

## HSBC – Global Case study

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## Global Reach

### The World's Local Bank



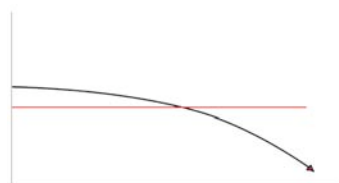
## Why all-employee share plans?

- Engagement: helped by aligning employee and shareholder interests
- Corporate Glue – all employees can obtain a stake in HSBC on similar terms
- All employee plans only means of wider share participation for 95% of HSBC's employees
- Valued by employees, retention, financial planning



## Why an option plan instead of stock purchase?

- Sharesave options well established at HSBC
- Stock purchase carries more risk
  - Stock purchase can be structured to have the same upside as options...
  - ...but options have a cash floor whilst stocks can go down below their original cost



Sharesave  
option price – the  
cash floor

Stocks purchased  
can fall further  
than the option  
floor



## Sharesave UK

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- Paid in £, savings in £, options in £
- 3 year and 5 year savings period
- Bonus on maturity fixed at the start
- Tax efficient
- £250 max savings limit
- HBOS UK call centre
- Brochures sent by post



## Sharesave International 1994 to 2005: what our employees said:

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- 3 year and 5 year savings periods too long; a barrier to entry
- Options priced in a foreign currency
- Foreign exchange risks and low variable interest rates
- Administration complex
- No tax efficiency



## New International Plan approach for 2006

- One year plans introduced
- Currency options (GBP, USD, HKD, EUR)
- Fixed interest rates
- A tax efficient US plan with automatic vesting
- £250 max limit retained (in currency equivalents)



## Building on 2006 in 2007

- Need the Sharesave message to be passed around by word-of-mouth
- Need to cascade the message through line managers to employees
- Need to be realistic about what is deliverable
- Designing and printing the brochure is just the start; need to make sure that every employee receives one
- Need back up arrangements/contingency plans; central support; alternative/additional means of communication

## The 2007 logistics challenge:

online and phone applications only

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- 280k personalised invitations delivered to the right employee
- 23 different brochures
- 200 different pieces of paper
- Translated into 8 languages
- Contingency plans: forgotten passwords and lost brochures
- Direct e-mails where possible
- Intranet promotions and backup brochures
- Spanish speaking international call centre

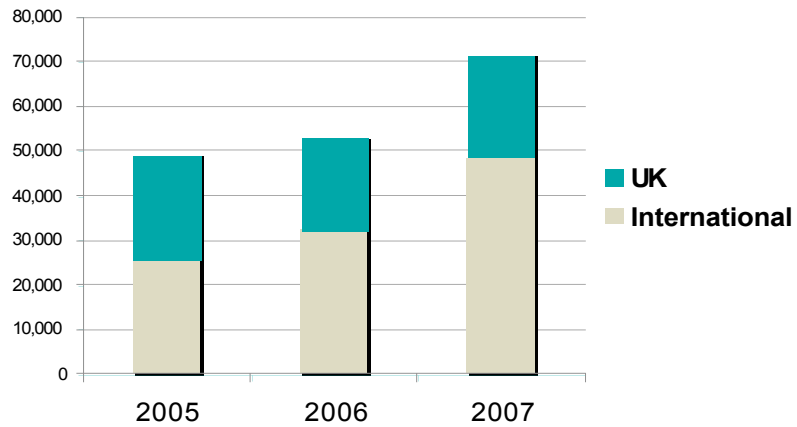


## Building the team for a 2007 campaign

- Increased central team from 2 to up to 5 people
- Introduce Greentarget (5+ people)
- Bring in HSBC internet communications team - about 25 around the Group
- HBOS Employee Equity Solutions (3 full time plus 50 or more during the invitation period)  
Establish virtual campaign team of 15 people
- Engaged HSBC internal administration team of around 50 people



## HSBC Sharesave participation growth



International plan doubles participation in two years

## The world's local Sharesave

- Fixed interest rates
- Options in only one currency in each country
- One year options the only extra choice

Complex at the centre,  
simple locally

## Sharesave is...?

“The option price is fixed at a discount of 20% to the market price at the time of the offer.”

2005



2006



2007

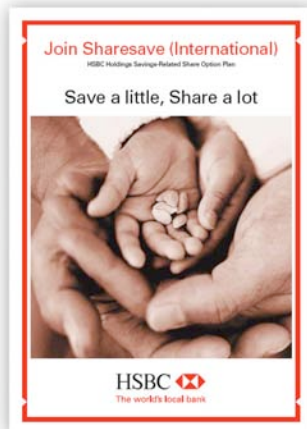


## What Greentarget told us

- Say what Sharesave is
- The 4 page spread makes Sharesave look complicated
- Use the brochure as the basis for a campaign using different communications channels



## The brochure: how could it be improved?



8 sides A4...



...to 12 sides A5

## Sharesave is...

How we described Sharesave in 2006:

“The option price is fixed at a discount of 20% to the market price at the time of the offer.”

What we said in the 2007 booklet:

“Save with Sharesave and you’ll be able to buy HSBC shares at less than the share price at the start.”

What we could say next time:

“Sharesave is a savings plan...in which any gain depends on HSBC’s share price”



## The Sharesave 2007 campaign



- Clear proposition
- Keep it simple
- Minimalist illustrations convey simplicity
- Instantly recognisable
- A5 booklet
- Information in small chunks
- “Options” not mentioned
- Use all communication channels

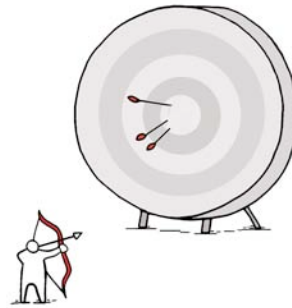
## The Sharesave 2007 campaign



## Keeping it simple

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- It's safe
- It's easy [to join]
- Everyone can join
- ...and you could gain a lot



## Urban myths we needed to answer

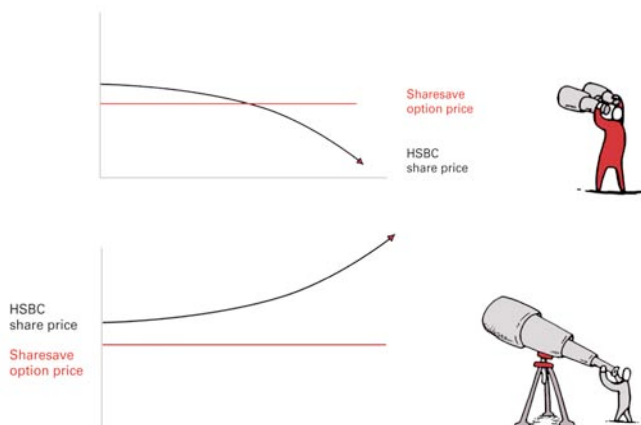
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- Options are shares aren't they?
- Sharesave is risky because shares are risky
- We get higher interest rates by keeping our money in cash
- We can't afford it anyway



## Tackling “shares are risky”

- Pictures stress there is no risk
- Two simple decisions at maturity



## Historic gains beat interest rates

Sharesave 2006 Price	Share Price (12 Jan 07)	Potential Gain
US\$13.33 (outside US)	US\$18.00	35%

“What’s in it for me?”  
Look at the potential gain halfway through the 2006 one year plan

Maturity	5 years	3 years
2002	56%	*
2003	46%	27%
2004	50%	20%
2005	54%	47%
2006	42%	79%

5 years of gains from maturing plans.

Can you really say:

“We get higher interest rates by keeping our money in cash”?

Take off tax and you still have substantial gains.

## Can't afford it?

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- 30k UK employees (out of 55k) on a base salary of less than £20k pa – yet over 50% of this group are in Sharesave
- Analysis shows that income makes no difference to participation in the UK – neither does age, seniority or gender.

Q. So what is the defining factor?



## Length of service

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- Only 8% of those with service of less than 2 years participate
- 27% participate with service of 2 to 3 years
- 47% participate with service of 3 to 4 years
- Over 4 years service: the rate is over 60%

The above pattern is consistent across every income bracket.



## Towards Sharesave 2008?

- New countries: China? Saudi Arabia?
- Involve line management more in planning?
- Leverage the 2007 material for 2008
- Think of segmentation and increase MI and analysis
- Can HBOS EES take more admin away from HSBC?
- Sharesave induction/training programme for new HSBC co-ordinators
- Go more green: print locally, use e-mails more and see whether past participants need a paper invitation.



... and start now!



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## Appendix

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### Currency options



## Currency options: how they work

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- Sharesave price calculated in £; converted into HK\$, US\$ and Euro at the start – same price for everyone
- Sharesave prices fixed...  
... but exchange rates move the equivalent  
Sharesave prices in different countries
- Foreign exchange risk shifted from the employee...  
... and *reduced* for HSBC (Accounts in US\$)



## When the share price falls and exchange rates move...

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- 2007 Sharesave price: HK\$108
- 2006 Sharesave price: HK\$103
- 2007 US Sharesave price: US\$14.75
- 2006 US Sharesave price: US\$14.16
- 2007 1yr Sharesave price: US\$13.88
- 2006 1yr Sharesave price: US\$13.33



- 2007 Sharesave price: £7.09
- 2006 Sharesave price: £7.67
- 2007 Sharesave price: EUR10.42
- 2006 Sharesave price: EUR11.01

One year options reduce the  
D11 cancellation costs

