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NON-EXECUTIVE DIRECTOR PRACTICE GUIDE

GIBRALTAR ASSOCIATION OF COMPLIANCE OFFICERS



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1. Introduction

This document is intended as a supplement to the GACO Gibraltar Corporate Governance Code. It sets out in greater details the roles and responsibilities of non-executive directors (NEDs), the recruitment process and factors to consider, timing commitment from NEDs, remuneration guidelines, and some of the key challenges for the Boards and NEDs to consider.

There is a distinction between non-executive directors who are independent (iNEDs) and directors who are not (NEDs). Non-independent NEDs are often appointed to represent the interests of significant equity or debt holders, for example where the company is backed by private equity or significant shareholder(s).

Throughout this document, the term NED is used to include both iNEDs and non-independent NEDs. Where a specific distinction applies, the term iNED or non-independent NED has been used. Whilst the information set out in this guidance applies to both iNEDs and non-independent NEDs, iNEDs are likely to benefit more from the details included.

iNEDs are crucial for good corporate governance as they provide an unbiased perspective, can challenge management without fear of reprisal and help safeguard the interest of all stakeholders, not just specific groups that for example a non-independent NED may represent. iNEDs also bring a diverse range of experiences and technical knowledge from different sectors and firms, which can lead to better and more objective strategic decision making.

Certain businesses that are regulated by the Gibraltar Financial Services Commission are required to have iNEDs on their Board – for banks and insurers, the minimum requirement is two iNEDs who also must hold specific functions (see Section 4.5 of the Gibraltar Corporate Governance Code). Certain other regulated firms (e.g. investment firms, fund administrators) must appoint at least one iNED. This is in part due to the importance placed on iNEDs in maintaining market integrity and building public trust.

2. Role and Responsibilities of a NED

NEDs clearly have a strong role to play in the Board of Directors and in the way the company is managed. You would expect their job description to include the following items:

- Reviewing and approving the strategic plan, with constructive challenges
- Monitoring of management's performance in meeting agreed-on goals and objectives
- Ensuring the integrity of financial information and that controls and risk management strategies are robust and defensible
- Determining appropriate levels of remuneration for executive directors
- Appointing and removing executive directors, and succession planning

The non-executive directors should have regular meetings with the chair, but without the executive team's members. They should also meet the other non-executive directors at least once a year to assess the chair's performance.

If the executive directors collectively have a stake in an important issue that goes to the board, the non-executives may have the final say. This situation commonly occurs when a management team or a private equity group with management involvement offers a bid for the company. The non-executive

directors will decide alone whether or not to recommend the bid to shareholders, and the executives will have no role in the decision.

For an individual to qualify as an iNED, they must not only possess the necessary independence of character and judgment but also be free of any connections that could create a conflict of interest.

The following non-exhaustive criteria should be taken into account when considering if an individual can be viewed as independent:

- The person has been an employee of the group and/or company in the last five years
- They have a 'material business relationship' with the company or have had an indirect relationship with it as a partner, director, employee or shareholder of an adviser, major customer, or supplier (this would include an audit partner moving onto the board after retirement)
- They receive remuneration from the company in addition to director's fees or participate in the pension scheme
- If they have close family ties to any of the company's advisers, directors, or senior employees
- The members hold cross-directorships or are in contact with other directors through involvement in other organisations (this goes against the 'old boys' club' selection strategy)
- They represent a significant shareholder
- They have served on the board for an extended period.

In the end, though, it's up to the board to decide who 'qualifies' as an iNED. Where the company is regulated, as a regulated individual, the regulator would also have to agree with the proposed iNED's independence to be approved. None of the above should be viewed as grounds for automatic exclusion. The important factor is that an individual can be regarded as possessing the integrity and character needed to remain unscathed by circumstances that, in theory, would threaten their independence.

A member of the board must explain which directors are independent and which are not when they appoint directors or when they report to shareholders each year.

If they decide that an individual may be classified independent, regardless of previous and/or current connections with the company, they should be able to explain why.

General role of a NED:

The role of a NED performing the general NED role is to:

- Provide effective oversight and challenge
- Help develop proposals on strategy

To deliver this their responsibilities include:

- Attending and contributing to board and committee meetings and discussions
- Taking part in collective board and committee decisions, including voting, and providing input and challenge
- Ensuring they are sufficiently and appropriately informed of the relevant matters prior to taking part in board or committee discussions and decisions

Other key roles of a NED include:

- Scrutinising the performance of management in meeting agreed goals and objectives
- Monitoring the reporting of performance
- Satisfying themselves on the integrity of financial information
- Satisfying themselves that financial controls and systems of risk management are robust and defensible
- Scrutinising the design and implementation of the remuneration policy
- Providing objective views on resources, appointments, and standards of conduct
- Being involved in succession planning

Role of a NED as chair of the board or a committee

Subject to any specific governance arrangements, rules, or requirements applicable to the board or particular committees, a NED's responsibility as chair of the board or a committee includes:

- Ensuring that the board or committee meets with sufficient frequency
- Fostering an open, inclusive discussion which challenges executives, where appropriate
- Ensuring that the board or committee devotes sufficient time and attention to the matters within its remit
- Helping to ensure that the board or committee and its members have the information necessary to its and their tasks
- Reporting to the main board on the committee's activities
- Facilitating the running of the board or committee to assist it in providing independent oversight of executive decisions
- In relation to the nomination committee, safeguarding the independence and overseeing the performance of the nomination committee

Senior independent director

Where a Gibraltar regulated company has three or more iNEDs, the firm is required appoint one to be the senior independent director ("SID"). The SID would therefore always be an iNED.

The SID does not in any way reduce or remove the responsibilities of the other iNEDs. However, while their core responsibilities remain the same, the SID has specific responsibilities¹, which are to lead the oversight of:

- The performance of the Chair; and
- The adequacy and quality of the resources provided by the firm to enable the Chair to fulfil that role.

Expanding on the requirements, this would likely include the following:

- **Enhanced Communication and Oversight:** The SID acts as a crucial liaison. Their role is to facilitate and improve communication among all iNEDs, and between iNEDs and the rest of the board (especially the Chairman and CEO), and with shareholders.

¹ As set out in the Financial Services (Amendment No. 2) Act 2024, Schedule 15.

- **Sounding Board and Intermediary:** The SID often serves as a sounding board for the Chairman and an intermediary for other directors. This can be particularly helpful if other iNEDs have concerns or issues that they feel haven't been adequately addressed through the usual channels.
- **Addressing Shareholder Concerns:** The SID provides an alternative point of contact for shareholders, particularly when they have concerns that haven't been resolved through communication with the Chairman or CEO. This can empower other iNEDs by providing a clear channel for shareholder feedback and a means for those concerns to be escalated if necessary.
- **Chair Appraisal and Succession Planning:** The SID is typically responsible for holding annual meetings with the NEDs (without the Chairman present) to appraise the Chairman's performance and to lead succession planning for the Chairman's role. The SID would also likely take the lead on any Board Effectiveness reviews conducted. While this is primarily the SID's duty, other iNEDs participate in this process and benefit from this dedicated focus on leadership and governance.
- **Crisis Management and Dispute Resolution:** In times of stress or disagreement within the board (e.g., between the Chairman and CEO), the SID's role becomes vital. They are expected to work with all directors and shareholders to resolve major issues, potentially mediating disputes and building consensus. This can provide a more structured approach to conflict resolution, allowing other iNEDs to contribute to solutions more effectively.
- **Board Resourcing:** The SID would take the lead on ensuring there is sufficient resources available to prepare board reports, that meet the required quality standards, that are provided in a timely manner. This would involve holding meetings with the Company Secretary (or others responsible for collating the board reports) on any constraints or potential risks that may hinder production of high quality board reports in a timely manner. On sufficiency of the board report, these should include sufficient management information and key performance indicators, that are presented clearly, and escalation of key items that require the board's consideration. The SID would take the lead on any enhancements to the Board reports – including engaging with external third parties to review and advise on the sufficiency of board reports, or enhancements where they may be required.

This is not intended as an exhaustive of list what the SID should do, but act a guide for firms and SIDs on what the role could entail. In essence, the SID provides an additional layer of governance and support, which can empower the other iNEDs by providing a stronger independent voice, clearer communication channels, and a mechanism for addressing sensitive issues. It doesn't detract from their individual responsibilities but rather enhances the overall effectiveness of the independent oversight function of the board.

General approach to the role of a NED:

It is recognised that NEDs individually do not manage a firm's business in the way expected of executive directors. A NED by definition cannot and should not assume executive responsibilities. Where a NED becomes involved in the operations of the company and could be deemed to be acting in an executive capacity, they may no longer qualify as a NED. The Board should assess the activities of NEDs, for example as part of an annual effectiveness review, to satisfy themselves that those directors are acting in a non-executive capacity only.

Although NEDs who are subject to the Financial Services (Amendment No. 2) Act 2024 and subject to the Regulated Individuals Regime have individual duties under that regime, it is recognised that its application should be consistent with the principle of collective decision-making.

The standard of care, skill, and diligence that regulators would expect from a NED is the care, skill and diligence that would be exercised by a reasonably diligent person with:

- The general knowledge, skill and experience that may reasonably be expected of a person carrying out the functions carried out by the NED in relation to the firm, considering best practices set out for NEDs, and
- The general knowledge, skill, and experience that the NED has.

3. Possible Recruitment Process of a NED

General recruitment steps

General steps to follow for recruitment of NEDs has been set out in the table below:

Step	Description
Identifying Suitable Candidates	Identifying potential candidates who possess the necessary qualifications and experience.
Evaluating Qualifications and Experience	Assessing the qualifications and experience of the candidates to determine their suitability for the role.
Conducting Interviews, Reference Checks, and Assessments	Engaging in thorough evaluations, including interviews, reference checks, and assessments, to assess the candidates' fit for the company.
Finalising the Formal Appointment	Completing the appointment process according to the company's governance protocols and regulatory requirements.

Additional steps for iNEDs recruitment

For iNEDs, additional assessment needs to be undertaken on the **independence** of proposed candidate. Therefore, as part of the evaluation of reference checks and assessment (step 3 in the table above), the background of the individual, including past roles will need to be taken into account.

iNEDs often bring a wealth of experience and industry knowledge. Whilst independent is a pre-requisite warranting careful assessment, the selection of iNED should take into account how the addition would compliment the board and contribute to effective oversight.

Stages of NEDs recruitment

Possible Recruitment stages for NEDs have been set out in the table below:

Stage	Description	Duration
Needs Assessment	Identifying the specific needs of the board and the desired qualities in a NED	2 weeks
Shortlisting	Reviewing applications, CVs, and conducting initial interviews	3-4 weeks
Reference Checks	Contacting references to gather insights on the candidate's reputation and performance	1-2 weeks
Assessments	Evaluating the candidate's skills, judgement, and suitability through assessments or tests	1-2 weeks
Final Selection	Finalising the appointment and negotiating terms with the selected candidate	1-2 weeks

Summary of Advantages of iNEDs on Boards

As referenced above, and detailed in Section 4.5 of the Gibraltar Corporate Governance Code, there are some instances where the appointment of iNEDs is mandated by the regulatory framework. However, where it is not mandatory, iNEDs can still add value. Table below provide a summary of the benefits of the addition of iNEDs for SMEs (or businesses that are otherwise not mandated to appoint iNEDs).

Summary	Description
Specialist Knowledge	NEDs bring valuable specialist knowledge acquired through years of experience in their respective fields, providing SMEs with insights into industry trends, best practices, and emerging opportunities.
Enhanced Board Performance	NEDs contribute to enhanced board performance by bringing diverse experiences and perspectives, challenging conventional thinking, and promoting robust decision-making processes and effective governance.
Business Growth	NEDs assist in driving business growth by providing strategic guidance, identifying new avenues for expansion, leveraging their extensive networks and connections, and facilitating partnerships, collaborations, and investment opportunities.

4. Time Commitment of a NED to the Board

Overview

Generally, NED adverts will specify how many days a month/year they expect the role to take of the NEDs' time, for example two days a month. This sounds simple, but the work of the NED doesn't generally fit neatly into 'days' as each week and/or month will bring its own challenges.

Since NEDs generally do not keep time sheets it is very difficult for boards to tell them exactly what time their current NEDs commit to the role, never-mind guessing how much time will be required for the role going forward. It is impossible to know for sure what events the organisation may go through in the course of the coming year, so NEDs might find the commitment required is more than expected.

iNEDs, due to their independent oversight role, might find themselves needing to dedicate more time to certain issues, especially when potential conflicts of interest or significant strategic decisions arise. For regulated firms, iNEDs may also be called upon by the regulator where it has identified market wide challenges, or specific concerns with the firm. Much will depend on factors outside the control of the iNED, but will still need to be considered in estimating the likely time commitment.

A reality check

Some people think of NEDs as remunerated in exchange for just a few days of their time a month. However, the reality, as we have seen, is that many NEDs are working more hours than ever, often surpassing their initial time commitment to the role.

The scope of board responsibilities has been increasing for some time, with pressure to meet regulatory requirements, expectations for stakeholder engagement, cybersecurity, disruptive technologies, human capital management, company culture, ESG, and Diversity, Equality, and Inclusion. In order to address these issues, extra meetings are often scheduled, additional committees put in place, more prep time needed to cover unfamiliar topics and continued money and time investment required for learning and development.

NEDs are paid at a flat rate fee for the year and they are not paid bonuses or other rewards. So, whilst the Executive might feel that their effort is rewarded at the end of the year, NEDs receive no increase in pay to supplement any additional hours completed.

What factors to consider

For NEDs to carefully consider the overall time commitment their single appointments will represent, we recommend them to take the following approach as a best practice:

It might be helpful to split out the time commitment into planned contact time (board meetings, strategy days), prep time/ individual time (reading board papers, researching the marketing), and unplanned contact time (extra 1-1 meetings with exec, calls, emails).

When a potential NED is reading through a NED advert, or going through an interview process, at the very least they should have a clear understanding of the planned contact time required for the role. And ideally, they should also have an idea of what other NEDs have found the preparation time and ad-hoc time requirement to be and as such it will be crucial to speak with other NEDs already active in the company's board and obtain a clear information on their time commitment to that specific company.

Planned contact time

NEDs will need to be sure this time is manageable alongside their other fixed commitments. If they have a full time job they will need to be clear how they will be able to take time out to undertake this time.

- **Board meetings/ AGMs.** Most boards set dates and timings for board meetings before the start of the year. Sometimes these are shared in the advert, other times they are disclosed through the interview/ offer process. Most boards will meet between 4-12 times a year with each meeting lasting between 3 hours and a full day.
- **Strategy days.** Most boards have 1 or 2 days planned each year to develop and debate the organisation's strategy. These may be in the same location as the board meetings, or they might be elsewhere involving an overnight stay.
- **Sub-committee meetings.** NEDs may also join one or more sub-committees, which will involve additional (planned) meetings. The regularity of such meetings will depend on the objectives of the committee but often tend to be more frequent than board meetings.

Preparation time

NEDs generally have a reasonable amount of autonomy as to when they undertake this time depending on their other commitments.

- **Board meeting prep:** board packs should be sent to all members of the board including NEDs ahead of a meeting and these can sometimes run into many hundreds of pages (organisations subject to higher levels of regulatory scrutiny often have more extensive board packs). Reading these, comprehending the information and critiquing them can take some hours. Even with shorter packs, preparation time can still be considerable depending on their contents. NEDs may have to dedicate a large portion of their time to pre-meeting preparation, which includes assessing the board papers in advance and some boards will have pre-board discussions on the agenda. To give time for consideration, board papers should be shared a week in advance, but not all boards manage this!
- **Personal reflection time:** sometimes it is what isn't in the board pack that NEDs need to consider before the board meeting. It is important as a NED that they allow time to reflect on the organisation and team, and their performance and impact.
- **Research:** a NED will not have all the answers and neither will they be expected to. However, they will need to contribute to a range of subject areas and make important decisions with other board members on different topics. Inevitably, there will be some topics that they aren't so confident with and will require them to swot up on through independent research or through conversations with the executive ahead of time. Whilst they may not be an expert in an area, they will need to know enough to make an informed decision in the boardroom that they are comfortable with. This is important because, in the event of a problem, liability of these decisions will ultimately fall with all board members collectively, including NEDs.
- **Continuous professional development:** NEDs should be dedicated to continually developing their skills to ensure they operate as an effective NED. This might involve honing their governance skills through learning more about the role of the NED and how to operate in a variety of situations.

Unplanned contact time

NEDs need to remember that the responsibility of a NED role is full time, 24/7, 365 days a year. Due to the liability and responsibility, they have taken on they will be expected to contribute whatever is required to undertake the role effectively. The duties of a NED shouldn't generally take up that much time – unless they aren't operating with a full executive team and are forced to step in temporarily!

- **Ad Hoc meetings:** for many boards, there are regular conversations that happen outside of the formal board meetings, which involve the NEDs. This might be because a time sensitive matter arises in between meetings that requires all directors input. Some directors find that decisions are often made or opinions formed prior to the main board meetings and then just agreed at the meeting itself so it's important that NEDs dedicate adequate time to have these conversations.
- **Emails:** NEDs may have a separate email account for their NED role and they will be expected to keep up to date with communications. This can be a new challenge if they find that they are now managing multiple inboxes for several different organisations.
- **1-1 meetings with the Executive and/or with other NEDs:** it is important that NEDs build relationships with the other members of the board, and senior leadership to build rapport and learn more about the organisation's culture. Additionally, the Exec may find it helpful to have an informal catch up with them as a sounding board for their ideas. NEDs would also benefit from proactively engaging with management and other stakeholders independently to form their own views.
- **Induction:** NEDs should expect to commit additional time when they first join the board to allow for a thorough induction process. Because board meetings don't happen very often it can take a while to feel inducted into the organisation unless the NED makes a lot of effort at

the beginning. Many organisations haven't put a lot of consideration into how they induct NEDs so it is up to them to make proactive suggestions of what might be helpful.

- **Networking /attending events:** One of your jobs as a NED is to encourage the Executive. Some NEDs may focus more on holding the executive to account/challenging the executive, but to foster a good relationship a balance is helpful. Attending the organisation's events, or joining them in attending an important conference shows tremendous support to the Executive.
- **Annual appraisals:** many boards follow an annual appraisal process, which will likely involve a 1-1 session with the Chair. A NED might also be involved in a board evaluation process and a board skills review. These meetings won't generally be in the diary till closer to the time.

Managing Crisis

When a NED joins a board, they must be willing to serve the commitment of the role in every eventuality. A variety of circumstances including M&A activity, an unplanned change in CEO or Chair, IPO, macroeconomic disruption etc. can cause a significant spike in time commitment (without any increase in your yearly fee).

It is common, rather than the anomaly, for NEDs to work more hours than they contractually agreed to when accepting a board role. Therefore, prudence would dictate that you consider such potential time commitments in your assessment dependent on your other responsibilities.

Indicative time commitment

Organisation Type	NED average time commitment per month (days)	Chair average time commitment per month (days)
Private Company	2	3.5
Regulated Company	2.5	4.5
Larger Company	3.5	9
Professional Body	2	4
NPO	2.2	4

The above is purely indicative. Each NED will have to conduct his/her own individual assessment of each engagement using the information provided and their own due diligence to ascertain how much time commitment each engagement may require. Deciding whether a NED has capacity to take additional engagement is not a simple numbers game, even if taking the average time commitments in the table above as a gauge – please also see Section 4 below on the total number of roles a NED should undertake.

5. How many NED roles should you aim for?

As we have just seen in the previous section of this document, building a career as a NED is not a numbers game. Being a NED on a board requires focused commitment, and the capacity to scale up time and intensity at a moment's notice. So, while it can be tempting to take on every opportunity a NED would be qualified to fulfil, boats have a maximum capacity for a reason, and the same goes for NEDs – no one wants to end up sinking.

Over-boarding can be a serious issue, both for NEDs and the companies that appoint them. As a result, more and more investment organisations and proxy advisors are creating restrictions on the number of board positions one person can have – and even governments are stepping in to address the problem. In some jurisdictions, the number of appointments that a NED can take are capped using a numeric formula to estimate the likely time commitment. For example, in Netherlands, public sector NEDs acquire points for every position they hold, and there is a cap to how many they can accumulate at once.

In practice and as a benchmark, for an individual who only takes NED appointment (i.e. not otherwise employed), the most number of appointments held while still being effective is to be somewhere between 3 and 5, but it does depend on the size of the company and nature or complexity of the activity (including for example regulatory footprint). Sitting on the board for five large or regulated companies will almost certainly be spreading yourself too thin. As a point of comparison, the FCA imposes strict limits for the number of directorships held by the management body of a “*significant SYSC firm*”² – namely that the individual should not hold more than:

- One executive directorship and two NED positions; or
- More than four NED positions.

Although there is no equivalent rule in Gibraltar, the number of positions held by the proposed NED may be one factor considered by the GFSC in deciding to approve him or her as a regulated individual.

There is no official limit on how many NED roles you can hold at the same time. That said, if a NED is considering taking more than one role, it is important to think about how much time you can commit to each.

Having said that, allowing NEDs to self-assess their ability to commit to and service an organisation should be an essential part of accepting a role and its associated resourcing needs. The size of the organisation plus the maturity of the business and therefore the need for direct engagement by the NED will have a bearing on whether an individual can cope with 1, 3 or 5 NED positions. Where there is the ability for people with multiple NED commitments AND the capacity to service them it does give the benefit of being able to cross fertilise experience knowledge and skills.

6. NED Salary Guide

The remuneration for NEDs can vary significantly depending on the type of company and industry they are associated with. In this section, we will provide an overview of the average remuneration ranges for NEDs for different types of boards. This will include compensation ranges for listed company boards, private company boards, and other sectors such as pension trusts and investment trusts.

NEDs of companies can expect to be paid a director’s fee and often the amount is fixed and clearly explained in the advertised vacancy. NEDs might get £15,000 per year for being a NED, an additional £5,000 for sitting on the Risk Committee, and a further £10,000 for a Chair role, and NEDs wouldn’t usually expect to negotiate on this. Sometimes companies won’t state the amount up front and will negotiate on appointment, though this is less common.

The fees could be paid yearly in advance or monthly, but as NEDs are not legally an employee, the pay is usually described as ‘directors fees’. NEDs do not receive any other employee benefits, pension

² See FCA Handbook, SYSC 1.5

payments, or bonuses. While the Executive Directors are likely to have an element of performance-based pay (e.g. as bonuses), NEDs do not. NED income is subject to tax and some companies will pay the income tax for them (as on a PAYE basis), though most companies will pay the NEDs gross, so they will need to file a self-assessment tax return.

How much?

The quick answer is that, like any job, it varies a lot. It depends on the size and type of organisation, and on whether the NED takes on any more responsibility like being on a committee or becoming the Chair.

The table below outlines how the main factors at play can affect NED salaries:

Factor	Effect
Size and Complexity of the Organisation	Larger organisations will not only have more liquidity and allotted funds to pay NEDs, but will also be dealing with far greater number of stakeholders both internally and externally. This responsibility of overseeing and strategizing for larger, more complex organisation will generally be reflected in higher levels of pay. Those working in large corporates or listed companies may also have the chance to sit on subsidiary boards or committees (such as Remuneration Committees), boosting remuneration considerably.
Time Commitment Required	Time commitment for NEDs varies significantly dependent on size, maturity, and the strategic need of an organisation. Many NEDs find that the time needed to execute their responsibilities exceeds their expectations and estimations, which can necessitate negotiations for improve remuneration. More mature businesses tend to have a better idea of the time commitment expected of NEDs while smaller businesses will necessarily be somewhat reactive to their growth journey.
Industry Norms & Standards	As with all roles, some industries and sectors offer better remuneration than others – NEDs appointments are no exception. Within small to medium businesses finance, legal and tech pay some of the highest NED available, while public and third sector organisations typically offer much lower remuneration. There is less of a trend for sector-specific remuneration for NEDs operating in the startup space. Early-stage founders will typically offer either equity or a blend of cash plus equity, but the amount offered is much dependent on the growth trajectory and available funds of the company as it is their sector.

Reputation

For those who have forged a successful and varied portfolio career, including multiple NED roles, it is far easier to command significant remuneration. Those businesses that can afford to pay NEDs large sums will seek out those with experience and a proven track record of success and the know-how that comes with it. Many experienced NEDs leverage their reputation to become NED Chairs, a position with greater responsibility but commensurate remuneration.

Whilst people pursue board appointments for various reasons, it is helpful to know how much you might get paid. Despite the risks and debatable financial benefits, board appointments remain highly aspirational for many.

Indicative Rates

One of the primary challenges in setting NED compensation is finding the right balance between cost and value. While organisations aim to attract highly qualified and experienced directors, they must also consider the financial impact of their compensation packages. Striking the right balance ensures that NEDs are appropriately rewarded for their expertise while keeping costs in check. This challenge becomes even more critical in times of economic uncertainty or financial constraints.

A review of the UK market³ for NEDs shows an approximate range of remuneration for NEDs which has been summarised in the table below. Whilst not directly comparable to the Gibraltar market, this does provide insight to be considered when considering appropriate remuneration for an NED.

Board Type	Average Remuneration Range (p.a.)
Small to medium sized companies	£15,000 - £60,000
Large Public Companies	£50,000 - £150,000
FTSE Listed Companies	£100,000 - £300,000
Start-up	Typically, lower than small to medium sized companies
Investment / Pension Trusts	£20,000 - £100,000
Non-Profit Organisations	In some cases, no remunerations; £12,000 - £30,000
Chairs	Additional remuneration of £5,000 – £15,000 for each chair role

In conclusion, a well-optimised NED compensation package not only ensures financial competitiveness but also supports the strategic goals of the organisation. By attracting and retaining qualified NEDs, companies can enhance their corporate governance, increase stakeholder trust, and drive long-term success.

³ Sources considered include the following:

<https://dynamicboards.co.uk/blogs-non-executive-director-pay/>

<https://www.connectd.com/article/ned-salary-guide>

<https://boardappointments.co.uk/uk-non-executive-director-remuneration/>

<https://boardroomadvisors.co/non-executive-director-ned-pay-guide-how-much-does-a-non-executive-director-cost/>

7. Key challenges faced by NEDs

Aside the time commitment that we mentioned previously, here are some challenges that NEDs will face in the discharge of their responsibilities:

NEDs must strike a delicate balance between providing oversight and contributing to the strategic direction of the company. This dual role can be challenging as it requires them to be both critical and supportive. They need to ensure that the company is being run effectively while also helping to shape its future. This balancing act can be difficult, especially when there are conflicting interests or when the company is facing significant challenges.

NEDs often face the challenge of having limited access to information compared to executive directors. They are not involved in the day-to-day operations of the company, which can make it difficult for them to fully understand the intricacies of the business. This lack of information can hinder their ability to make informed decisions and provide effective oversight. NEDs must rely on the information provided to them by the executive team, which may not always be comprehensive or timely.

One of the key roles of NEDs is to provide an independent perspective (independent of the executives, not to be confused with the independence of iNEDs). However, maintaining this independence can be challenging, especially in a close-knit board environment. There can be pressure to conform to the views of the executive directors or other board members. NEDs must be able to stand their ground and provide an objective viewpoint, even if it means going against the majority opinion.

NEDs must be vigilant in identifying and managing conflicts of interest. This can be particularly challenging in situations where they have multiple board appointments or other business interests. They need to ensure that their decisions are always in the best interest of the company and not influenced by their personal or other professional interests. This requires a high level of integrity and transparency.

The regulatory environment is constantly evolving, and NEDs must stay abreast of these changes to ensure that the company remains compliant. This can be a daunting task, especially for those who serve on multiple boards. They need to have a good understanding of the relevant regulations and ensure that the company's policies and practices are in line with these requirements. Failure to do so can result in significant legal and financial repercussions for the company.

NEDs play a crucial role in overseeing the company's risk management processes. They need to ensure that the company has robust systems in place to identify, assess, and manage risks. This can be challenging, especially in a rapidly changing business environment where new risks can emerge quickly. NEDs must be proactive in their approach to risk management and ensure that the company is prepared to deal with potential threats.

Effective board dynamics are essential for the successful functioning of the board. NEDs must work to build and maintain positive relationships with other board members and the executive team. This can be challenging, especially in situations where there are differing opinions or conflicts. NEDs need to have strong interpersonal skills and be able to navigate these dynamics to ensure that the board functions effectively.

iNEDs face an additional challenge of retaining their independence whilst being an effective and collaborative member of the board which is essential for board cohesion. iNEDs need to have the confidence and willingness to question assumptions, probe information, and challenge the executive

team or the board when necessary, even if it's uncomfortable. However, wherever possible, iNEDs need to challenge constructively without becoming isolated or disruptive.

One of the key responsibilities of NEDs is to evaluate the performance of the executive team. This can be a sensitive and challenging task, especially if there are performance issues. NEDs need to be able to provide constructive feedback and hold the executive team accountable for their performance. This requires a good understanding of the company's performance metrics and the ability to make objective assessments.

NEDs face several challenges, including maintaining independence, managing conflicts of interest, and staying informed about industry trends and regulatory changes. They must also navigate complex board dynamics and ensure effective communication with executive directors.

8. Why is a Directors & Officers Insurance important for NEDs

Directors including NEDs have owe a fiduciary duty to the company and therefore have an unlimited personal liability when they join a board. Modern corporate governance is charging NEDs with playing significantly increased roles on corporate boards. There is now much more expected from NEDs in terms of oversight and governance and these increased expectations are leaving NEDs on the front-line in the event of something going wrong.

It is important to ensure that directors understand that if a company becomes insolvent, unless they have good D&O coverage, they are exposed. They also need to be advised on what happens during such an event, as during a time of such high stress, it's critical to know who your D&O insurer is and how they can support you.

A company will usually stand behind its NEDs when it comes to personal liability, provided they have not acted dishonestly. However, as part of their due diligence, NEDs should check whether their actions while performing their director duties will be covered by an adequate D&O insurance taken out by the company.

D&O insurance grants cover only in relation to claims made while the policy is in effect or within an agreed term. Policies may also have an agreed retroactive period. NEDs should check whether the applicable policy gives them some backstop reassurance and whether the company will continue to buy D&O insurance after they cease to be NEDs.

D&O insurance covers damages and settlements, defence, and investigation costs. It does not cover penalties and fines and will not cover "bad" conduct (that is, criminal, fraudulent or intentionally non-compliant conduct). Neither will D&O insurance cover "any business as usual" regulatory investigation.

In addition to D&O insurance, NEDs may consider getting protection from the company by negotiating an indemnity. However, NEDs should be aware that, even if an indemnity is agreed, the company may refuse to provide protection under in the event of insolvency or by alleging that the director acted dishonestly.

D&O policies can vary greatly in the coverage they provide and in particular the conditions and exclusions contained within. NEDs should satisfy themselves as to the adequacy of the cover provided.

There is more expectation, more complexity and more scrutiny and exposure for NEDs in today's climate than ever before. Therefore, it is important for NEDs to consider requesting specific insurance coverage that addresses the unique gaps and challenges that can arise for NEDs when there is a claim. Such solutions should enhance a current D&O policy, rather than replace it.

Some of the features that such an additional coverage could include are:

- Purchased by the company
- One master policy and individual ringfenced policies for each individual NED; this means they have comfort to know they are always fully protected, should they need it
- Coverage can be triggered by the company's D&O insurer's refusal to pay, for whatever reason
- Covers NED for role at the purchasing company and all other NED positions, including new appointments during the policy period
- Covers non-indemnifiable loss where the company's D&O insurers do not agree to pay within 45 days
- 6 years' extended reporting period for claims following departure for any reason from Company

9. Training for NEDs

Companies should provide an induction programme to NEDs joining the board. Such programme help the business to acquaint the NEDs with the business and set the scene for where the NED may wish to probe further, help the NED to be effective from the outset and repeat queries that could have been avoided. The induction programme for iNEDs could be further tailored to address the nuances of their independent role.

Separate from any business specific induction, there are various resourced available to NEDs, with a non-exhaustive list of some of the most reputable providers provided in the table below:

Training Provider	Training Description
The Financial Times	The Financial Times NED Diploma, a formally accredited six-month course delivered through a combination of tutor-led workshops and online learning: https://www.bdp.ft.com/diploma
Cranfield Business School	The Non-Executive Directors' Seminar: a guide to a comprehensive understanding of the role of a non-executive director, current governance responsibilities, and how to secure a non-executive position: https://www.cranfield.ac.uk/som/open-executive-programmes/leadership/the-non-executive-directors-programme
The Non-Executive Directors Association	Individual Training and Courses; Remuneration Committee Training, NED Training and Certification Programme, The Essential Training Course of Non-Executive Directors: https://www.nedaglobal.com/training/

Institute of Directors	Open Courses; Role of the Non-Executive Director, Role of the Chair: https://www.iod.com/professional-development/open-courses/
ICSA – The Governance Institute	Non-Executive Directors' Programme, one day course covering all aspects of the modern NEDs role: https://www.cgi.org.uk/qualifications-training/training-courses/upcoming-courses/non-executive-directors/
ICAEW – Institute of Chartered Accountants in England and Wales	NED training and certification programme; covers the role of NEDs, NEDs and the Board, director duties and responsibilities, role of chair, updates on corporate governance, business strategy and risk: https://www.icaew.com/learning-and-development/academy/cpd-course-catalogue/board-directors-programme
KPMG Connect on Board	Connect-on-Board is a platform designed for current and aspiring Non-Executive Directors (NEDs) looking for NED roles and organisations who are seeking candidates for NED positions: https://connectonboard.uk.kpmg.com/
Women on Boards	Women-on-Boards is a global membership organisation and community of women corporate directors, which spans in the UK and other international locations: https://www.womenonboards.net/WOB/WOB/Events-Programs/WOB_Pathway.aspx?hkey=6cca72dc-952c-4cf0-9f94-4afe443d52ed



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