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Revealed: the best (and worst) value bank chiefs

For better or for worse: JP Morgan Chase's Dimon, left, and Citigroup's Pandit

The performance of top executives can only be fairly judged when compared to rivals, writes Kit Chellel

When it comes to working out whether bank chief executives are really worth their multimillion dollar salaries, only one thing really matters, according to Swiss pay consultancy Obermatt. It's not about hitting targets, lowering risk profile or boosting share price. The most important metric should be: how well did their rivals do?

Barnstorming financial results is all very well but, if they reflect a booming economy rather than sound management, they can be misleading. Put a different way, increasing profit by 10% in 2009, when banks rebounded from the crisis, is worth less than an identical increase in 2008, the worst year of the crash. And that 10% rise is worth still less if rivals are up 20%.

Hermann Stern, the founder of Obermatt, said: "It makes little sense that salaries move with the cycle, except, of course, if you want to reward executives for the head and tail winds of the economy. Revenues, profits and even share price movements are useless for assessing chief executive pay. Only by comparing this performance relative – or indexed – against that of their peers can we reveal true performance."

Using this measure, Financial News teamed up with Obermatt to shed some light on the complicated issue of how much bank chief executives should be paid.

For each bank, Obermatt compiled 2010 figures on the two main performance indicators: total shareholder return (TSR) and group profits year on year, assigning a ranking between 0% (lowest) and 100% (highest), compared to the other 15 firms on the list. Researchers combined the two figures to come up with an overall performance ranking.

Obermatt then used annual reports and regulatory disclosures to see how the actual pay of chief executives measured up to this performance, and calculated a "deserved" compensation figure based on the pay range within the group (excluding outliers).

Are they worth it?

The results show a startling mismatch between relative performance and pay.

Using Obermatt's research, the clear winner in terms of value for money was Citigroup's Vikram Pandit, who took home just $1 in 2010 having made a decision to decline any real compensation until the group returned to sustained profitability. The bank's pay committee felt he deserved a bonus, but Pandit turned it down.

Citi's share price and profits both rose significantly in 2010, albeit from a lower base than many others, having nearly collapsed during the financial crisis.

The most overpaid chief executive was JP Morgan's Jamie Dimon, who was awarded more than $20m last year. The bank did better than its peers on shareholder return but its profit performance was below average, meaning the overall performance ranking was middling. According to Obermatt, Dimon's "deserved" pay was just $6.9m – some $13.9m less than he actually got.

JP Morgan would no doubt argue that Dimon saw the bank through one of the most difficult periods in its history, and it has emerged stronger than ever. Supporters might also point out that he did not receive a bonus in 2008 and 2009.

In second place was Brady Dougan, the chief executive of Credit Suisse, who is overpaid to the tune of $11.6m, according to Obermatt. The Swiss bank responded to the rankings by pointing out that it has one of the highest rates of deferral in the industry. Dougan will not see all of his $14.1m unless the bank hits its targets in the coming years.

Barclays, BNP Paribas, Citigroup, Commerzbank, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, Lazard, Lloyds, RBS and Societe Generale all declined to comment on this article.

Obermatt says that since its deserved compensation figures are based on what banks in the group actually pay, they reflect market rates rather than subjective judgements on value. The consultancy has compiled five-year performance data in its home market, Switzerland, and is planning to do the same in the UK and US, to give a longer-term view of executive performance.

However, comparing European and US banks is tricky because of different disclosure rules regarding executive pay. US firms are required to disclose only what was actually paid during the year, not long-term incentives that have already been awarded but will be paid out in the future. European banks, by contrast, tend to publish the whole package including deferred elements.

This explains the pay of James Gorman, the chief executive of Morgan Stanley, which rose slightly to $15.1m in 2010, but does not reflect his performance that year. A Morgan Stanley spokesperson said a significant portion of his pay packet was a stock award from 2009.

In the small print

Most of the other US banks in the Obermatt table suffer similar distortions. Sarah Wilson, founder of corporate governance group Manifest, said: "Standards of disclosure are very different between Europe and the US. Many of the US ones are written in legalese. It doesn't do shareholders any favours. We haven't got to the bottom of executive compensation yet."

Meanwhile, there are signs that bank executives are beginning to recognise the importance of being seen as fair on compensation. UBS's Oswald Grübel has declined a bonus for the past two years because he was unhappy with the return for shareholders.

In an interview with Dow Jones Newswires in March, Grübel said: "I'm forgoing a bonus because I was not in a position to add value for our shareholders – our share price ended 2010 at nearly the same level as it began the year."

In the US, thanks to the Dodd-Frank financial reforms, a "say on pay" clause means the compensation of every senior executive at a public company is now subject to a non-binding shareholder vote, a situation that exists in Europe.

But there is a long way to go. A study last month by Corporate Library, a research group, found that of the S&P 500 companies to have reported chief executive compensation so far, nearly all set rewards based on long-term performance and did not consider how well rivals were doing.

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>
> Hermann Stern, Obermatt

Executive pay performance in 2010

Chief executive in 2010	Bank	Obermatt ranking*	Actual pay, $m	Deserved pay, $m	Excess pay, $m	Verdict
Jamie Dimon	JP Morgan Chase	57%	20.8	6.9	**13.9**	Overpaid
Brady Dougan	Credit Suisse	14%	14.1	2.5	**11.6**	Overpaid
Lloyd Blankfein	Goldman Sachs	32%	14.1	3.7	**10.4**	Overpaid
James Gorman	Morgan Stanley	57%	15.1	6.9	**8.2**	Overpaid
Josef Ackermann	Deutsche Bank	11%	8.8	2.4	**6.4**	Overpaid
Mike Geoghegan	HSBC	57%	9.0	6.9	**2.1**	Overpaid
John Varley	Barclays	46%	6.2	5.2	**0.9**	Overpaid
Brian Moynihan	Bank of America	18%	1.9	2.5	**-0.6**	Underpaid
Kenneth Jacobs	Lazard	86%	9.8	11.6	**-1.8**	Underpaid
Stephen Hester	RBS	57%	5.1	6.9	**-1.8**	Underpaid
Frédéric Oudéa	Societe Generale	39%	2.5	4.4	**-1.9**	Underpaid
Baudouin Prot	BNP Paribas	43%	2.4	4.8	**-2.4**	Underpaid
Eric Daniels	Lloyds Group	68%	4.1	8.9	**-4.8**	Underpaid
Oswald Grübel	UBS	74%	3.3	9.1	**-5.8**	Underpaid
Martin Blessing	Commerzbank	71%	0.9	9.0	**-8.0**	Underpaid
Vikram Pandit	Citigroup	93%	0.0	14.1	**-14.1**	Underpaid

* Based on total shareholder return and group profit compared to peers (100% best 0% worst)

Source: Obermatt