Banc Ceannais na hÉireann
Central Bank of Ireland
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Information Release **25 July 2014**

Central Bank publishes Guidelines on Variable Remuneration for Sales Staff as part of on-going engagement on achieving a consumer-centred sales culture

The Central Bank today (25 July 2014) published Guidelines on the Variable Remuneration Arrangements for Sales Staff following the completion of a cross-sectoral review of incentives payable to employees of banks, insurance companies and investment firms. The review was established to gauge the extent to which incentive arrangements were operated in the best interests of consumers in their design, management and monitoring.

The review examined the incentive arrangements to employees under the Consumer Protection Code 2012, and the Conflicts of Interest regulations applicable to investment firms under the Markets in Financial Instruments Directive ('MiFID').

Director of Consumer Protection, Bernard Sheridan said: "The Central Bank expects that, when firms remunerate sales staff on a variable basis, these arrangements focus on encouraging the right culture and behaviour in sales staff, while actively discouraging poor practices. It is important that remuneration arrangements are structured in such a way as to ensure that employees, individually and collectively, are acting in the best interests of their customers and providing suitable products which meet their needs. Therefore sales remuneration arrangements will remain an on-going priority for the Central Bank to ensure that culture and behaviours change accordingly."

The Central Bank will require all banking, insurance and investment firms to review and restructure their remuneration arrangements in light of these Guidelines. The Chair of each firm must confirm to the Central Bank that this has been completed in advance of the remuneration period commencing on 1 January 2015. The Central Bank is following up on all specific issues identified directly with investment firms and banks inspected, having already done so with insurance firms.

While all firms in the review had a process in place for the design and approval of incentive schemes, there was a failure to recognise the inherent risks in remuneration arrangements and to mitigate those risks accordingly. The key findings of the review included:

- A greater emphasis was placed on rewarding higher amounts of sales than achieving suitable consumer outcomes;
- bonus payments paid fully or largely on the achievement of sales volumes and targets, with little emphasis on the quality of sales to the consumer;
- limited use of penalties or deterrents against poor sales practices;
- widespread use of branch targets in the banking sector as a means of focusing on the bank's goals;
- incentives earned on an 'all or nothing' basis; and
- regular and robust sales quality monitoring not performed consistently.

A copy of the industry guidance issued is available on our website here

Further information: Press Office (01) 224 6299, press@centralbank.ie

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Notes for editors:

About the review:

The review examined compliance with provisions 3.31, 3.32 and 3.35 of Consumer Protection Code 2012.

The review consisted of a detailed desk-based analysis of

- variable remuneration arrangements;
- remuneration policies & payments;
- conflicts of interest policies;
- gifts policies;
- product sales;
- complaints;
- client files; and
- a review of the associated sales quality monitoring process

15 firms – including banks, insurance companies and investment firms were subject to the review, with the scope limited to remuneration arrangements in 2012.

Following this, onsite inspections were conducted in 6 firms, consisting of interviews of key staff, including sales staff and Senior Management, involved in the design, review and monitoring of incentive schemes.