Virgin Money boss may deserve his multimillion pay one day, but not yet

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At first glance, a share price within touching distance of a 180p flotation price in 2016 doesn't look too bad for a banking boss. This, after all, is a sector that has battled low interest rates, a bloodbath in the mortgage market and payment protection insurance payouts. So the £10.5 million paid to David Duffy for running what is now called Virgin Money since 2015 might seem well-deserved.

But that's before you remember that Virgin Money is really two banks: CYBG, the owner of the Clydesdale and Yorkshire brands; and the Virgin business itself. When the merger between the two was announced in June 2018, CYBG shares were changing hands for 306p, while Virgin's were at 312p. Yesterday the shares of the combined bank closed at 172½p.

Mr Duffy has pulled off some big achievements. He oversaw the tricky splitting off of CYBG from National Australia Bank and its flotation, which involved selling the story of the separate British business to NAB's Australian investors, as well as to UK shareholders. He also has tried to get to grips with festering problems, including the mis-selling of PPI, accusations of poor conduct towards small businesses and a lack of investment in technology. And he agreed the deal to buy Virgin Money.

None of those actions is a proven success, though, so it's not clear why the group's remuneration committee felt that Mr Duffy's pay should jump to a maximum entitlement of £5.1 million this year. The pay bonanza, for running a bank with six million customers that operates in the UK only and last year made a £194 million loss, would put him among the best-paid banking bosses in the country.

Compare the package to the most recently published awards of his competitors: Ross McEwan, the former boss of Royal Bank of Scotland, received £3.6 million in 2018; John Flint at HSBC received £4.6 million in the same year, for running a bank covering 65 countries with 235,000 employees and 40 million customers; and Jes Staley, the boss of Barclays, earned £3.4 million in 2018, the same as Mr Duffy was paid in 2019.

There are a few fatter cats. In 2018, Bill Winters received £5.95 million at Standard Chartered, António Horta-Osório was paid £6.27 million at Lloyds, while Nathan Bostock scooped £6.4 million for running the UK division of Spain's Santander.

The size of Mr Duffy's pay packet is particularly surprising, given that the bank suffered a revolt by a third of its shareholders over pay last year. The dissent looks worse when you consider that Sir Richard Branson presumably voted his 13 per cent in the bank's favour.

Virgin, which is trying to avoid a similar revolt at its annual meeting today, has "consulted extensively with UK and Australian shareholders" and has introduced new targets. However, to collect the full £5.1 million, Mr Duffy would have to double the share price, which would be a near-miraculous turn of events.

Other companies, too, will have to start spelling out the impact of a big rise in the share price on incentives, which in HSBC's case would hand its boss about £10 million.

It is important for the country that someone running a medium-sized bank has incentives, as Britain needs competition in the sector to take on the high street giants. Mr Duffy may not spend his life on an aircraft or have to grapple with the world's weightiest problems, but he faces entrenched difficulties, such as a lack of a level playing field with the likes of Lloyds, Barclays or HSBC over everything from funding costs to consumer apathy.

If he really does make a success of Virgin Money, he deserves his telephone number pay. But that shouldn't happen before he has proved his case and that could take years. Will Mr Duffy be around to see it through? Somehow, I doubt it.

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