



Response to EBA Consultation on Remuneration of Sales Staff

The International Financial Consumer Protection Organization (FinCoNet) takes note of and welcomes the work of the European Banking Authority (EBA) in the area of remuneration policies and practices related to the sale and provision of retail banking products and services. The EBA's work resonates with recent work carried out by FinCoNet on the topic of sales incentives and responsible lending.

FinCoNet's Report on Sales Incentives and Responsible Lending (published 14 January 2016, available [here](#)) is based on an international survey of regulators in 24 jurisdictions across a range of consumer credit products. The Report found that sales incentives are, by their very nature, a key driver of both culture and behaviour towards consumers, and that poorly designed sales incentives can cause harm to consumers, individual firms and the financial system.

On foot of the findings of the Report, FinCoNet is now working towards publishing a consultation paper on the topic of sales incentives and responsible lending in 2016, with a view to further promoting sound market conduct and strong consumer protection through the efficient and effective conduct supervision of sales incentives and responsible lending. In doing so, FinCoNet will follow closely the progress of the EBA in advancing its work on this important topic.

The FinCoNet Report concluded that it is apparent from the consistency across jurisdictions of incentive practices and cases of concern identified that an international approach is merited, covering all common forms of consumer credit and both financial and non-financial incentives, and that requirements in this area have the potential to make a significant impact on how credit is sold. Thus, FinCoNet takes a keen interest in the outcome of the EBA's consultation on their draft guidelines on remuneration of sales staff. FinCoNet will be interested in the aspects of the EBA's guidelines that resonate with the topics discussed in the FinCoNet report, in particular the Public Consultation Topics identified in the report, including:

- The risk of consumer detriment, such as unsuitable lending and unsuitable cross selling, that can arise as a result of poorly designed sales incentive schemes (as to which we note in particular draft EBA Guideline 1.2). You may wish to note the discussion in the FinCoNet Report of the nature of the detriment that can be caused by poorly designed incentive schemes and the examples shown in the case studies throughout the report.
- The need for an appropriate weighting to be given to qualitative objectives in the design of remuneration policies and practices in order to reduce the risk of mis-selling that arises when remuneration is linked solely to quantitative criteria (as to which we note in particular draft EBA Guidelines 1.5 and 1.6.a).
- The need to consider the conflicts of interest that can be created by sales incentive schemes, particularly where a salesperson is paid variable remuneration based on sales, in order to



ensure the consumer's best interests are protected (as to which we note in particular draft EBA Guidelines 1.1 and 1.8).

- The importance of sales incentives in setting the culture of a firm, and the specific responsibility of the management board in this regard in their oversight and monitoring of remuneration arrangements (as to which we note in particular draft EBA Guidelines 3.1 and 3.6).

FinCoNet looks forward to the outcome of the EBA's consultation on the guidelines on remuneration policies and practices related to the sale and provision of retail banking products and services.