled at the start of the transformation three years ago
Background of Directors	The Directors are a combination of former and current captains of industry with more than half having actual banking experience
International experience	Two out of the nine Directors have global business experience, one in a foreign bank
Distribution of work	More or less equal distribution of workload with all Directors sitting on at least one Committee and at the most three
Group responsibilities	Five out of the 11 Directors sit on at least one of the three subsidiaries
Board dynamics	There is a healthy relationship with the Management team, in particular the MD

The responsibility

- The Board has met 20 times a year for the last two years because of the transformation exercise
- The Committees continue to meet the following number of times a year:
  - Audit Committee: nine times
  - Remuneration Committee: three times
  - Nomination Committee: four times
  - Risk Committee: six times

The current remuneration structure

Remuneration structure at Group level	
Chairman fees	Chairman fixed fee of RM10,000 per month
Director fees	Director fixed fee of RM8,000 per month
Executive Director fees	ED does not receive fixed fee
Board meeting fees	All Directors including EDs receive per meeting fees of RM1,000
Committee fees	All Committee members receive RM10,000 p.a. for fixed fee, with meeting fee of RM500 per meeting
Other remuneration	No share payments or minimum/maximum shareholding requirements Basic benefits covering limited medical and a company car and driver for the Chairman
Remuneration structure at subsidiary level	
Chairman fees	Chairman fixed fee of RM30,000 p.a.
Director fees	Director fixed fee of RM15,000 p.a.
Executive Director fees	ED does not receive fixed fee
	All external Directors (non-Group) are paid the same level as Group Directors

The challenge

- The Directors are starting to feel stretched after the three years of intense work
- The Board is turnaround-focused and realises that it might need new skills in carrying through the transformation in the medium-term
- Although the Chairman attempts to distribute the workload evenly, there are a few Directors who are committing about twice the time of other Directors

In developing some possible improvements to the framework, we will utilise the 4-step approach as a guide

Step 1 - Assess

The Board is obviously going through a plateau in energy and stamina. They have been successful in the last three years to get the transformation going, in fact, they have driven the management team to achieve the transformation milestones. What they are finding a challenge at the moment is to carry on with this momentum, also because there seems to be a need now for the Board more to be “consolidating” rather than “turning around”.

In responding to this, the Board has decided that they will reset some of the KPIs and restructure Board meetings to focus more on monitoring rather than the current “hands on” role. The Chairman is also keeping an eye out for a potential Director who has expertise in the middle stages of transformation to provide expertise to the Board for the last two years of the transformation.

Broadly, the Board seems to be functioning well. However, from the assessment, it seems that:

- They need a shot in the arm in terms of motivation and stamina
- The workload is on the heavy side and becoming a burden to Directors
- The subsidiaries are beginning to operate more independently with more delegation of authority from the Group Board

Step 2 - Set level

Considering the suitability of the Directors in terms of the Board requirements at this point, the challenge will be to assess if the fee levels are “fair and reflective” of the commitment being put in by the Directors - what time commitment is currently being put in by Directors?

For a Director sitting on the Audit and Remuneration Committees, the total number of meetings they sit on is 32 (20, nine and three for the Board, Audit and Remuneration respectively). Assuming one day of preparation for every meeting day, the Director essentially commits 64 working days to the Board. The total fees received by the Director is RM142,000 p.a.

Component	Description	Total
Board fixed fee	8,000 x 12	96,000
Board meeting fee	1,000 x 20	20,000
Audit Com fixed fee	10,000	10,000
Audit Com meeting fee	500 x 9	4,500
Rem Com fixed fee	10,000	10,000
Rem Com meeting fee	500 x 3	1,500
TOTAL p.a.		**142,000**

Comparing these fees against the most direct comparator set of LBG, the Board fees are above the UQ.

	LBG	
	Board fees	Estimated total fees*
UQ	118,000	141,600
Median	99,500	119,400
LQ	69,000	82,800
Average	101,722	122,066

* 20% top-up for 2 committee memberships

Given that this bank is one of the leading institutions in the market, the UQ is an appropriate position to be in. However, the next consideration is to compare these rates in relation to the workload of the Directors, given that 20 Board meetings p.a. is above the market UQ of 18. Hence, the per day rates for these Directors emerge as follows:

	Days committed[1]	Fee per day[2]
Board fee	40	2,900
Committee fee	24	1,083
Total fee	64	2,219

1 Days committed = total meeting days p.a. + equivalent number of days for preparation
2 Fee per day = total fees (Board or Committees) divided by days committed

The position against per day rates essentially normalises market practice by factoring in the workload of Directors in different FIs. In this case, although the Board fees are at the UQ, there is a significant chance that the per day rates will be affected due to the number of meetings held in the last two years.

	RM per day			
	Board only		Board and Committee	
	Time	Director	Time	Director
UQ	36	3,833	74	2,932
Median	28	3,000	52	2,135
LQ	24	2,893	44	1,977
Average	30	3,622	64	2,362

True enough, the Bank's per day Board rate is just about at market median, even though the quantum is above the UQ. However, due to the competitive level of Committee fees, the per day rates for Board and Committees rise to just above the median.

At this stage, we have established that at the most basic, i.e. a comparison against the market from a quantum perspective, the Bank is doing well. Examining it a little more, the per day rates are essentially at the market median, meaning Directors of the bank are not being rewarded (disincentivised even?) for the additional effort that they are putting in. The per day rates are also below the opportunity cost range of RM2,500 to RM8,000, i.e. the Directors could earn more doing other work.

As earlier stressed, the number of meetings is not the only criteria by which to determine remuneration levels. However, for this bank which is doing well, with a Board that can work closely with Management, the workload and the accompanying per day rates become the critical consideration. After all, if the transformation is to see its course over the next two years, it is important that the Board retains and continues to motivate the Directors.

To decide on a possible target number, a few possibilities can be examined:

- Using the UQ of Board + Committee per day rate of RM2,375, this translates into a total fee of RM152,000
- Using the UQ of Board per day rate of RM3,827, this means that the total fee should be RM244,928
- Using a discounted professional comparator fee of RM3,000 (based on the opportunity cost), this means that the total fee should be RM192,000

The three possible inputs imply that the range of increase is from 7% to 72%. On the basis that all these options are available to the Board, it needs to consider whether:

- the rate is fair in reflecting the contribution of the Directors
- the rate is enough to remunerate for opportunity cost of Directors
- the total fee can be explained to stakeholders and justifiably defended

On the basis that this means that a target per day rate of RM3,000 is required, which is the middle point of market practice between Board + Committee and just Board fees, the total target fee therefore becomes RM192,000. Note that the Board can choose this per day rate position because it is also planning to reduce the number of Board meetings to a more manageable level. This is the first time where the iterative nature of the framework kicks in.

Before deciding that the total fee should be RM192,000, we need to consider whether the total number of meetings and preparation days of 64 is appropriate. In this case, the Board came to the conclusion that the 20 Board meetings should eventually level out to 15 in the medium-term as it is the Board's intention to switch to more of a monitoring position, which means the next derived total fee becomes RM162,000.

Therefore, for a Director who sits on the Audit and Remuneration Committees, the total target fee should be RM165,000 (rounded up), with an expected time commitment of 54 days (15 Board meetings, nine Audit Committee meetings and three Remuneration Committee meetings).

Step 3 - Structure mix

Assuming that the target fee for Directors is now RM165,000, the next challenge will be to decide on the structural changes. This denotes a 16% increase which means that there are a few options available:

- Increase all the remuneration components by 16%. This has the benefit of being easy to execute and straightforward to explain. The drawback is that none of the issues other than level has been addressed (e.g. differentiation by contribution)
- Constitute the increase through an adjustment of Committee fees. This means that the Board fees remain the same, with the additional 16% being loaded up through increasing Audit and Remuneration Committees fees by RM15,000. This has the benefit of increasing the differentiation between the Directors, meaning that the increase is essentially biased towards the Directors who sit on Committees. The drawback is that the other Directors not sitting on Committees will not experience any adjustment. However, since Committee membership is fairly evenly distributed, this is not an issue
- Constitute the increase through Board meeting fees. In other words, increase the meeting fees by RM1,500, which at 15 meetings p.a. will result in a RM25,000 increase. This has the benefit of not altering the structure and is flexible enough to accommodate situations where the number of meetings is not as expected. The drawback is that no other issue is addressed by this method, i.e. differentiation does not increase between Directors

From the possibilities set out, there are many things the Board can choose to do. One solution would be to involve a combination of some of the options.

Given the increase is fairly significant in this case, fixed fees can be increased marginally while Committee fees increased by about 50% and the meeting fees increased to cover the remaining differential. This has the benefit of increasing the differentiation of contribution (Committee membership as a proxy to contribution) between Directors, as well as maintaining the flexibility in terms of number of anticipated meetings. This also provides a rational description of the increase to stakeholders.

Once the increase in Director fees has been decided, the derivation of the Chairman fees can commence. Currently, the factor is 1.25. Considering that the increase for Directors is around 20%, the Chairman fees can also be increased by at least 20% to maintain the differential. This means that the fixed fees can be increased to RM12,000 per month i.e. there is marginal increase in the total fee of RM24,000. Given that this is the Chairman of one of the leading banks in the country, the adjustment will bring the Chairman fees to about the market median. There is still a case to adjust the fixed fee to, say RM15,000, as this will mean a further differential with Directors of two times (assuming a marginal increase of fixed fees), which is still within market practice.

Step 4 - Validate remuneration

Clearly, from Steps 1 to 3, there are a myriad of possibilities in determining the most suitable remuneration framework. Once the total quantum of adjustment is done, the next step is to find the most effective way of constituting it. In this example, we have arrived at this stage to as follows:

- Increase target total fees for Directors by 16%
- Constitute this increase through significant adjustment to Committee fees and some adjustment to meeting fees for Board membership, as well as a marginal increase in fixed fees
- Chairman's fixed fees to be increased by 50% to reflect suitable differential

At this stage, the verification of this framework before finalisation will cover two aspects:

- Consider the effect of this framework on all the Directors individually, which means the actual calculation of the effect of the increase for all Directors needs to be done. The key points to look out for will be:
  - if the Directors with more Committee membership has the most increase
  - if the total fees behave in the same way under a scenario where meetings are 20% more or 20% less
  - if the individual fees from a Group perspective starts to be unmanageable against senior executive pay
- Consider the possibility of adjusting the fees for subsidiaries, i.e. assess the option of constituting a portion of the increase through an adjustment of subsidiary fee levels. This has the benefit of taking the Group perspective and managing the fee levels at Group level. The drawback, however, is that the Group Directors will not experience a significant adjustment

This last step essentially provides the final assurance that the increase can be justified and considers the best option in managing all the various stakeholders.

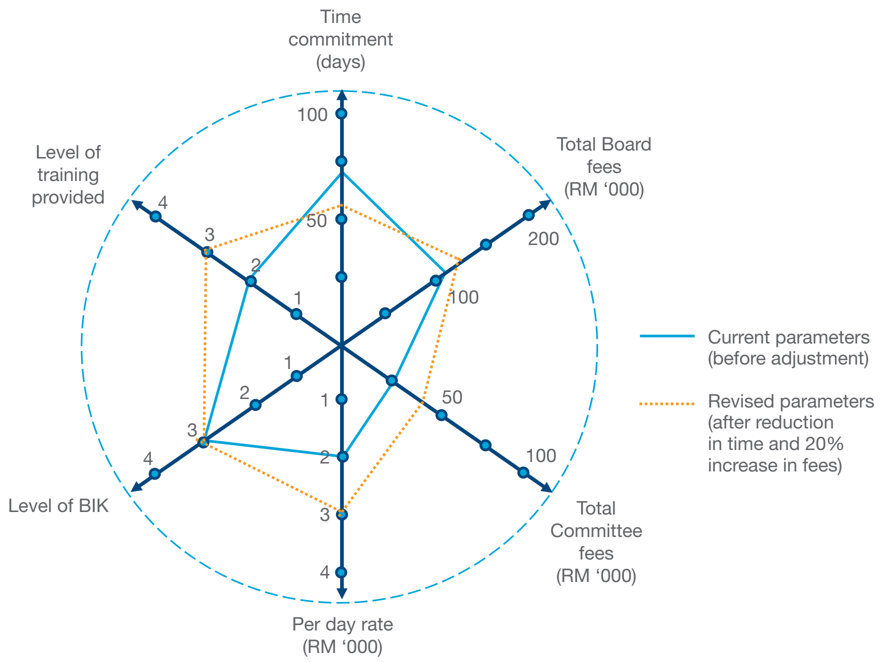
Conclusion

There are many ways to design a remuneration framework. At each of the 4 steps involved in developing the framework, there were at least four or five possibilities. Taking all the possible permutations into account, there are hundreds of possible combinations of solutions. However, working through the 4 steps and focusing on the principles, we arrived at what may be a reasonable outcome. To reiterate, the key principles are as follows:

- Ensure a clear understanding of the main objective of the adjustment being considered (in this case, the main objective was to maintain momentum of the Board and introduce differentiation between Directors based on contribution)
- Ensure that the opportunity cost and economic considerations made by Directors are taken into account (in this case, the per day rates of Directors were considered carefully from the perspective of market practice and comparable discounted professional rates)
- Ensure that target fees are proposed in tandem with expected time commitment and if possible, the annual Board agenda (in this case, the target Board meeting days was set at 15 in relation to the per day selected)
- Ensure that the full range of constituting the remuneration framework adjustment is considered (in this case, since the percentage increase is not huge, the adjustment was biased towards increasing Committee fees more than other remuneration components. Share-based remuneration was not considered as the quantum of increase does not make it feasible)
- Ensure that the Group vs Subsidiary framework consideration is made (in this case, since the quantum was small, the main increase was proposed to come from Board fees and not from subsidiaries. If the quantum was larger, then the possibility of adjusting subsidiary fees more significantly would have been a possibility)
- Ensure that once the framework is in its final draft stage, consider the effect of the adjustment on individual Directors, especially against senior management pay (internal equity), as well as differentiation between Directors across the Group. These calculations need to be made in at least two scenarios - one in which the number of meetings is 20% more and one where the meetings are 20% less

Remuneration spider chart showing effect of potential changes in remuneration

The chart below illustrates the potential final remuneration based on reduction in time commitment and increase in fees by 16%, compared against original parameters. The chart assumes marginal improvement in level of training provided.



Example 02: If the large bank had major issues in constituting the Board

In this situation, the difference is in the **Assess** stage, whereby more analysis would have been done in terms of the skills, expertise and experience needed by the Board. Given that the bank has issues in getting the right individuals to join the Board indicate a few things: either the bank has a poor reputation in terms of efficiency or performance, the bank is perceived as being too bureaucratic and slow, or that there will be too much work to do. The role of remuneration comes to the forefront as one of the ways to remunerate potential Directors for the misgivings that they might have. At this stage also, it is all the more important to try and assess the likely time commitment required of Directors, so that this can be clearly communicated to potential Directors to manage their expectations.

In the **Set Remuneration** step, the market positioning needs to be reconsidered. Given that it is difficult to persuade Directors to join the Board indicates a possible requirement for the fees to be positioned higher than the market. In addition, consideration of the opportunity cost of the type of Director required becomes more important. In other words, there is a business case to consider a per day rate higher than RM3,000 (discounted professional rate). This means that the target increase could be in the region of 30% to 50% instead of the 16% in Worked Example 01.

To sell this new level to shareholders and other stakeholders, the **Structure Mix** step becomes important in structuring the increase in the right way. Now that the quantum of increase is higher, more possibilities present themselves. For example, payment of the increase in the form of shares to all Directors will add to the total target package while maintaining the existing fee structure. The awarding of shares will increase the attractiveness to join the Board while creating more alignment between the Directors and shareholders. The quantum awarded has to be carefully managed to ensure that as Directors, conflict of interest is minimised. This is done by imposing a maximum shareholding in terms of awarded shares, possibly up to one year's total fee in terms of share worth.

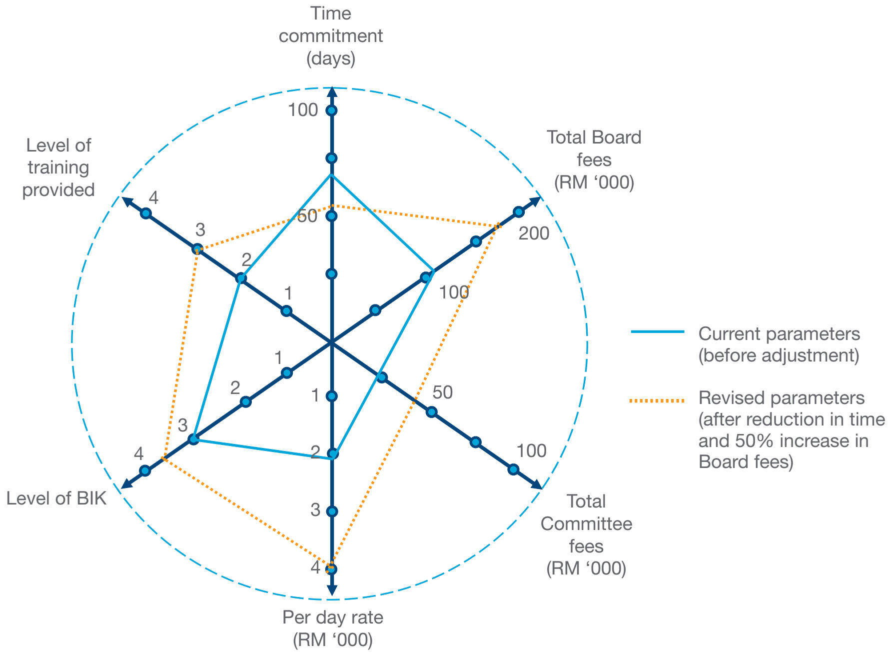
This means that in trying to get to the target rate which is, say 50% higher, instead of increasing all components by 50%, the increase could come by a 10% increase in fixed fee rates, 20% increase in Committee fees and the award of shares to complete the remaining 20% increase. Alternatively, increasing benefits provided to Directors can be considered because this is viewed as a valuable remuneration item.

Approaching it in this manner means that the additional benefits of differentiating contribution and aligning interest is also achieved, while making it easier to explain to shareholders.

At this step, the Board could also consider varying the fee for the individual it is trying to attract. For example, if it was felt that the Managing Director of the top branding company in the region would be a critical addition, the Board can decide that for this individual, they would be willing to pay RM50,000 per month instead of the usual fixed fee for other Directors. This can be an arrangement for a fixed period of say two years, after which the individual will revert to the rates for all Directors if they remain on the Board.

The main issue to be considered in the **Validate** step will be to ensure that the fees are defendable and justifiable. It is important for the bank to assess the value of the Board and to be able to comfortably explain the rationale behind the levels. There will be a possibility that the rates lead the market and the Board needs to be prepared to explain why. Payment of shares and differentiating between Directors will also need to be clearly explained so that all the Directors buy into this. A further consideration will be to manage internal parity for subsidiary practice.

Remuneration spider chart showing effect of potential changes in remuneration



Example 03:
If this was a small bank starting out

For a small bank, especially if it is starting out, the approach to setting remuneration for Directors will be very different. It is likely that some of the Directors will have been assembled based on their relationship with the key shareholders of the Bank. This means that they understand the particular context of the bank i.e. it is starting out and it is unlikely that they will be remunerated at highly competitive rates. On the other hand, there is an alternative possibility that a strong Board could be required to ensure the bank hits the ground running.

In the **Assess** stage, therefore, the analysis will be to see what skills/experience gaps exist based on the initial assembly of Directors. From this, once potential individuals are identified, the selling point to these individuals need to be carefully planned. The key messages will include the fact that they can participate in a start-up, it will be an exciting period for the bank and they can work in a new team. The anticipated time commitment is also important to specify as this will go some way towards assuaging fears of future Directors.

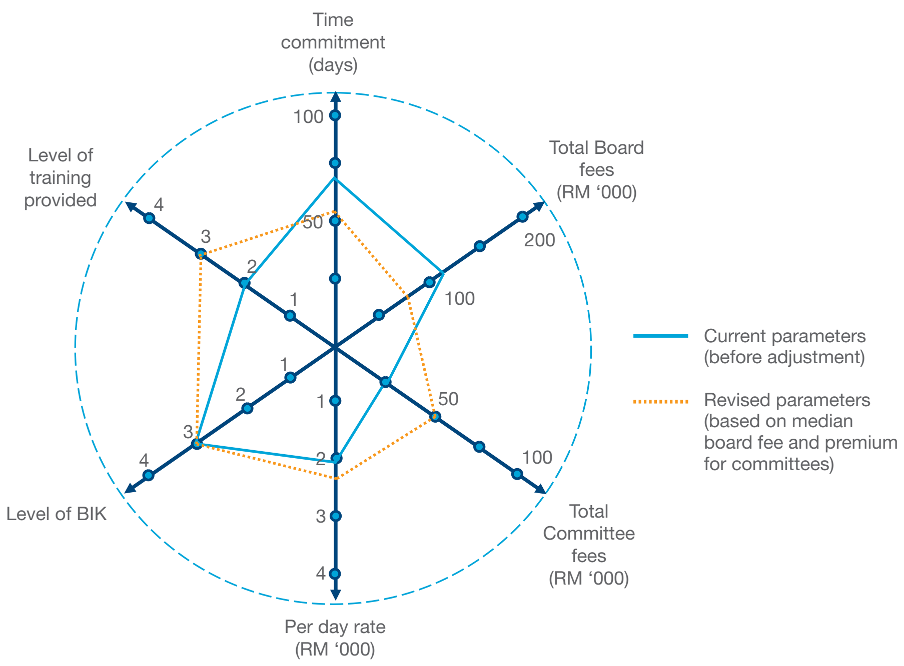
In the **Set Remuneration** step, the bank will likely consider a lower position than the large bank, for example, it should consider a median position. This is prudent as the bank is starting out and also sends the right message to shareholders. The comparator companies used by the bank should also consider general market practice as it is likely that Directors will come from other industries as well. The bank will also consider balancing the fees between the Board and Committees better since it is in a start-up and has the opportunity to do so. It will try, for example, to ensure that Committee fees as a proportion of Board fees should be such that Committee membership in two Committees will mean a premium of 50% in total fees.

In the **Structure Mix** step, the bank need not be too adventurous in structuring the remuneration. It is starting out and should be focusing on getting the bank going rather than attending to complicated structures. The structure will therefore be the usual fixed and meeting fee structure, although a bias towards meeting fees will go some way toward managing the uncertainty of the time commitment required. On the other hand, this bank can also consider having just fixed fees and no meeting fees. This underlines the concept of “we’ll do what it takes” and can increase solidarity between the Directors. This can also create the peripheral effect where meetings are carefully managed, thereby making sure that optimal time is being spent by Directors.

As it is in a start-up phase and managing costs is critical, the issuance of deferred shares to Directors can also be considered. This will act as an attraction mechanism to Directors as well as aligning the interest of Directors to shareholders. To manage potential conflict of interest, a vesting period needs to be carefully designed to ensure that the Board is not focused on short-term results, and to continue to provide suitable check and balance to management.

The **Validate** step, therefore, rounds up the analysis by ensuring that various scenarios are considered and the exposure of the bank is understood in terms of the shares being awarded. At this stage, the bank also needs to specify when it will revisit the fees to ensure that as it grows and the requirements of the Board change, the remuneration framework continues to support it.

Remuneration spider chart showing effect of potential changes in remuneration



Example 04:
If this was a large insurance company

The main difference if this was a large insurance company will come in choosing the appropriate comparator set. The considerations will essentially be the same throughout the 4 steps.

In the **Assess** step, the skill requirements will be different than in Worked Example 01. For example, the business challenge is different with the main challenge being to increase coverage of the population. While everybody tends to have bank accounts out of necessity, not everyone has insurance policies. The skill gap, therefore, could be in the form of marketing or communications specialists who might be able to bring a new perspective to the Board.

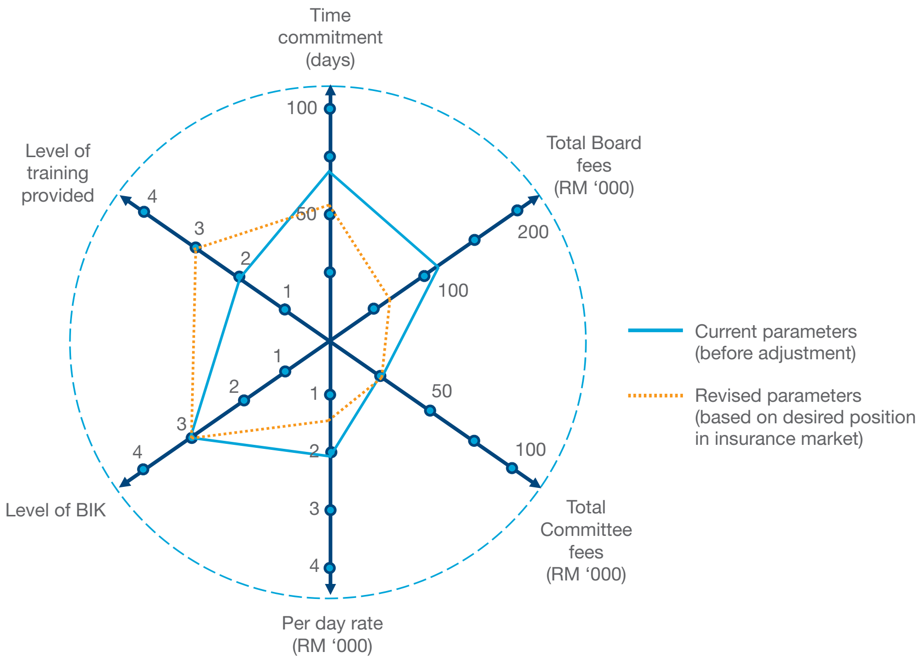
The **Set Remuneration** step will have the most difference from the worked example. The comparator table to be considered will be the insurance company set, although the desired market position will likely be the UQ as well, since it is large and trying to consolidate its position. The following table can be used to check market practice:

	Insurance (RM p.a.)	
	Chairman	Director
UQ	61,200	51,000
Median	34,500	29,500
LQ	14,724	14,000
Average	43,064	34,985

If the insurance company is finding it hard to populate the Board, then additional consideration of competitive per day rates needs to be done.

There will be no significant differences in the **Structure Mix** and **Validation** steps, other than if the insurance company is part of a larger financial group, the framework desired needs to be examined also in terms of how it fits into the group's overall framework.

Remuneration spider chart showing effect of potential changes in remuneration



Example 05: If this was a foreign-owned FI

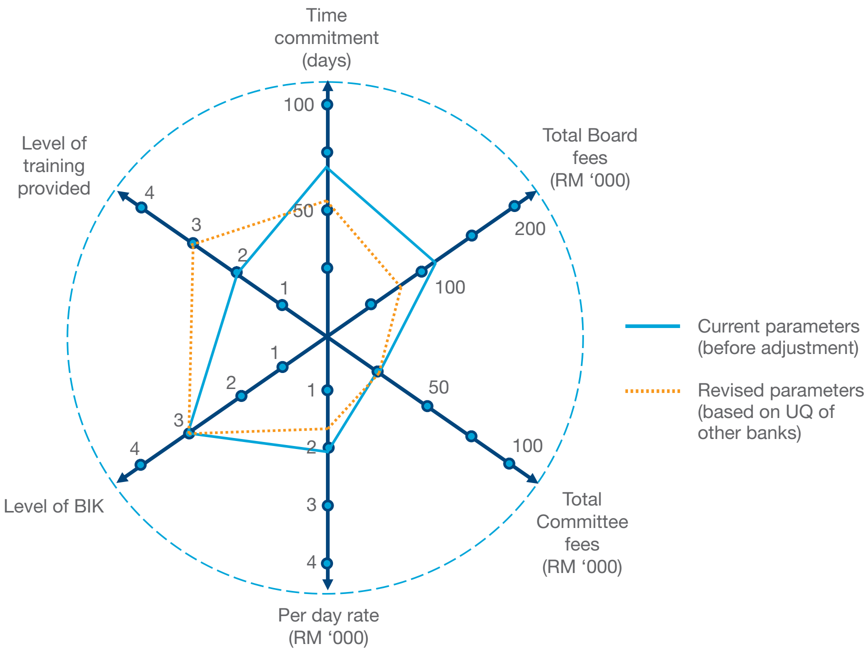
There should not be any major difference in applying any of the principles just because the ownership is different.

In the **Assess** stage, the role of the Malaysian Board has to be examined. It is possible that the Malaysian Boards of foreign-owned FIs have close relationships with their parent Boards which provide an additional avenue for deliberation of issues and the escalation of decisions to be made. This does not mean that the responsibility is in any way lessened but the requirements of the Board are slightly different i.e. the focus could be on relationships and cross-cultural ability rather than just the pure technical FI requirements.

In the **Set Remuneration** step, therefore, the choice of comparator companies will be the most critical decision. As a first comparison, other foreign-owned FIs will be the most obvious choice. After which, if there are issues with getting individuals, then the further consideration of per day rates as well as rates for FIs as a whole need to be considered. It is useful to mention that one Director of a foreign-owned FI interviewed indicated satisfaction with the fees that they are receiving even though it is low, because they are comfortable i.e. they feel 'safe' that there are processes and procedures in place, as well as input from the parent Board.

There will be no significant differences in the **Structure Mix** and **Validation** steps other than if the quantums are lower, then there is less room to introduce many different types of remuneration mechanisms. In addition, there is usually a need to maintain alignment to parent company practice, hence, this further restricts the range of mechanisms.

Remuneration spider chart showing effect of potential changes in remuneration



APPENDICES

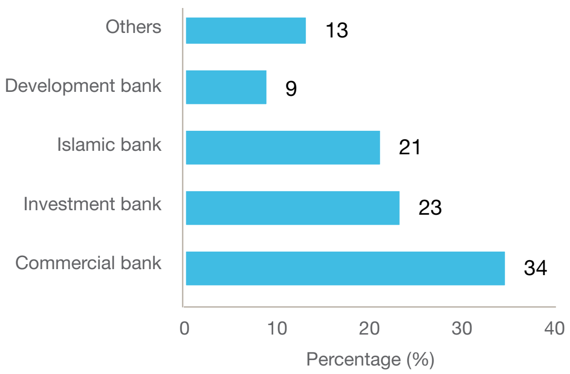
In the course of this study, multiple tools have been employed to gain insight into remuneration and board practices. One of the important tools employed was survey questionnaires that were sent out to company secretaries and individual Directors of FIs.

The Appendices section of this report presents some analysis done on the data gathered through the survey questionnaires. It should be used in conjunction with the 4-step remuneration framework provided in Volume 2 of this study.

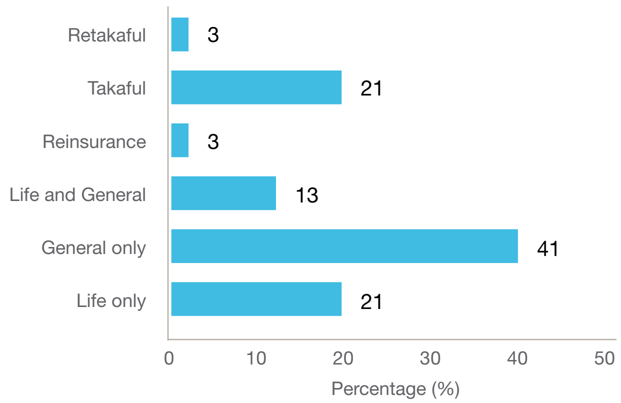
Appendix A: Industry snapshot on remuneration and practices
Appendix B: Opinions and viewpoints from the industry

Profile of study participants

Type of banks



Type of insurance companies



Appendix A
Industry snapshot on remuneration and practices

This appendix sets out the actual Board practices and remuneration levels for FIs. The benchmark data reported in this appendix is the result of a comprehensive survey of company secretaries of all FIs.

The benchmarks provided in this appendix should be read and used in conjunction with the remuneration framework provided in Volume 2 of this study. FIs may use these benchmarks to conduct peer group assessments of their current Board practices and remuneration levels, and identify improvements to be made.

Board & Committee compositions

Typical Board composition by role

Board composition	No. of Directors			Total
	Chairman	NED	ED	
LBG	1	7	1	9
Other banks	1	6	1	8
Insurance companies	1	5	1	7

Typical Board composition by local and foreign Directors

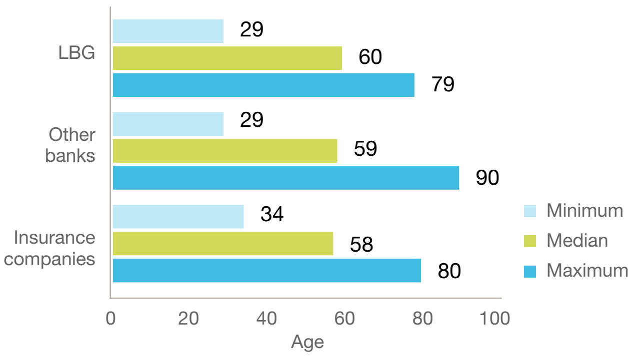
Board composition	No. of Directors		Total
	Local	Foreign	
LBG	7	2	9
Other banks	6	2	8
Insurance companies	6	1	7

Typical Board composition by gender

Board composition	No. of Directors		Total
	Male	Female	
LBG	9	0	9
Other banks	7	1	8
Insurance companies	7	0	7

Typical Board composition by age

Board composition	Age			
	Minimum	Average	Median	Maximum
LBG	29	60	60	79
Other banks	29	59	59	90
Insurance companies	34	58	57	80



Typical Committee composition by role

Audit Committee composition	No. of Directors			Total
	Chairman	NED	ED	
LBG	1	4	0	5
Other banks	1	4	0	5
Insurance companies	1	4	0	5

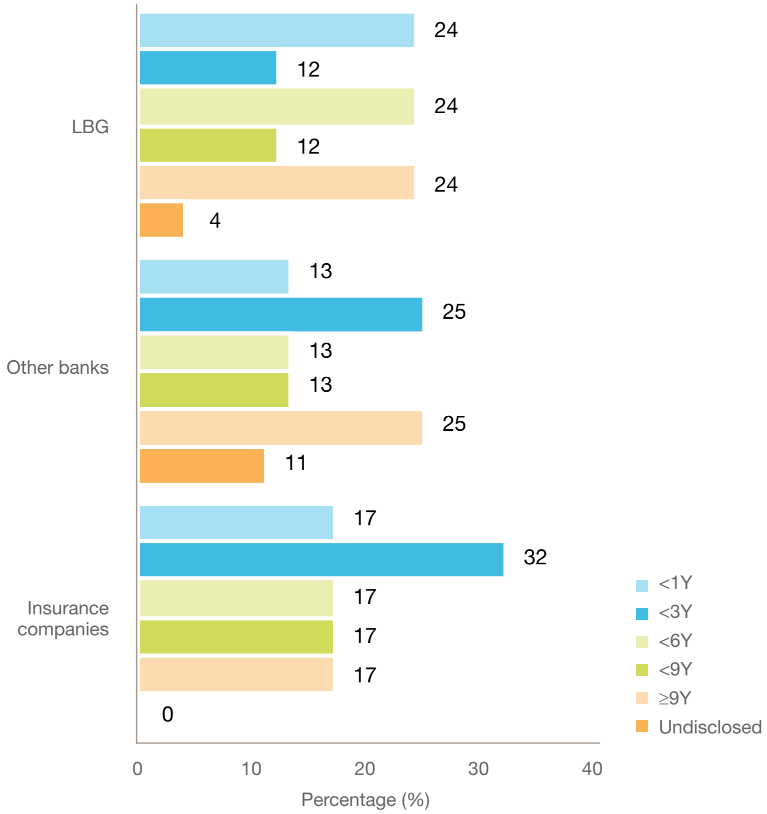
Remuneration Committee composition	No. of Directors			Total
	Chairman	NED	ED	
LBG	1	4	0	5
Other banks	1	4	0	5
Insurance companies	1	4	1	6

Nomination Committee composition	No. of Directors			Total
	Chairman	NED	ED	
LBG	1	5	0	6
Other banks	1	5	1	7
Insurance companies	1	5	1	7

Risk Committee composition	No. of Directors			Total
	Chairman	NED	ED	
LBG	1	5	0	6
Other banks	1	3	0	4
Insurance companies	1	3	1	5

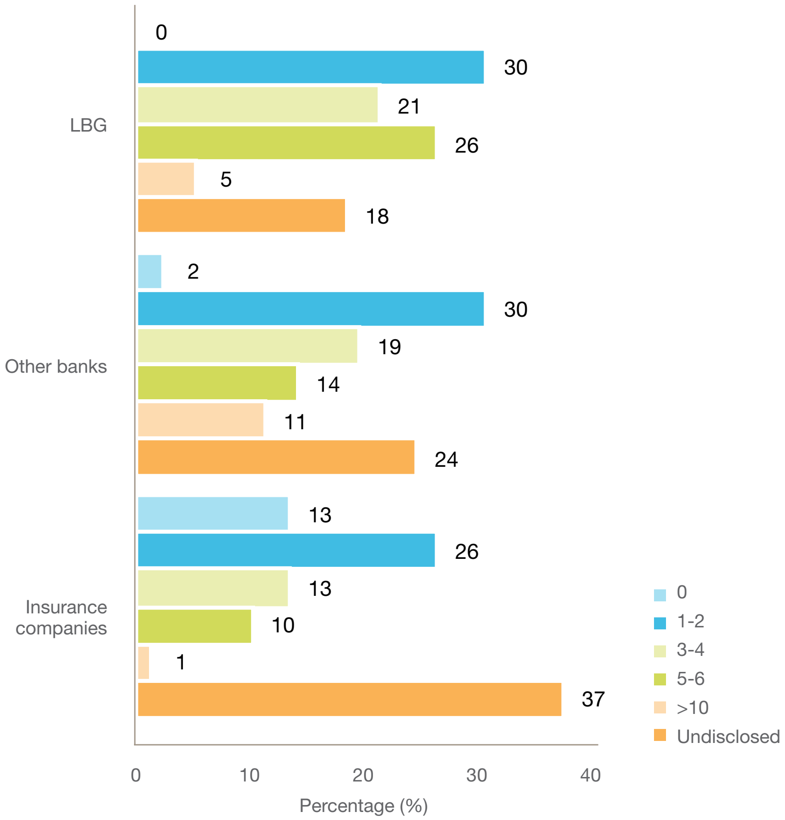
Typical Board composition by tenure

Respondents	No. of years					
	<1Y	<3Y	<6Y	<9Y	≥9Y	Undisclosed
LBG	24%	12%	24%	12%	24%	4%
Other banks	13%	25%	13%	13%	25%	11%
Insurance companies	17%	32%	17%	17%	17%	0%



No. of training programmes received by NEDs p.a.

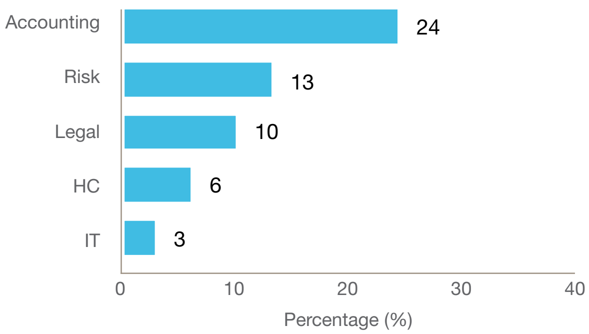
Respondents	No. of training programmes received p.a.					
	0	1 – 2	3 – 4	5 – 9	>10	Undisclosed
LBG	0%	30%	21%	26%	5%	18%
Other banks	2%	30%	19%	14%	11%	24%
Insurance companies	13%	26%	13%	10%	1%	37%



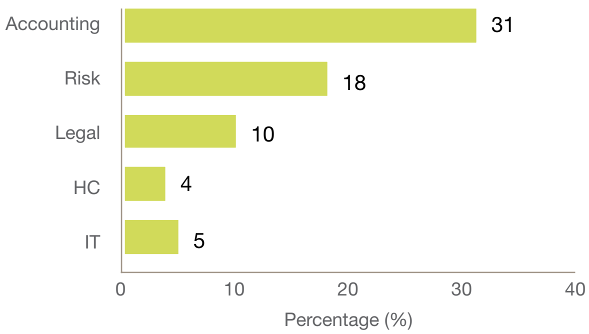
Board composition by professional epertise

Professional expertise	Respondents (%)		
	LBG	Other banks	Insurance companies
Accounting	24%	31%	30%
Risk	13%	18%	18%
Legal	10%	10%	14%
HC	6%	4%	6%
IT	3%	5%	5%

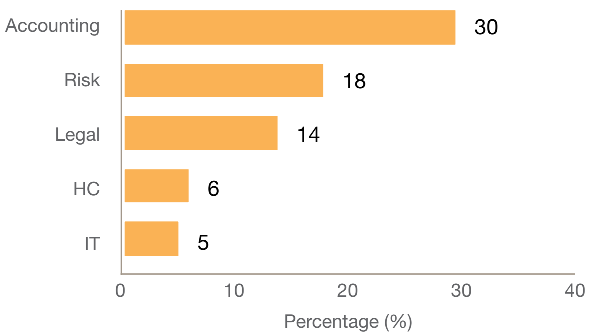
LBG



Other banks



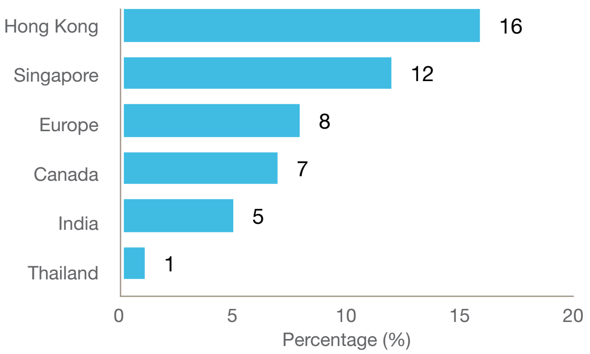
Insurance companies



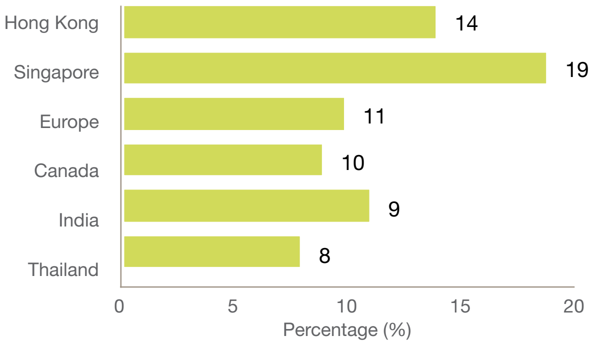
Board composition by international experience

International expertise	Respondents (%)		
	LBG	Other banks	Insurance companies
Hong Kong	16%	14%	8%
Singapore	12%	19%	16%
Europe	8%	10%	10%
Canada	7%	9%	6%
India	5%	11%	7%
Thailand	1%	8%	7%

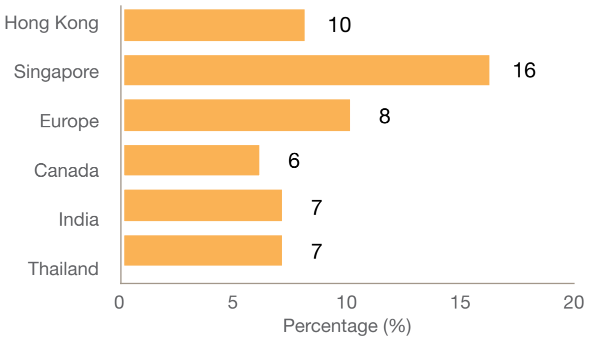
LBG



Other banks



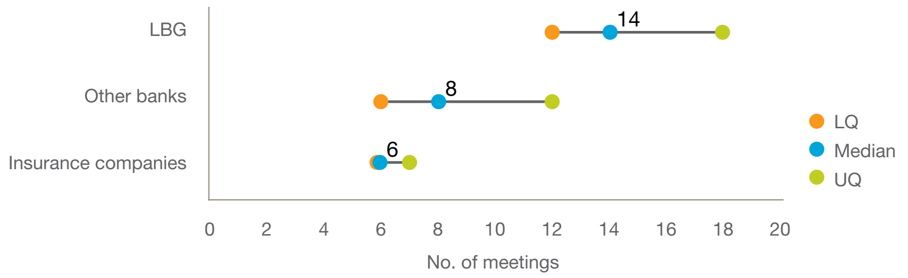
Insurance companies



Board meetings

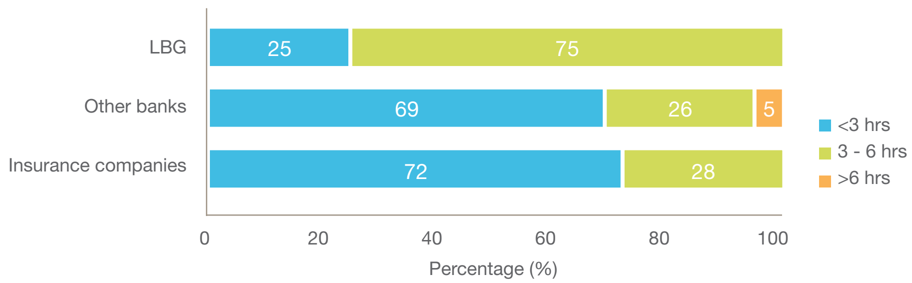
No. of meetings held in the last financial year

No. of meetings	Board		
	LBG	Other banks	Insurance companies
UQ	18	12	7
Median	14	8	6
LQ	12	6	6
Average	15	9	7



Meeting duration

	LBG	Other banks	Insurance companies
<3 hrs	25%	69%	72%
3 – 6 hrs	75%	26%	28%
>6 hrs	0%	5%	0%



Committee meetings

No. of meetings held in the last financial year

No. of meetings	Audit Committee		
	LBG	Other banks	Insurance companies
UQ	19	8	6
Median	13	6	5
LQ	11	4	4
Average	16	7	6

No. of meetings	Remuneration Committee		
	LBG	Other banks	Insurance companies
UQ	8	6	2
Median	5	4	2
LQ	5	2	1
Average	6	4	3

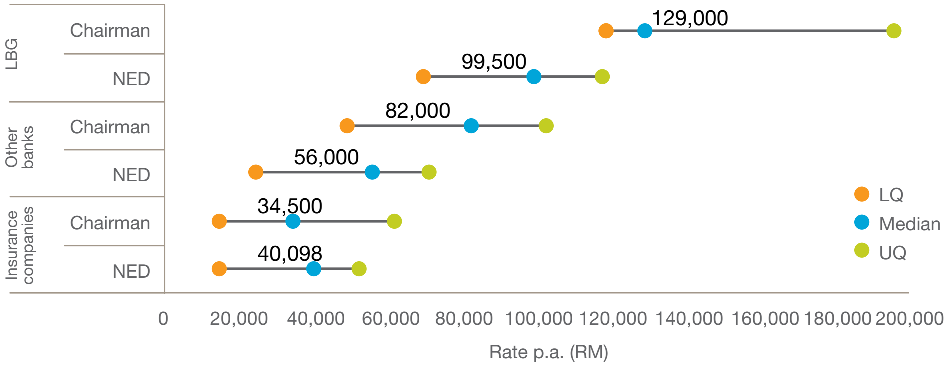
No. of meetings	Nomination Committee		
	LBG	Other banks	Insurance companies
UQ	8	5	4
Median	6	3	3
LQ	5	2	2
Average	6	4	4

No. of meetings	Risk Committee		
	LBG	Other banks	Insurance companies
UQ	13	7	5
Median	11	5	4
LQ	7	4	4
Average	10	6	5

Board fees

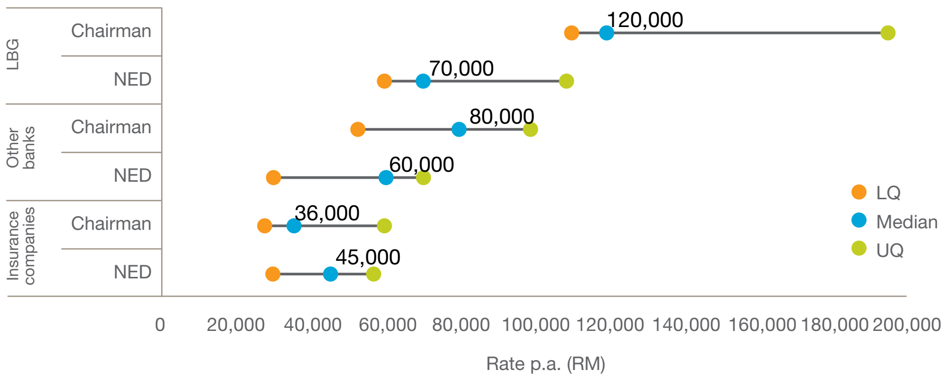
Total fees (fixed fees + meeting fees p.a.)

	LBG		Other banks		Insurance companies	
	Chairman	NED	Chairman	NED	Chairman	NED
UQ	196,000	118,000	102,875	71,000	61,200	52,250
Median	129,000	99,500	82,000	56,000	34,500	40,098
LQ	119,000	69,000	49,500	24,000	14,724	14,625
Average	160,000	101,722	116,235	51,269	43,064	40,796



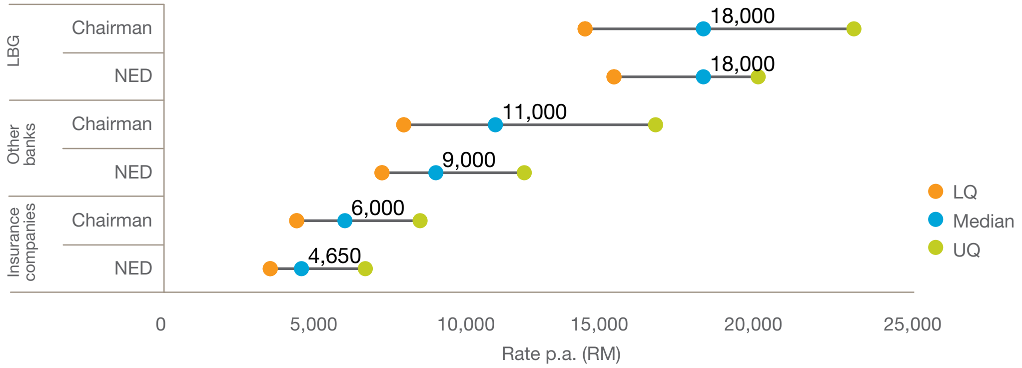
Fixed fees p.a.

	LBG		Other banks		Insurance companies	
	Chairman	NED	Chairman	NED	Chairman	NED
UQ	195,000	108,750	99,000	70,000	60,000	56,588
Median	120,000	70,000	80,000	60,000	36,000	45,000
LQ	110,000	60,000	52,500	30,000	28,000	30,000
Average	155,500	88,375	122,824	50,946	48,068	48,155



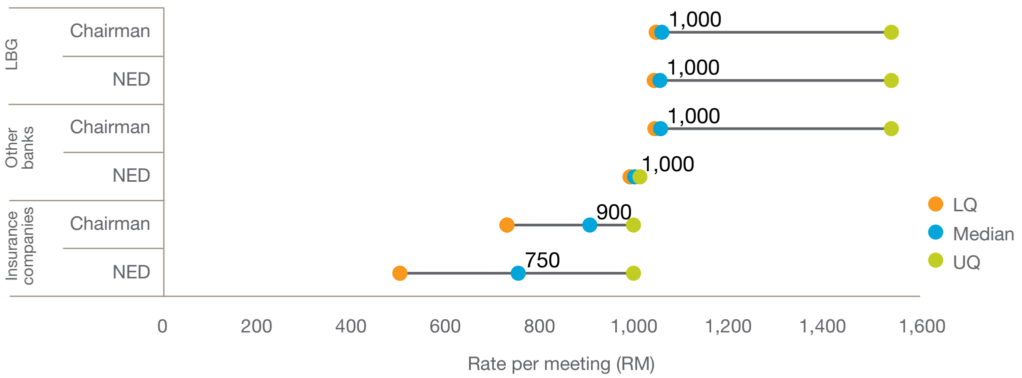
Meeting fees p.a.

	LBG		Other banks		Insurance companies	
	Chairman	NED	Chairman	NED	Chairman	NED
UQ	23,000	19,875	16,375	12,000	8,500	6,750
Median	18,000	18,000	11,000	9,000	6,000	4,650
LQ	14,000	15,000	8,000	7,200	4,350	3,500
Average	28,000	26,063	13,924	11,725	8,126	5,767



Per meeting fees

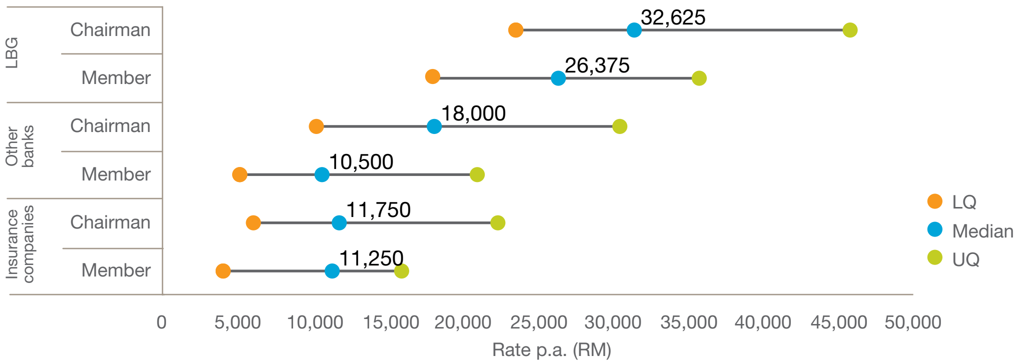
	LBG		Other banks		Insurance companies	
	Chairman	NED	Chairman	NED	Chairman	NED
UQ	1,500	1,500	1,500	1,000	1,000	1,000
Median	1,000	1,000	1,000	1,000	900	750
LQ	1,000	1,000	1,000	1,000	725	500
Average	1,679	1,594	1,361	1,099	1,089	763



Audit Committee fees

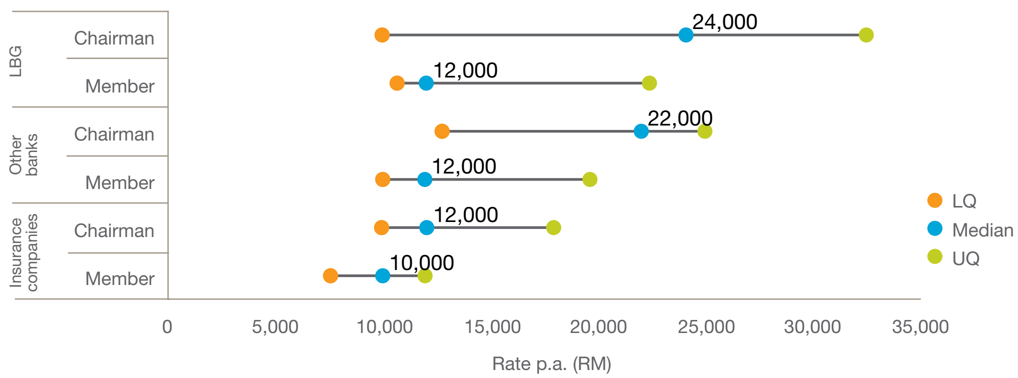
Total fees (fixed fees + meeting fees p.a.)

	LBG		Other banks		Insurance companies	
	Chairman	Member	Chairman	Member	Chairman	Member
UQ	45,875	35,875	30,500	21,000	22,375	16,000
Median	32,625	26,375	18,000	10,500	11,750	11,250
LQ	23,500	18,250	10,250	5,125	6,000	4,000
Average	38,969	30,906	21,847	16,180	18,085	13,522



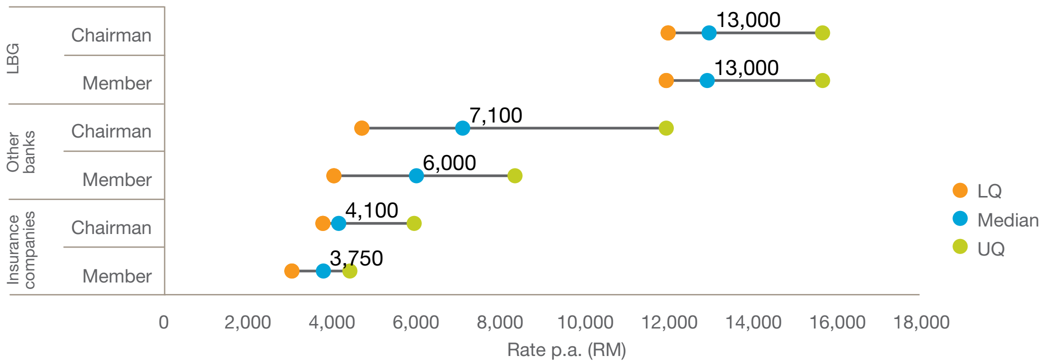
Fixed fees p.a.

	LBG		Other banks		Insurance companies	
	Chairman	Member	Chairman	Member	Chairman	Member
UQ	32,500	22,500	25,000	19,735	18,000	12,000
Median	24,000	12,000	22,000	12,000	12,000	10,000
LQ	10,000	10,625	12,750	10,000	10,000	7,500
Average	21,857	13,125	25,000	19,735	18,941	13,344



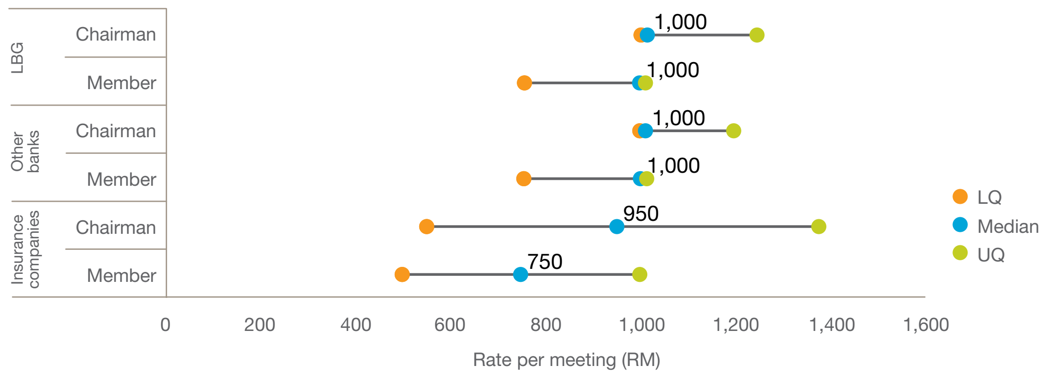
Meeting fees p.a.

	LBG		Other banks		Insurance companies	
	Chairman	Member	Chairman	Member	Chairman	Member
UQ	15,750	15,750	12,000	8,438	6,000	4,375
Median	13,000	13,000	7,100	6,000	4,100	3,750
LQ	12,000	12,000	4,750	4,000	3,750	3,000
Average	18,850	18,850	9,439	8,002	6,736	5,661



Per meeting fees

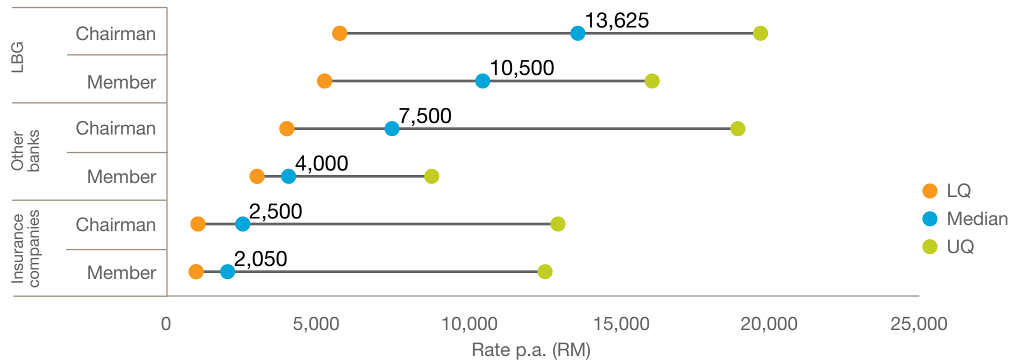
	LBG		Other banks		Insurance companies	
	Chairman	Member	Chairman	Member	Chairman	Member
UQ	1,250	1,000	1,200	1,000	1,375	1,000
Median	1,000	1,000	1,000	1,000	950	750
LQ	1,000	750	1,000	750	550	500
Average	1,321	1,108	1,197	992	1,108	867



Remuneration Committee fees

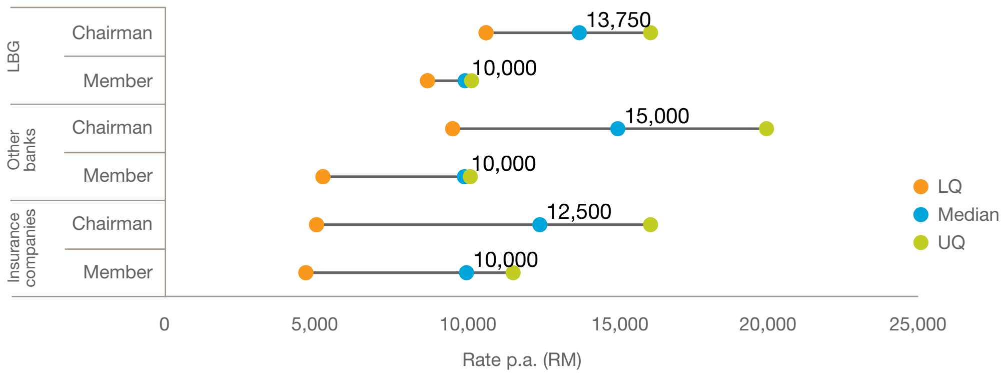
Total fees (fixed fees + meeting fees p.a.)

	LBG		Other banks		Insurance companies	
	Chairman	Member	Chairman	Member	Chairman	Member
UQ	19,813	16,312	19,000	8,750	13,000	12,625
Median	13,625	10,500	7,500	4,000	2,500	2,050
LQ	5,750	5,250	4,000	3,000	1,000	1,000
Average	14,208	10,958	11,344	6,802	9,136	6,169



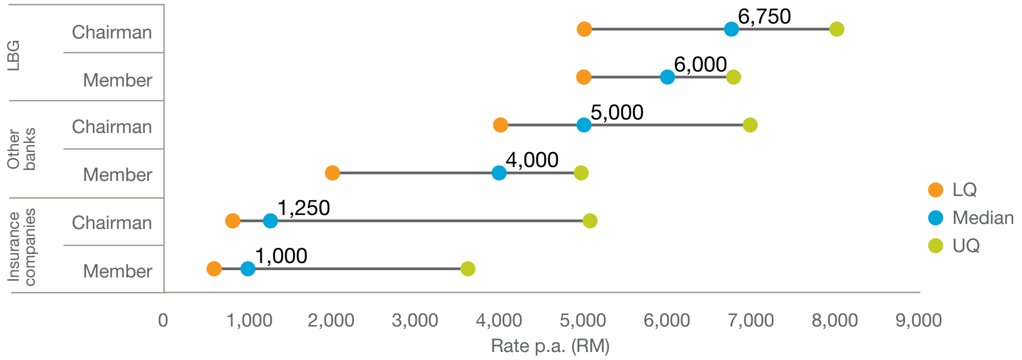
Fixed fees p.a.

	LBG		Other banks		Insurance companies	
	Chairman	Member	Chairman	Member	Chairman	Member
UQ	16,250	10,000	20,000	10,000	16,250	11,500
Median	13,750	10,000	15,000	10,000	12,500	10,000
LQ	10,625	8,750	9,600	5,250	5,002	4,750
Average	13,125	8,750	13,854	8,100	15,319	9,500



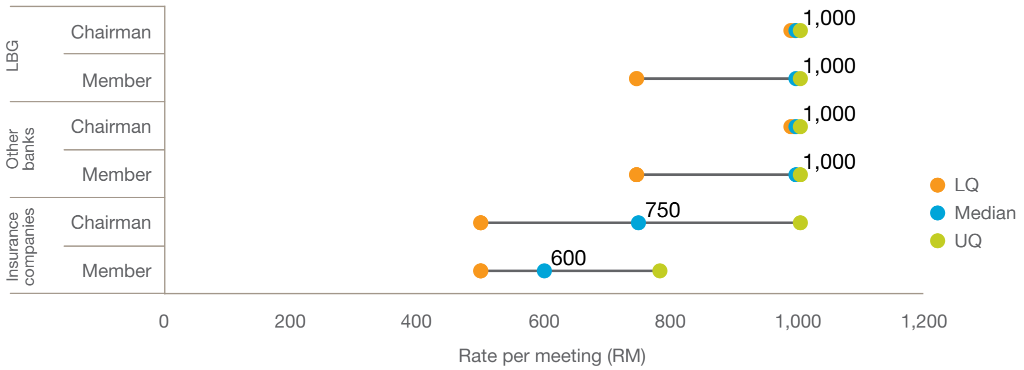
Meeting fees p.a.

	LBG		Other banks		Insurance companies	
	Chairman	Member	Chairman	Member	Chairman	Member
UQ	8,000	6,750	7,000	5,000	5,125	3,625
Median	6,750	6,000	5,000	4,000	1,250	1,000
LQ	5,000	5,000	4,000	2,000	813	600
Average	6,550	6,150	4,929	3,917	2,723	2,411



Per meeting fees

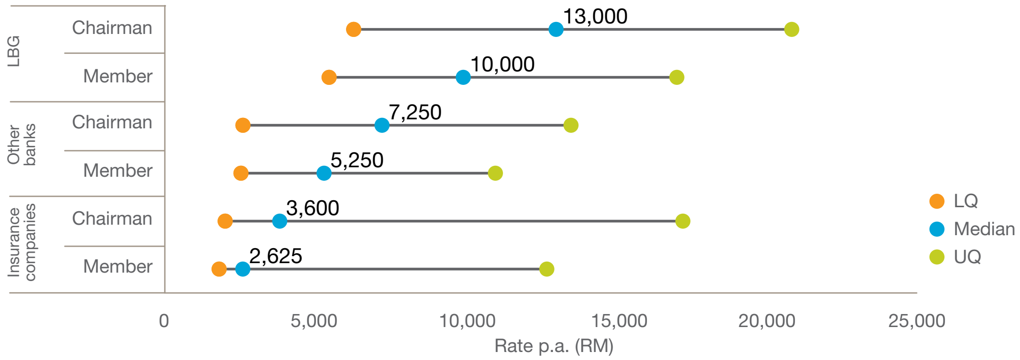
	LBG		Other banks		Insurance companies	
	Chairman	Member	Chairman	Member	Chairman	Member
UQ	1,000	1,000	1,000	1,000	1,000	788
Median	1,000	1,000	1,000	1,000	750	600
LQ	1,000	750	1,000	750	500	500
Average	950	900	1,080	890	963	781



Nomination Committee fees

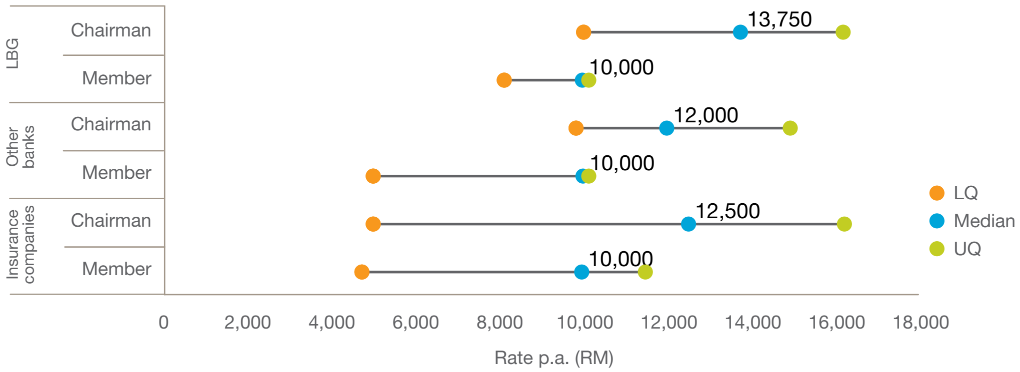
Total fees (fixed fees + meeting fees p.a.)

	LBG		Other banks		Insurance companies	
	Chairman	Member	Chairman	Member	Chairman	Member
UQ	20,875	17,000	13,500	11,000	17,250	12,875
Median	13,000	10,000	7,250	5,250	3,600	2,625
LQ	6,250	5,438	2,625	2,500	2,000	1,800
Average	14,000	10,792	9,554	6,619	10,350	7,163



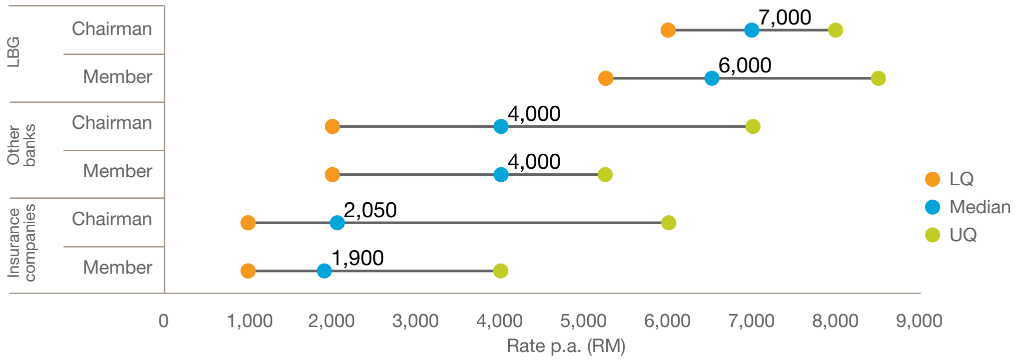
Fixed fees p.a.

	LBG		Other banks		Insurance companies	
	Chairman	Member	Chairman	Member	Chairman	Member
UQ	16,250	10,000	15,000	10,000	16,250	11,500
Median	13,750	10,000	12,000	10,000	12,500	10,000
LQ	10,000	8,125	9,600	4,950	5,002	4,750
Average	12,500	8,125	12,854	7,900	15,227	9,400



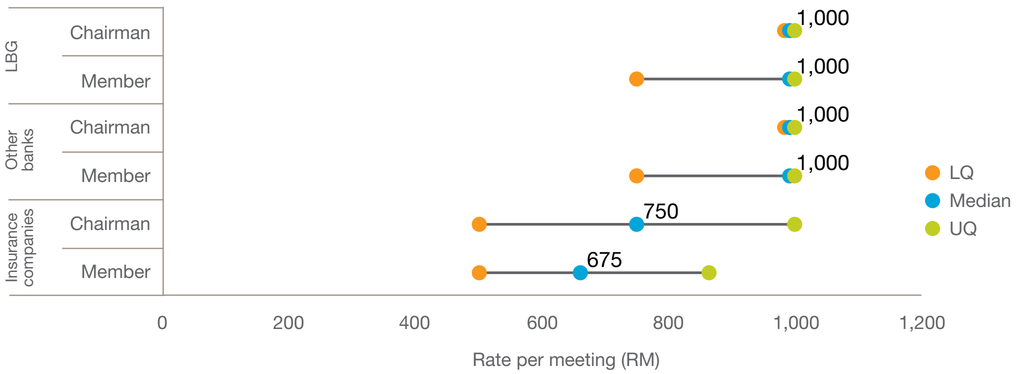
Meeting fees p.a.

	LBG		Other banks		Insurance companies	
	Chairman	Member	Chairman	Member	Chairman	Member
UQ	8,000	8,000	7,000	5,250	6,000	4,000
Median	7,000	6,000	4,000	4,000	2,050	1,900
LQ	6,000	5,250	2,000	2,000	1,000	1,000
Average	6,800	6,450	5,014	3,681	3,528	3,180



Per meeting fees

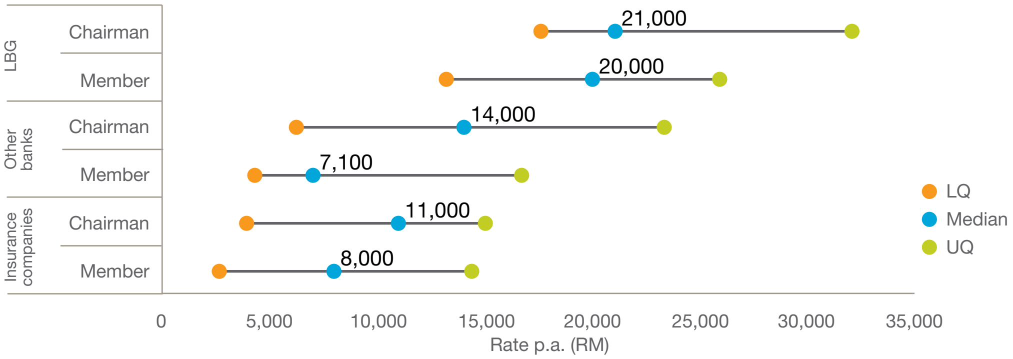
	LBG		Other banks		Insurance companies	
	Chairman	Member	Chairman	Member	Chairman	Member
UQ	1,000	1,000	1,000	1,000	1,000	850
Median	1,000	1,000	1,000	1,000	750	675
LQ	1,000	750	1,000	750	500	500
Average	950	900	1,163	923	1,002	804



Risk Committee fees

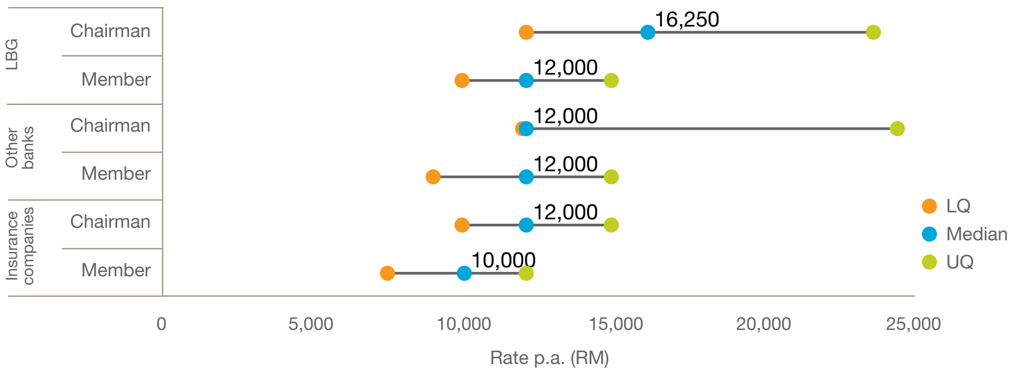
Total fees (fixed fees + meeting fees p.a.)

	LBG		Other banks		Insurance companies	
	Chairman	Member	Chairman	Member	Chairman	Member
UQ	32,250	26,000	23,500	16,750	15,000	14,500
Median	21,000	20,000	14,000	7,100	11,000	8,000
LQ	17,563	13,187	6,300	4,251	3,900	2,700
Average	23,906	18,781	20,766	14,487	13,498	10,185



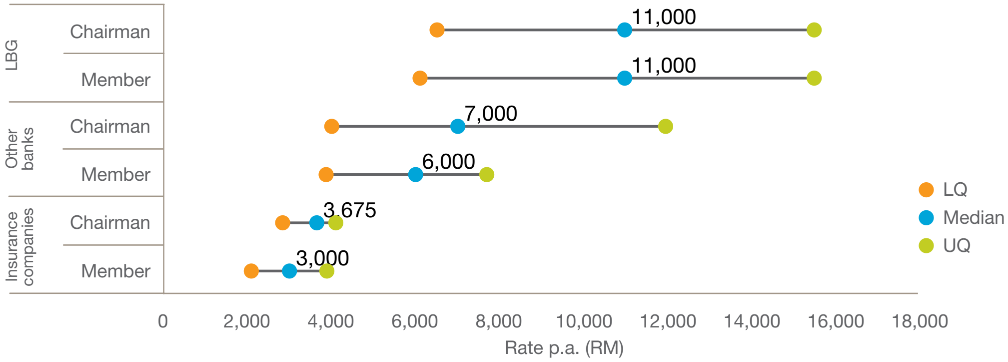
Fixed fees p.a.

	LBG		Other banks		Insurance companies	
	Chairman	Member	Chairman	Member	Chairman	Member
UQ	23,750	15,000	24,500	15,000	15,000	12,000
Median	16,250	12,000	12,000	12,000	12,000	10,000
LQ	12,125	10,000	12,000	9,000	10,000	7,500
Average	18,583	14,400	24,842	18,677	16,539	10,625



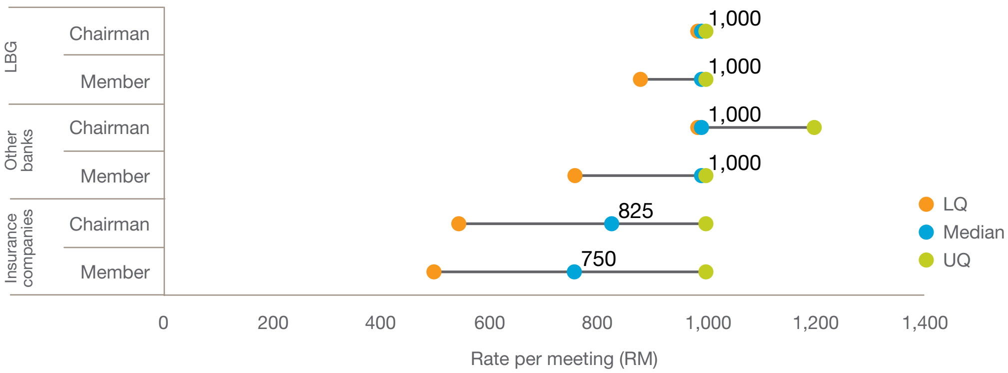
Meeting fees p.a.

	LBG		Other banks		Insurance companies	
	Chairman	Member	Chairman	Member	Chairman	Member
UQ	15,500	15,500	12,000	7,725	4,000	3,938
Median	11,000	11,000	7,000	6,000	3,675	3,000
LQ	6,500	6,125	4,000	3,875	2,850	2,100
Average	11,393	11,179	8,071	7,104	4,952	4,852



Per meeting fees

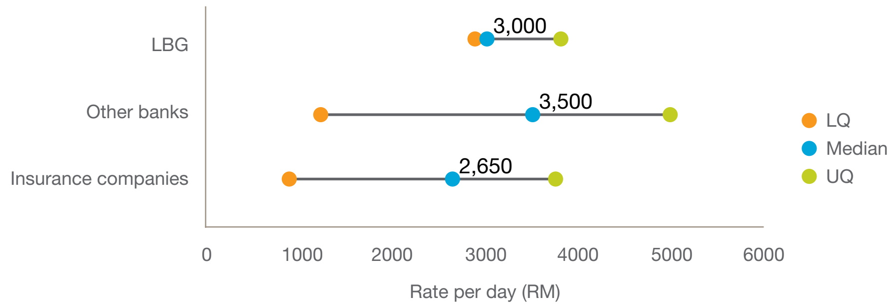
	LBG		Other banks		Insurance companies	
	Chairman	Member	Chairman	Member	Chairman	Member
UQ	1,000	1,000	1,200	1,000	1,000	1,000
Median	1,000	1,000	1,000	1,000	825	750
LQ	1,000	875	1,000	750	550	500
Average	1,036	1,000	1,156	958	1,060	1,012



Fee per day

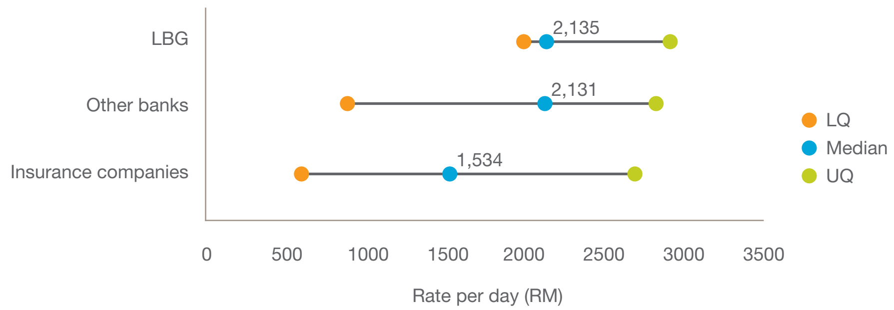
NED sitting on a Board assuming no Committee membership

	Time spent p.a./RM per day					
	LBG		Other banks		Insurance companies	
	Time	RM per day	Time	RM per day	Time	RM per day
UQ	36	3,833	24	5,000	14	3,786
Median	28	3,000	16	3,500	12	2,650
LQ	24	2,893	12	1,252	12	875
Average	30	3,622	18	3,375	14	3,035



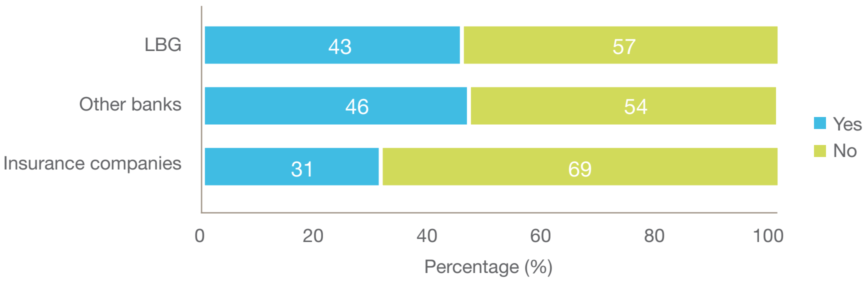
NED sitting on a Board assuming membership on two Committees

	Time spent p.a./RM per day					
	LBG		Other banks		Insurance companies	
	Time	RM per day	Time	RM per day	Time	RM per day
UQ	74	2,932	43	2,835	30	2,697
Median	52	2,135	34	2,131	26	1,534
LQ	44	1,977	24	887	22	604
Average	34	2,362	35	2,294	28	1,912



NED remuneration

Analysis of FIs providing benefit plans to NEDs



Types of benefits

LBG	Benefits							
	Liability insurance	Share-based payment	Retirement Plan	Insurance	Medical	Car	Driver	Leave
Chairman	✓		✓	✓	✓	✓	✓	✓
ED	✓	✓	✓	✓	✓	✓	✓	✓
NED	✓		✓	✓	✓			

Other banks	Benefits							
	Liability insurance	Share-based payment	Retirement Plan	Insurance	Medical	Car	Driver	Leave
Chairman	✓			✓	✓	✓	✓	
ED	✓	✓	✓	✓	✓	✓	✓	✓
NED	✓	✓		✓	✓			

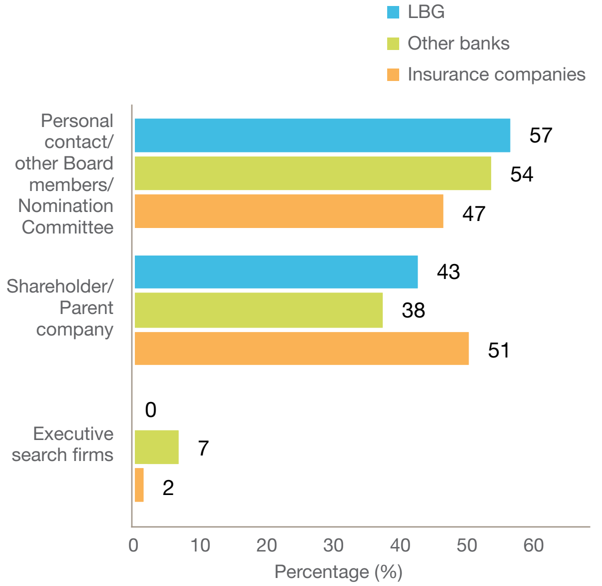
Insurance companies	Benefits							
	Liability insurance	Share-based payment	Retirement Plan	Insurance	Medical	Car	Driver	Leave
Chairman	✓			✓	✓			
ED	✓	✓	✓	✓	✓	✓	✓	✓
NED	✓			✓	✓			

Variable remuneration tools considered by FIs

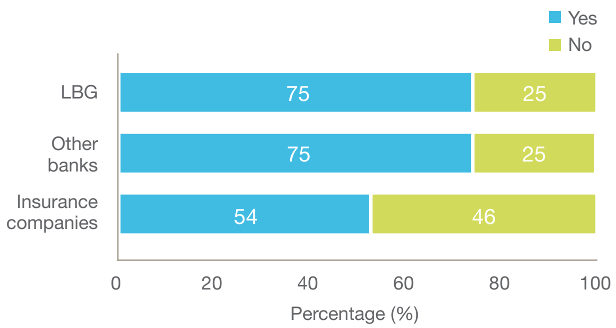
	LBG	Other banks	Insurance companies
Variable cash bonus	0%	9%	10%
Stock options	0%	6%	0%
Performance shares	0%	0%	0%
Others	0%	11%	3%

Selection and nomination

Processes employed for identifying potential NEDs

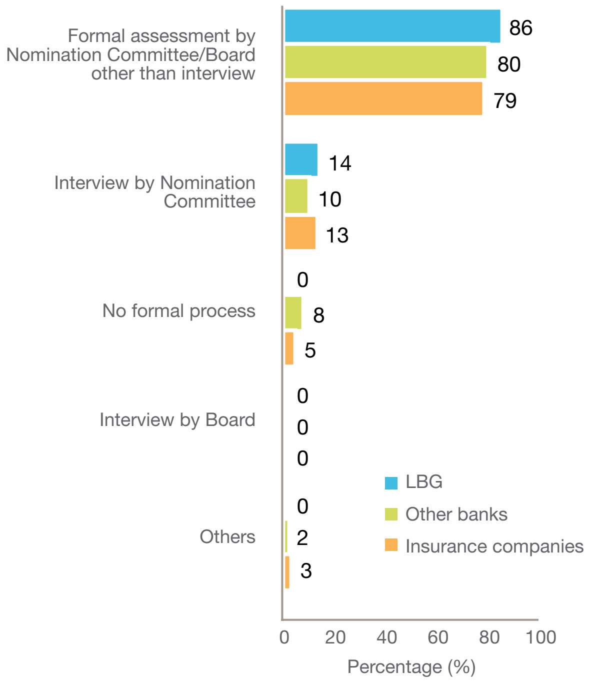


Percentage of FIs which conduct periodic assessment to identify potential NEDs



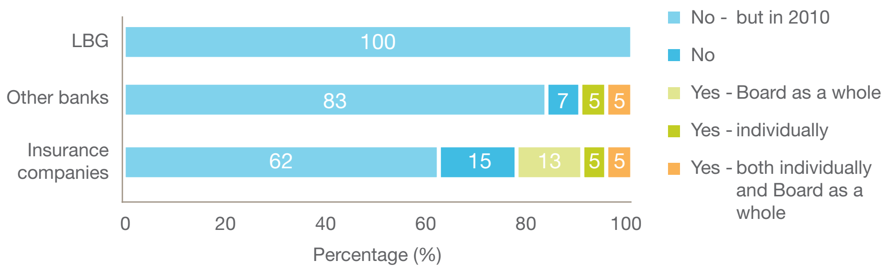
Processes employed for assessing suitability of NEDs

Formal process of assessing suitability	Respondents (%)		
	LBG	Other banks	Insurance companies
Formal assessment by Nomination Committee/Board other than interview	86%	80%	79%
Interview by Nomination Committee	14%	10%	13%
No formal process	0%	8%	5%
Interview by Board	0%	0%	0%
Others	0%	2%	3%



Performance evaluation

Availability of formal performance assessment for NEDs

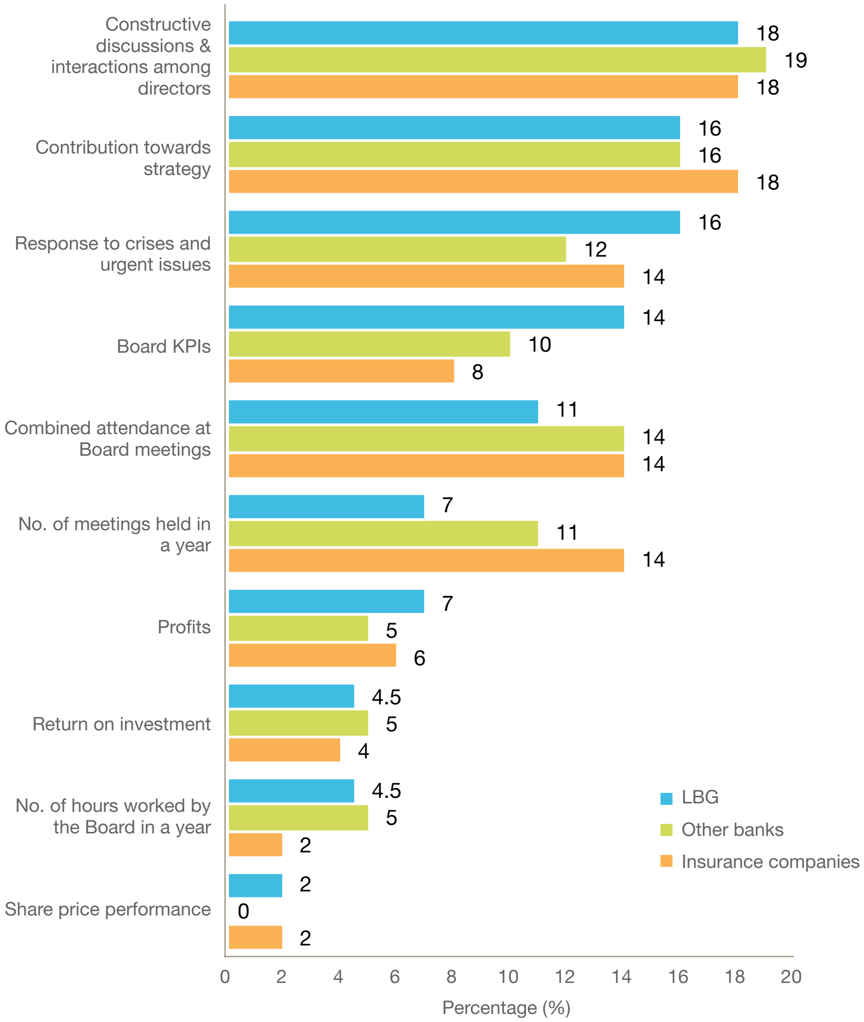


Performance evaluation period

	Performance evaluation period		
	LBG	Other banks	Insurance companies
1 Financial Year	100%	92%	94%
2 Financial Year	0%	5%	0%
Other	0%	3%	6%

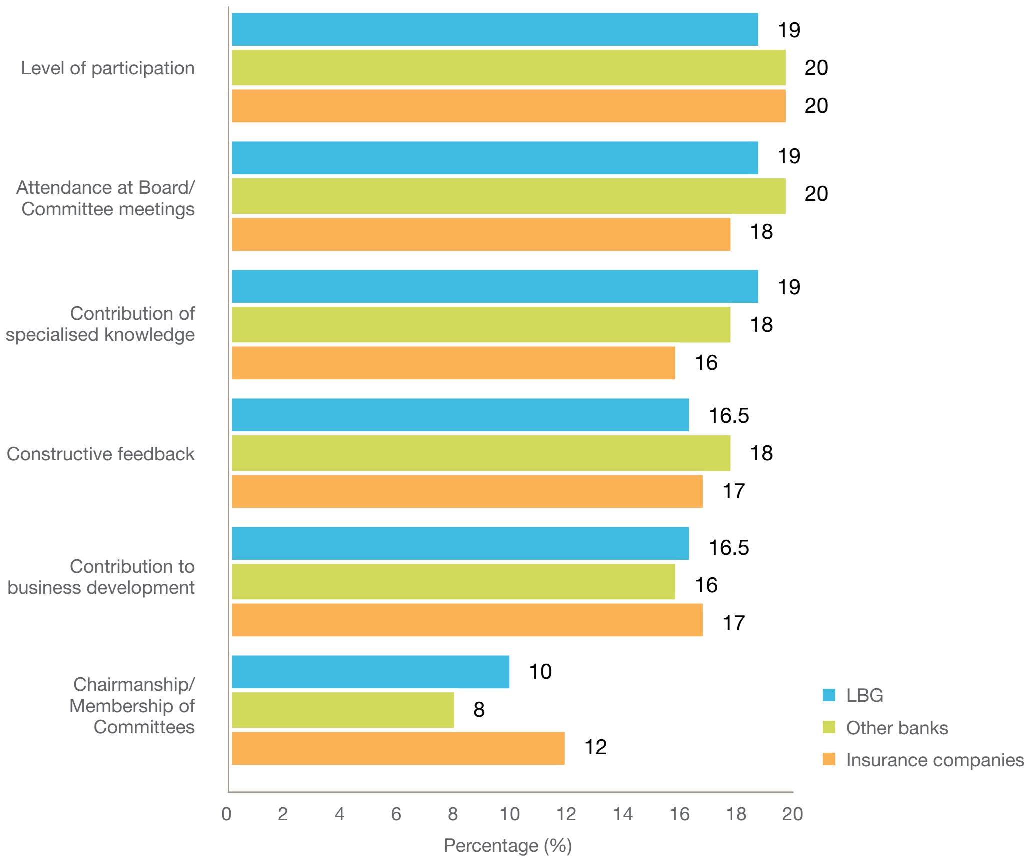
Criteria used to measure overall Board performance

Criteria used for measuring overall Board performance	Respondents (%)		
	LBG	Other banks	Insurance companies
Constructive discussions & interactions among Directors	18%	19%	18%
Contribution towards strategy	16%	16%	18%
Response to crises and urgent issues	16%	12%	14%
Board KPIs	14%	10%	8%
Combined attendance at Board meetings	11%	14%	14%
No. of meetings held in a year	7%	11%	14%
Profits	7%	8%	6%
Return on investment	4.5%	5%	4%
No. of hours worked by the Board in a year	4.5%	5%	2%
Share price performance	2%	0%	2%



Criteria used to measure individual Directors' performance

Criteria used for measuring individual Director's performance	Respondents (%)		
	LBG	Other banks	Insurance companies
Level of participation	19%	20%	20%
Attendance of Board/Committee meetings	19%	20%	18%
Contribution of specialised knowledge	19%	18%	16%
Constructive feedback	16.5%	18%	17%
Contribution to business development	16.5%	16%	17%
Chairmanship/Membership of Committees	10%	8%	12%



Types of assessments used to measure individual Directors' performance

Types of assessments used to measure individual performance	Respondents (%)		
	LBG	Other banks	Insurance companies
Peer and self evaluation	50%	31%	33%
Peer review only	25%	33%	49%
Self evaluation only	25%	33%	8%
Others	0%	3%	14%

Appendix B
Opinions and viewpoints from industry

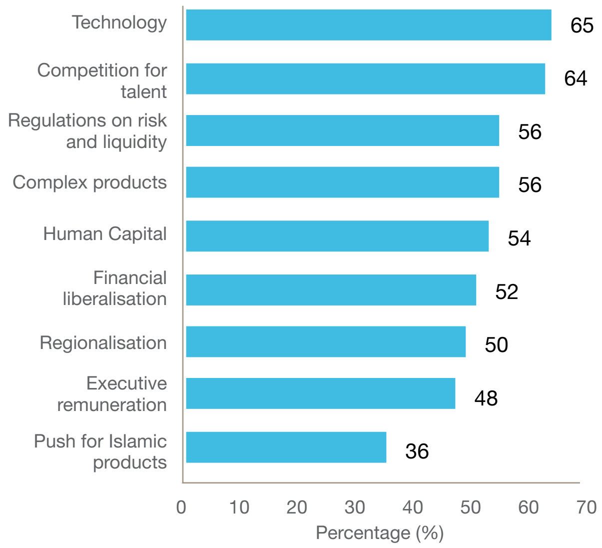
This appendix sets out industry opinions and viewpoints on Board practices and remuneration levels for FIs.

The opinions and viewpoints provided in this appendix should be read and used in conjunction with the remuneration framework provided in Volume 2 of this study. FIs may use these opinions and viewpoints to design their remuneration frameworks and identify improvements to be made.

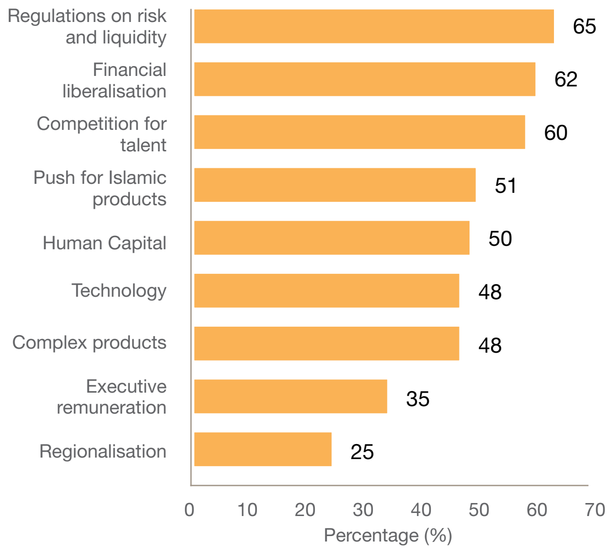
Opinions on Board composition

Key challenges and trends affecting Board size and composition

LBG

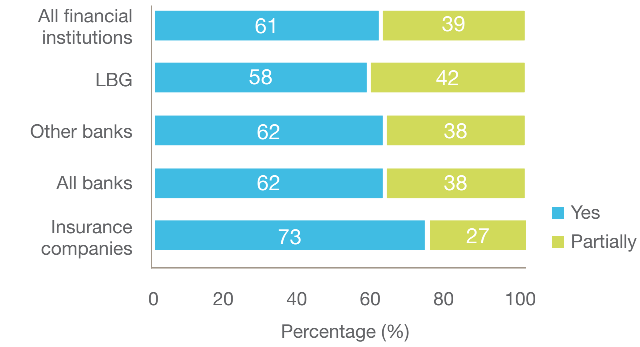


Insurance companies

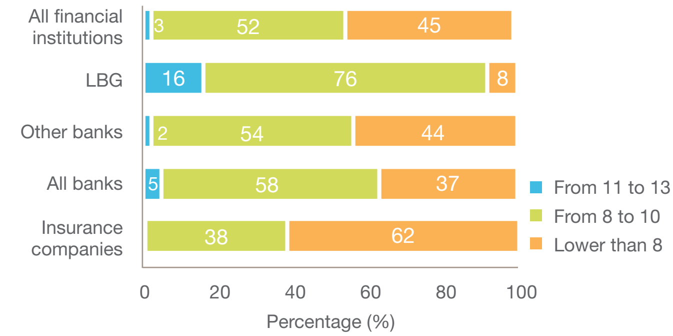


Other banks

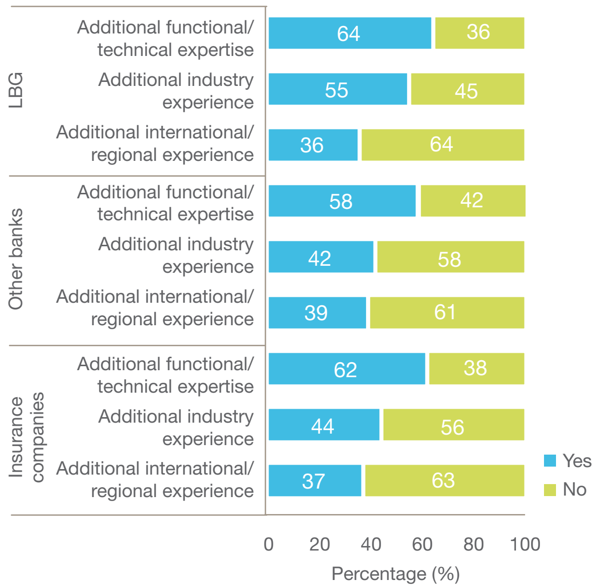
Readiness of Boards to face trends and challenges



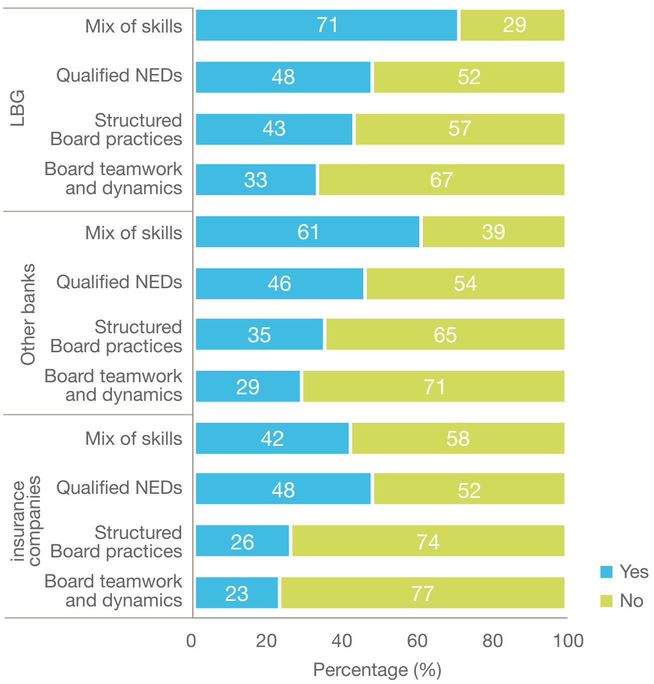
Optimal Board size



Areas for potential immediate improvement to the Board

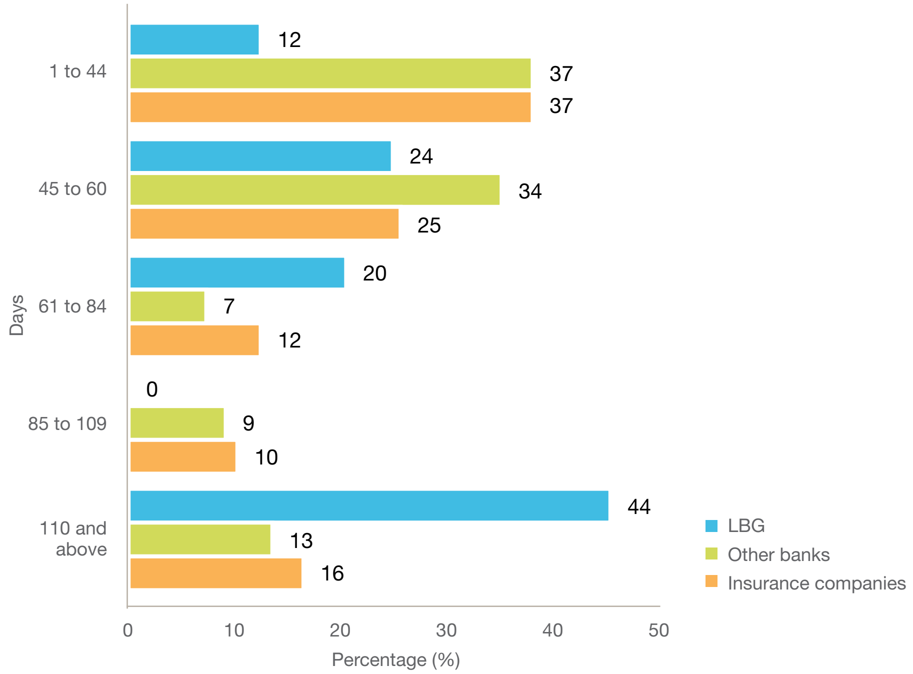


Areas that will give Boards a competitive edge



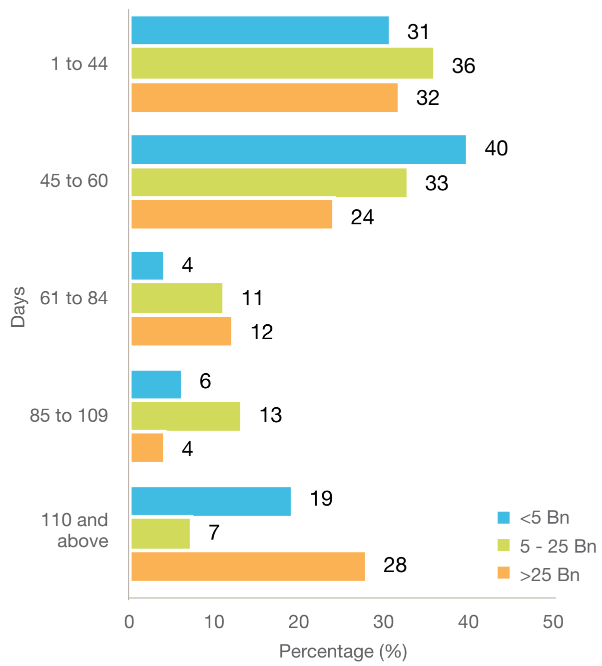
Opinions on Board roles

Days spent p.a. on Board and Committee meetings and preparation

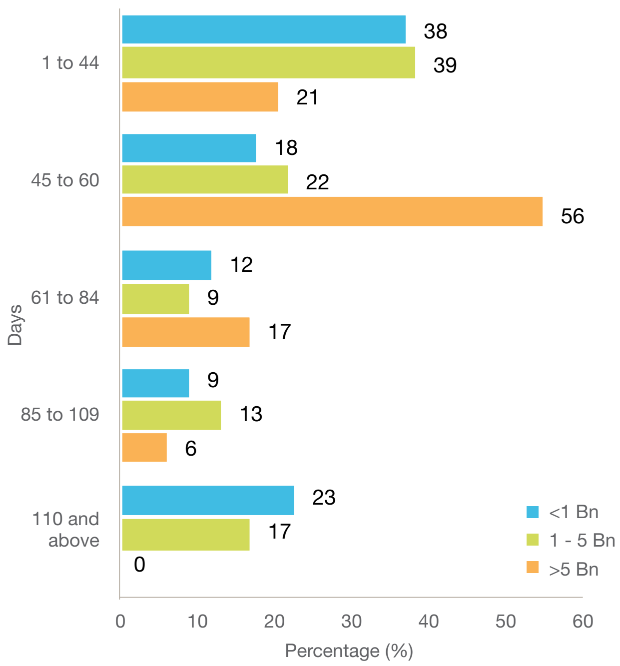


Days spent p.a. on Board and Committee meetings and preparation by asset size

Banks

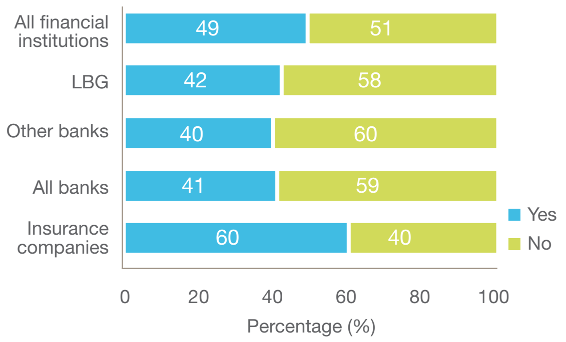


Insurance

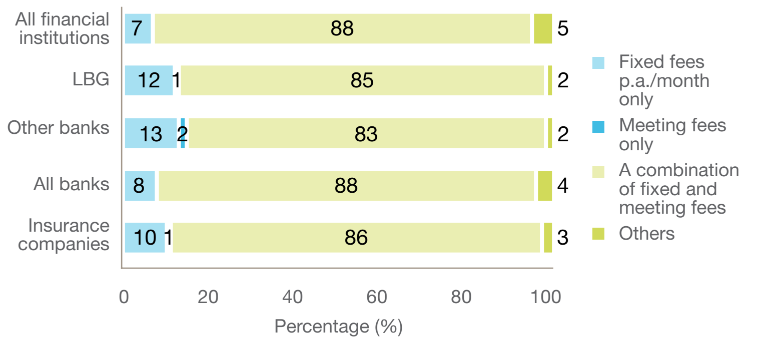


Opinions on NED remuneration

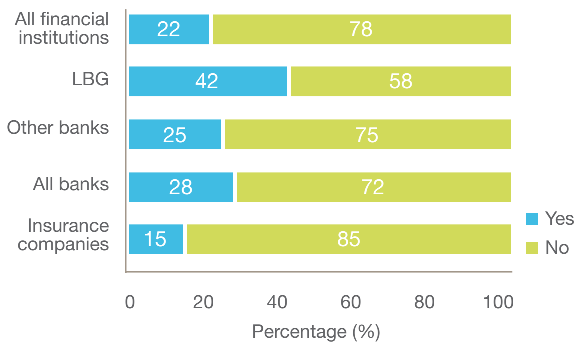
Adequacy of overall fees



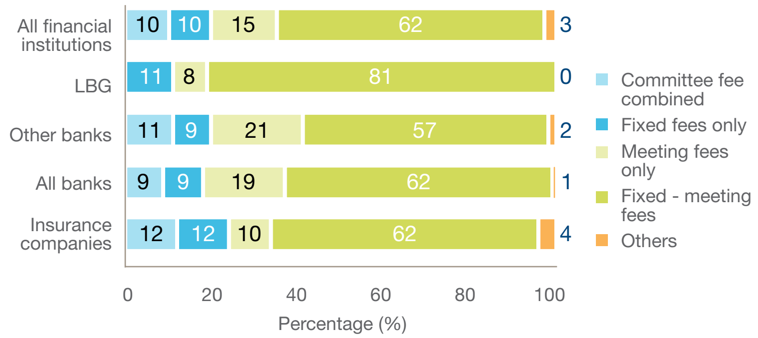
Board fee structure preferences



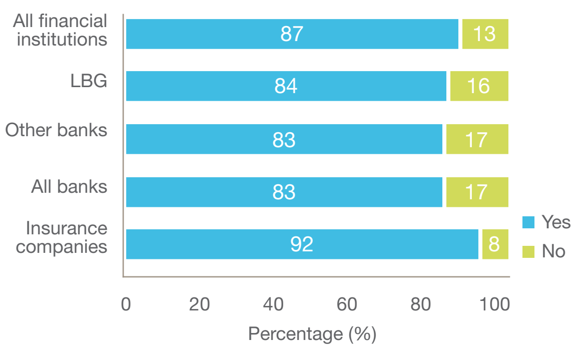
Preference for introduction of a minimum shareholding requirement



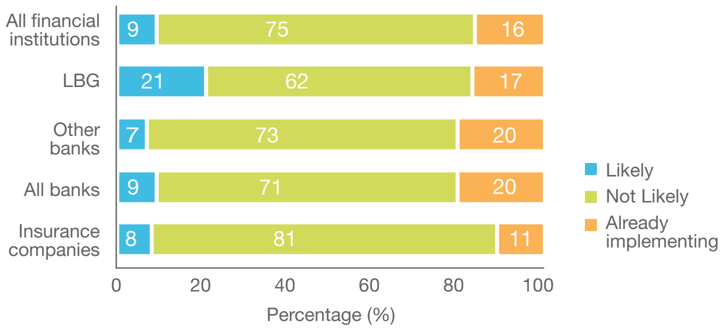
Committee fee structure preferences



Preference for benefits to be included as part of remuneration

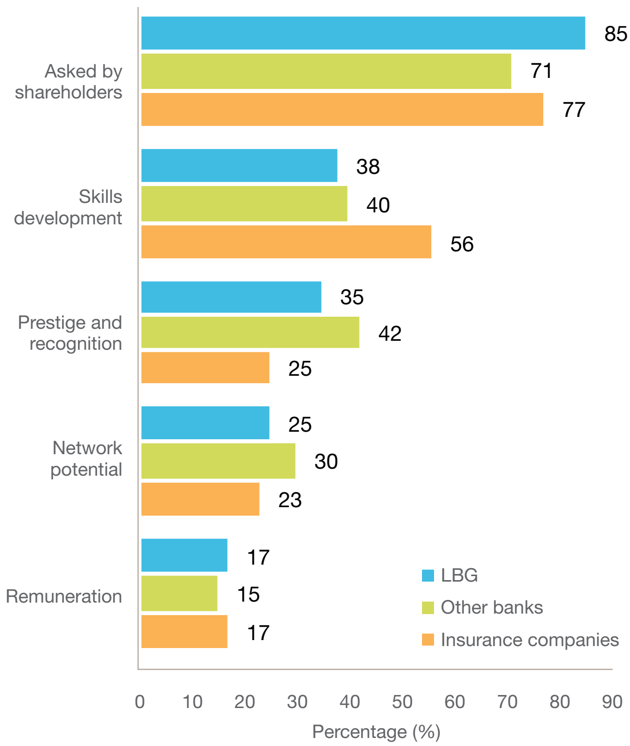


Introduction of share-based payment to NEDs

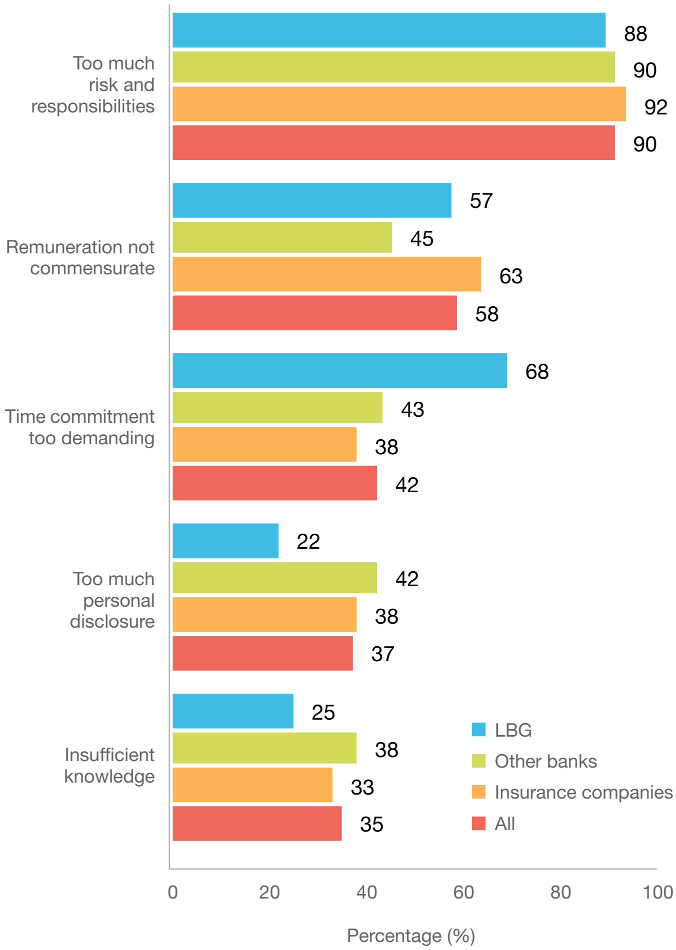


Opinions on selection and nomination

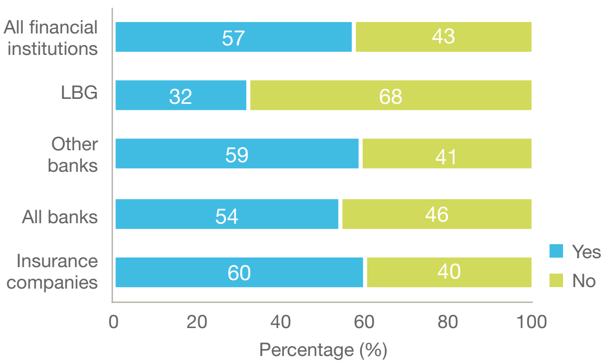
Reasons for NEDs to join the Board



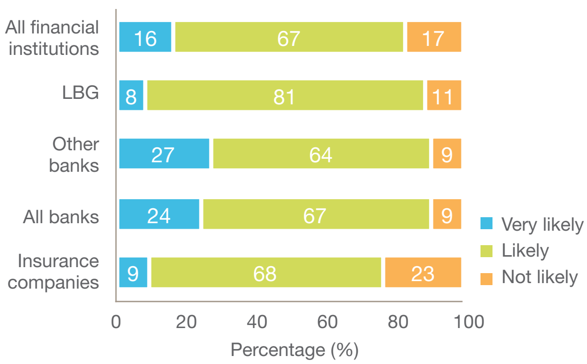
Main reasons why some potential talent do not want to sit on an FI Board



Sufficiency of pool of qualified NEDs on FI Boards in Malaysia



Probability of talent pool increase with suggested remuneration level



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