Banc Ceannais na hÉireann
Central Bank of Ireland
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Central Bank inspection highlights insufficient quality controls for incentives paid to sales staff

The Central Bank today (27 November 2013) published the outcome of a themed inspection into sales incentives paid to direct employees of life insurance companies subject to the rules of the Consumer Protection Code 2012. The Central Bank considers the risks identified in the insurance sector to be applicable to all financial providers and intends to extend its sales incentives findings and review to the banking and investment sectors.

Director of Consumer Protection, Bernard Sheridan said: "The Central Bank is committed to promoting a consumer-focused ethos in all financial service providers, where acting in the best interests of consumers is at the core of their culture and practices. We expect firms to design, implement and oversee incentive schemes that ensure good behaviours and reward quality consumer sales and service."

The Central Bank identified a number of risks that may encourage short term sales behaviours that may not be in the best interest of consumers, including:

- Incentives paid fully or largely on the achievement of sales volumes or sales targets.
- Insufficient emphasis placed on linking quality measures and behaviours to incentive payments such as the individual's compliance record, the number of complaints upheld against them, performance management results, relevant education and training achievements or any measurement of customer satisfaction.

- Insufficient use of penalties or deterrents against poor sales practices other than 'clawing back' the initial commission earned on the product sale.

Firms must ensure that sufficient weighting is given to quality assurance factors in order to prioritise good behaviours. Firms are also required to utilise deterrents against poor sales related behaviours and to discourage a short-term sales mindset through appropriate use of their claw back policy. Regular and robust sales quality monitoring must be conducted to ensure that any instances of poor sales related behaviours are captured and addressed accordingly. Those charged with governance should ensure that the design of future incentive schemes incorporates these requirements.

As a result of this inspection, the Central Bank is requesting all insurance firms to review their remuneration arrangements, and to take any remedial action necessary during 2014. The Central Bank is following up on any specific issues identified directly with insurance firms inspected, and is extending supervisory work to look closer at the sales incentives and remuneration practices within both banks and investment firms.

A copy of the letter to industry is available on our website here

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Notes for editors:

About the inspection:

- When a financial advisor directly employed by, or acting as a tied agent of, an insurance company provides advice to a consumer that leads to the sale of a protection, pension or investment product, they may earn a commission or other variable incentive as a result of this sale. Additional incentives may also be paid to the financial advisor for completing the sale based on their performance against specific measures as set by each firm. These incentives can be paid in conjunction with a fixed salary, but in some firms remuneration to sales staff is 100% variable and based on the individual's sales performance for the period under review.

- The life insurance companies included in this theme represented approximately 74% of the Irish market by value of total Irish premium income in 2012.

- The inspection consisted of a detailed desk based analysis of incentive schemes, remuneration policies & payments, product sales, complaints, client files and a review of the associated sales quality monitoring process in 5 firms. Following that onsite inspections were conducted in 3 firms, consisting of interviews of key staff involved in the design, review & monitoring of incentive schemes, sales staff and Senior Management.

About the issues identified:

The main issues identified in the course of this theme were:

1. Each sales-based Incentive Scheme reviewed carried the potential to encourage poor sales behaviours in sales staff in order to earn a variable incentive, be it commission, bonus or salary. This was due to a substantial focus on the achievement of short term sales in order to earn variable incentives.

2. While some firms have built quality assurance measures into their incentive schemes, none were used effectively or had a sufficient weight in order to have a consistent, meaningful impact on the payment (or deduction) of variable incentives.

3. Most firms did not sufficiently use financial penalties or deterrents, other than the claw back of initial commission earned, as a threat or mitigant against poor sales related behaviours.

4. Claw back / deduction of variable remuneration was not applied to all incentives paid to sales staff, and tended to be imposed only on the initial commission earned per product sale. In some cases, it did not apply to all sales staff, and was subject to a time limit such as only in the first year or two of the product life. The Central Bank considers that there should be no limitation on the claw back period where instances of poor sales related behaviour are found.

5. A key mitigant to components of incentive schemes that may encourage poor sales behaviours by financial advisors is for firms to have a robust, varied and well managed sales quality monitoring function. The Central Bank noted that firms recognised the importance of this function, and in general identified good practices.

6. Firms did not perform sufficiently regular reviews of the quantum of remuneration paid in advance of the payment of variable incentives to sales staff in order to identify possible trends in poor sales related behaviours.

7. Conflicts of interest were found in that many Sales Managers were assigned sales related targets and awarded substantial variable incentives based on the performance of the sales staff that they supervised against such targets.

About the Consumer Protection Code

- The Consumer Protection Code 2012 is imposed under Section 117 of the Central Bank Act, 1989. This revised Code was published on 19 October 2011 and came into effect on 1 January 2012. The revised Code builds on the protections of the previous version, and includes more detailed requirements in many areas.

- Contraventions of the Code may be subject to the imposition of administrative sanctions.

- On 12 February 2013 the Central Bank published its programme of themed reviews and inspections for 2013.