



CARROT & STICK

Running sales teams and influencing the delivery of those products that are profitable for the provider and appropriate for the customer has always been a challenge. Following the implementation of the RDR it is proving to be even more of a test.

The culture of a firm is important in ensuring customers are at the heart of how a business is run. A key driver of culture is how staff are rewarded and their behaviours valued and recognised by the distributing firm. The way in which staff are incentivised and how their performance is managed plays a key role in this, which is why the FCA are interested in it.

A firm's success in reforming its culture will be judged by the outcomes that consumers experience over time. Recognising this, the regulator has taken a forward looking approach to work on performance management.

The FCA has urged firms to implement controls aimed at curbing the risk of mis-selling caused by performance management measures. The publication by the FCA of a 15-page finalised guidance publication, *Risks to Customers from Performance Management at Firms: Thematic Review and Guidance for Firms*, (Finalised guidance 15/10) calls on the financial services industry to look at how sales pressure could cause mis-selling.

It contains a warning by the FCA that although it is important to manage how teams behave and to make a business commercially sustainable, issues could arise if staff are under too much pressure to sell or deliver particular products, services or solutions.

The final guidance paper states: "Where incentives are misaligned, or poor performance management practices exist, these can lead to undue pressure on staff to sell products, which can result in mis-selling."

The FCA reviewed intelligence highlighting potential bad practices and met with firms to discuss how they approached performance management. It also reviewed published information on the subject and met with TISA and other organisations, to agree how the industry could conduct best practice in line with the principles of the original Consultation Paper. Despite the benefits of good performance management, there will always be an inherent risk that poorly executed performance management can encourage or drive mis-selling because of pressure to meet individual targets or corporate plan objectives.

It is clear that distribution firms need to manage this risk and should pay particular attention to identifying poor practices that may create an undue level of pressure on staff, particularly around incentives and monthly target and goal setting to reach corporate benchmarks, which could increase the risk to customers.

In addition, the FCA also focused on the behaviour of managers and supervisors of reward schemes and sales targets, warning that some could act unreasonably, while others may encounter conflicts of interest, particularly if their reward, incentive payment or bonus was directly related to the performance of their sales teams. Undue pressure can arise when the behaviour of individual managers or senior managers goes well beyond the boundaries of what would be considered reasonable by rational observers.



Middle managers are particularly likely to have to manage conflicts of interest to avoid poor performance management practice. They often have to balance objectives linked to the firm's corporate plan with other objectives, such as the way products are being sold and ensuring the behaviour of staff is appropriate.

The regulator has now urged senior management to make sure firms identify the risks of poor practice as well as calling on human resources departments to play a role in how firms set approaches to performance management.

In my many years of sales management with financial services providers, the Human

Resources or Personnel Department as it was in my day were very rarely involved in the construction of the payment mechanisms to reward salesmen & sales teams. Any corporate distribution plans must now involve HR particularly on performance management structures and governance.

Distribution firms would be well advised to revisit their incentive and performance management schemes to ensure they take heed of the structures laid out in this Thematic Review & Guidance.

Peter Smith, Head of Policy Strategy Development