Balancing staff rewards

with customer risks

FCA guidance for incentives and remuneration

For several years, the Financial Conduct Authority (FCA) has been reviewing the influence that financial services staff incentives have on sales performance and practices, and how this impacts the fair treatment of customers. Here's a summary of their review and what you can do to stay compliant.

The story so far

- In 2012, the FCA began looking closely at the way sales staff are paid, the influence this has on how and what they sell to customers, and how this can encourage a culture of mis-selling.
- In 2013, they published guidance including examples of good and bad practice.
- This was followed in 2014 with an update review, saying that improvements had been made but there was more to be done.
- In 2016, they also reviewed and gave related guidance on performance management.
- The FCA's 2016/17 Business plan continued to give prominence to remuneration and incentives as key examples of the practical application of a firm's culture and conduct.
- July 2017 outcome of the FCA investigation into consumer credit firms' pay and incentive structures published.
- The FCA's 2017/18 Business plan continues to reference a focus on incentives.

The FCA remains concerned about a lack of trust being perpetuated by financial incentive-driven behaviour, remuneration and incentive structures, and this remains at the forefront of their scrutiny. While many improvements in best practice have been made, these need to be consistent across the industry, and there is more to be done, such as the need for management information to effectively review and manage the risks of incentives.

What should I be doing now?

1. Recognise the link between sales and remuneration

The link between incentives and behaviours is often less clear-cut than the payment of a bonus for achieving a target. For example, giving the highest pay rise to the top performing sales person isn't a bonus but it is an incentive.

- Consider how much your sales figures influence the way your firm evaluates staff performance and, in turn, impact on staff promotions and benefits.
- Do you ever monitor behaviours of sales staff pre- and post-performance review – and would you be able to recognise changes in their behaviour?
- Senior staff drive culture, so consider how much the messages senior management give to staff reflect a balanced view where sales success is valued equally with the fair treatment of customers and good conduct.

2. Review your incentive schemes

Remember that incentive schemes must never be at the customer's expense, they shouldn't be too complex, and the risks need to be managed properly.

- Consider using balanced scorecards so that compliant behaviour is given equal weight to sales.
- Remuneration that's 100% variable based on sales significantly increases the risk of mis-selling, so if you do use this model think carefully about how effectively you're managing this risk.
- Make sure your bonus and incentive schemes reward quality or selling the right way and penalise poor behaviour or mis-selling. Quality measures should reflect the fair treatment of customers and not just customer satisfaction. Also bear in mind deterrents will not work where they are outweighed by the rewards for how much is sold.
- If an individual's quality measures fall below a certain level consider whether it is appropriate for them to receive any bonus.

3. Consistent and reliable management information

Your normal compliance MI should give you the data you need to assess behaviours, such as call monitoring, file reviews, complaints, NTUs, cancellations, renewals and claims.

- Consider increasing the level of activity where incentive schemes increase the risk of mis-selling, especially when deadlines are approaching.
- Think about more proactive monitoring methods to oversee the impact of incentives and remuneration schemes, eg mystery shopping and post-sale calls.
- Use your MI to check for spikes and trends in the sales patterns of individuals to identify areas of increased risk.
- Ensure MI is seen by the right people, including senior management, and that it's given context and acted upon when issues are identified.

4. Robust monitoring

Well-designed business quality monitoring (including call monitoring for telephone sales) carried out by competent staff can be an effective control.

- Make sure that staff who undertake the quality monitoring are sufficiently independent of the sales function to avoid conflicts of interest or inappropriate influence by sales staff or managers.

5. Take action where issues are identified

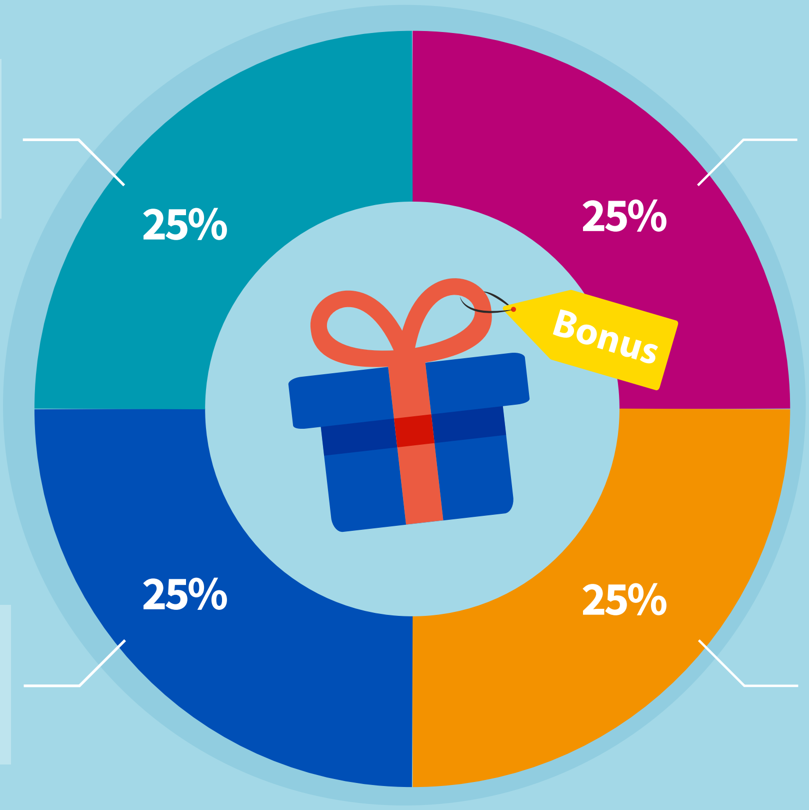
Be sure to take action where issues are identified and to record the outcomes.

- Action may include reviewing individual sales, retraining, and follow-up monitoring to make sure that issues don't recur.
- Check to see whether the issues identified indicate any trends of mis-selling.

Best practice for calculating a bonus

Purely customer service measures, eg time taken to call customers back

What was sold



Measures like product cancellation and not having any upheld complaints

The results of independent sales quality testing

Where can I find out more?	
Guidance consultant for consumer credit firms (July 2017)	https://www.fca.org.uk/publications/consultation-papers/cp17-20-staff-incentives-remuneration-performance-management
FCA Business plan 2017/18:	www.fca.org.uk/publication/business-plans/business-plan-2017-18.pdf
FCA Business plan 2016/17:	www.fca.org.uk/static/documents/corporate/business-plan-2016-17.pdf
Risks to customers from performance management at firms (July 2015):	https://www.fca.org.uk/publication/finalised-guidance/fg15-10.pdf
Update – Risks to customers from financial incentives (March 2014):	www.fca.org.uk/static/documents/thematic-reviews/tr14-04.pdf
Final guidance – Risks to customers from financial incentives (2013):	https://www.fca.org.uk/firms/risks-customers-financial-incentives
Guidance consultation – Risks to customers from financial incentives (2012):	www.fca.org.uk/static/pubs/guidance/gc12-11.pdf
The FCA website page on financial incentives:	https://www.fca.org.uk/firms/risks-customers-financial-incentives

You can find out more from Thistle Initiatives, our partner consultant, at **enquiries@thistleinitiatives.co.uk**, or contact your Aviva Sales Manager.

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