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TISAtalks…FINANCIAL INCENTIVES

Last week TISA was invited to join a working group with the FSA on their latest Financial Incentives discussion, to examine the implications of the recently published guidance on the risks to customers from financial incentives and reward schemes. The thematic work which has already taken place indicates that many firms have incentive schemes that could drive mis-selling, without effective systems and controls in place to manage the risks.

Addressing the risks arising from Financial Incentives is now a key priority for the FSA/FCA. The regulator is therefore immediately planning to assess how firms have responded to their published guidance (September 2012) and whether the risks identified are being mitigated. This work is at the planning and communication stage, which is the purpose of this working party on behalf of the industry.

The FSA is engaging early with the industry on its review with the message that it wants transparency and identification of businesses and analysis of reward mechanisms where financial and other incentives are involved which drive risk to consumers, or the incentives are based on outcomes to the consumers. This review covers all types of advisers, both wealth and corporate.

The review will be conducted on an individual basis on all Category C1 firms with a sales or advisory team in the retail space. The regulator will require full information on all incentive schemes and reward mechanisms for advisers to be assessed individually, in addition to a telephone-based assessment. The implications are for the regulator to have two "deep dives" per C1 firm into an analysis of reward mechanisms.

In respect of other firms - categories C2, C3 and a sample of C4 firms - reviews will be conducted with online assessments for those smaller firms who are not owner/adviser but who operate teams. The regulator is currently building an online assessment capability and therefore virtual assessment will be provided for those appropriate firms via a filter question system, which could amount to some 600 questions. There will be firm specific feedback.

Members should be aware the regulator has not defined risk in this instance - it will be up to advisory firms to inform the regulator what they think the risk is within their schemes or reward mechanisms or prove that none exists.

Advisory firms need to consider their incentive or reward schemes from now as the regulator will expect action on the output of its guidance by March 2014 where firms will have finalised their action on the guidance and de-risked their schemes accordingly. The message is clear that the regulator will intervene on reward schemes that they are unhappy with to remove any possibility of consumer bias or detriment.

The consideration of incentive schemes also includes any target setting and performance management which would involve reward. Top performance as well as disciplinary action for poor performance will be analysed in the day-to-day activity and sales targets and measurements set by firms, particularly where there is pressure to meet targets on sales which could drive mis-selling risks or poor outcomes to consumers.

The message from TISA is to look at your existing reward mechanisms now and engage with us in the process with input, consideration and suggestions in order to meet the requirements by 2014. To be clear, this is incentive schemes for those who ultimately give the advice to the end consumer, it is their reward mechanism which is under consideration by way of all remuneration structures.

In accordance with principles-based regulation, further details will evolve from the working party; TISA is fully engaged with the regulator and the FSA team, and hope to facilitate a technical seminar or informative workshops in the very near future to assist members.

The guidance can be found at: http://www.fsa.gov.uk/static/pubs/guidance/gc12-11.pdf

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