

ADVISER REMUNERATION

WHAT'S NEXT.

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CULTURE.

“Culture is hard to measure but easy to feel. You soon learn about their ethics and standards when you deal with any one. In my view the scandals in financial advice, life insurance and rate setting are primarily caused by one thing. The remuneration structure. Pay someone to behave a certain way, and there’s a good chance they will.”

Chris Cuffe

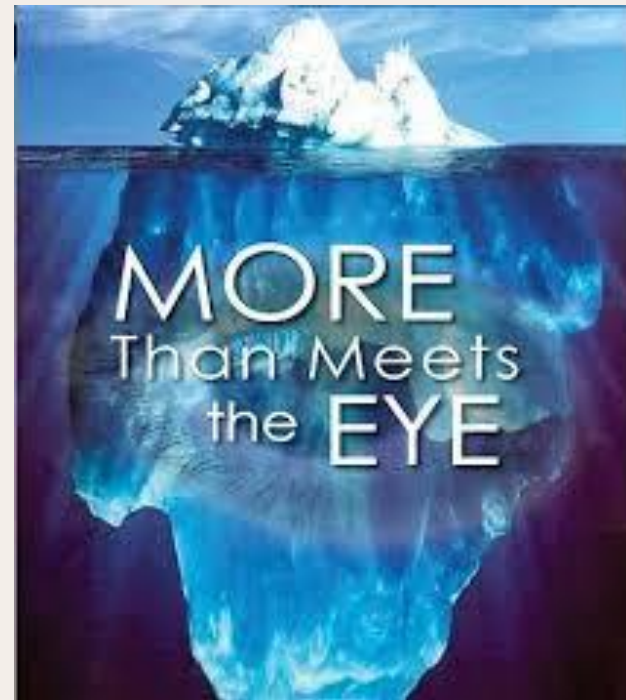
THREE KEY OBLIGATIONS.

1. Neither receive nor pay conflicted remuneration
2. Be efficient, honest and fair
3. Manage conflicts of interest



ASIC'S VIEW

- + Eligibility criteria
 - + Purpose of benefit
 - + Weighting of benefit
 - + Link between benefit and advice
 - + Environment in which benefit is given
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SINCE THEN....

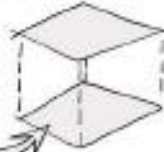
- + Report 492 - *Add-on insurance through car dealers, Sept 2016*
 - + Report 516: *Mortgage broking remuneration, March 2017*
 - + *Sedgwick - Banking Remuneration Review, April 2017*
 - + *LIF Reforms 2017/8*
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**This is
Extremely
Very
Not Good**

ROUNDTABLE


REMUNERATION AND ACCOUNTABILITY

INCENTIVES ARE THE UNDERLYING 'MOTIVES' IS THE POOR BEHAVIOUR



'BALANCED SCORECARD' ISN'T WORKING

CAN IT EVEN BE SOLVED?



EXECUTIVE REMUNERATION

WHAT ABOUT THE MIDDLE?

FRONT-LINE STAFF REMUNERATION

THERE IS NO SILVER BULLET...



WE NEED TO ADOPT A TRIAL AND ERROR APPROACH




SHORT TERM METRICS ARE INSUFFICIENT




GOTTA GET THAT COMMISSION.

PURE FINANCIAL METRICS NEED TO BE RECONSIDERED

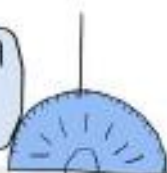


THE CONSEQUENCES FOR POOR BEHAVIOUR MUST DETER FURTHER POOR BEHAVIOUR




METRICS SHOULD BE:

OBJECTIVE



INDEPENDENT



COMPLAINTS TO AFCA?

METRICS




NPS IS A POOR METRIC

HOW ARE YOU PROVIDING THE RIGHT HUMAN STRUCTURES IN PLACE?




APRA WILL BE MORE ACTIVE



HMMM... PEOPLE WILL 'GAME' THE INCENTIVE.

THE GOVERNMENT MUST ACT ON THE 2 STRIKE RULE



VARIABLE REWARDS

- + Eliminate variable rewards that are directly linked to sales
- + Variable rewards should only be a small proportion of fixed pay



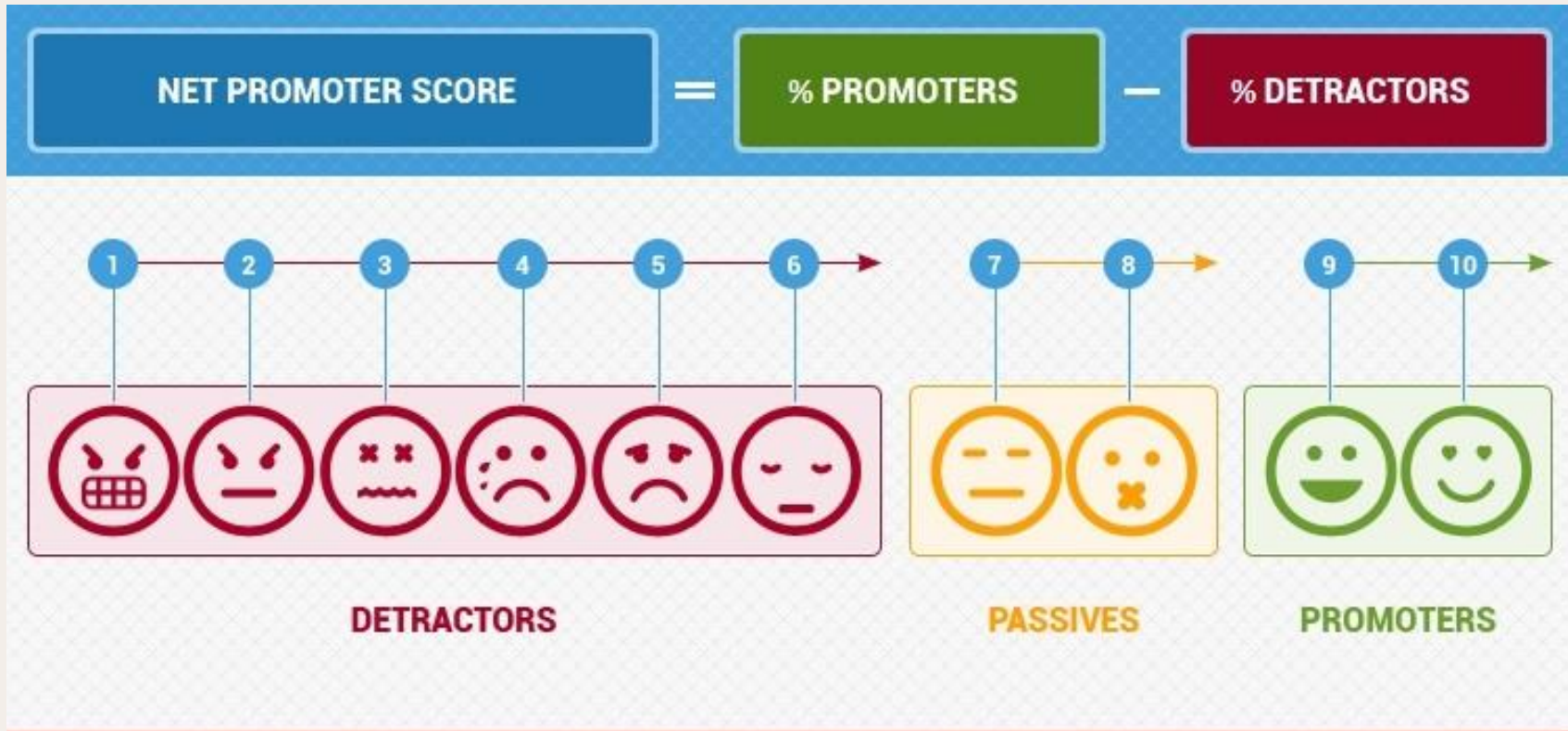
MEASURES.

- + A range of factors, reflecting the responsibilities of the role
 - + Product neutral
 - + Genuinely customer centric
 - + Focus on outcomes, not just satisfaction
 - + Credible gateways
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WHAT GETS MEASURED
GETS DONE

BEWARE THE NET PROMOTOR SCORE.



“NON-FINANCIAL” MEASURES.

Balanced Scorecard %	Objective	Ratings	
		Target	Outperformance
Customer 25%	Create Customer Advocacy- Voice of Customer RTCF - NPS	50	75
	Live the Customer Promises - 1. Total Appointments 2. Plan Presented 3. Reciprocal Referrals. This is to ensure the customer can sit before the right ANZ specialist that can assess and meet their needs outside of FP, e.g. Home Loan specialist.	100%	120%
		100%	120%
		100%	120%
People and Reputation 25%	Knowledgeable and invested Business Partners – 1. Partner Engagement 2. Conversion E-S 3. Conversion Q-S	100%	120%
		80% of Role Benchmark	100% of Role Benchmark
		80% of Role Benchmark	100% of Role Benchmark
	Deliver Great Advice – GFA App Usage	50%	65%
Financial & Discipline 25%	Knowledgeable and invested Business Partners – 1. Entered Referrals 2. Qualified Referrals 3. Customer Solutions (FP Sales)	100%	120%
		100%	120%
		100%	120%
	More Customers in front of the right Advice Solution – Customer Relationships includes New PA Sing- up and <u>Uptiers</u>	100%	120%
Risk & Processes 25%	Deliver Great Advice – Maintain Quality Advice and Compliance Standards via AQR results	AQR= 3	AQR= 1,2
	Live the Customer Promises – Prime Access Service Delivery	100% fully serviced or deferred or inherited exemption	N/A

PERFORMANCE MANAGEMENT.

“Managers should predominantly reflect an ethical and customer focus when communicating with staff, exercising any discretion while managing performance, and in allocating variable reward payments.”

Stephen Sedgwick

WHAT'S OUT.

What's out

- + Leader boards
- + Sales meetings
- + Sales only training

What's in

- + Customer oriented
 - + Ethical focus
 - + Quality of outcome
-



WHAT ABOUT TARGETS.

“I work alongside retail employees. They tell me of their experiences and that its all about the numbers, even though t the mantra is to ‘put the customer at the centre of everything you do, in reality staff are being named and shamed for not reaching targets, rather than appreciated for the care they take with their customers and the protection of compliance issues and the company brand.”

Financial Sector Union Submission

MANAGER DISCRETIONS INSTEAD.

- + Meeting gateways
 - + Assessment against scorecard elements
 - + Overall performance
 - + Amount of variable reward payable
 - + Aggregate bonus pool
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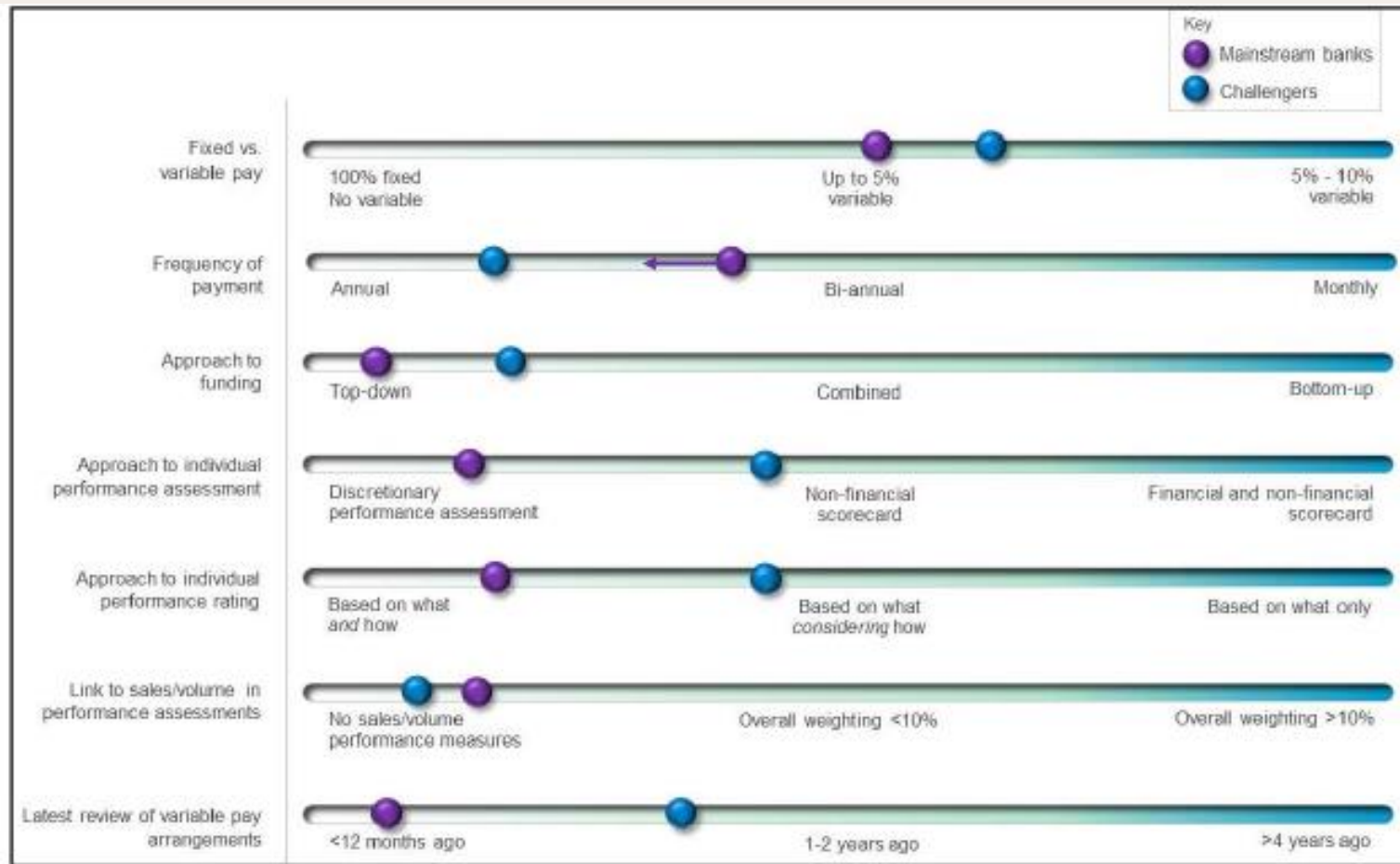


WHAT HAYNE SAID.

- + Implement Sedgewick.....
- + Apply it to all financial institutions



THE UK EXPERIENCE



BAD STRUCTURES.

- + 100% (or significant proportion) of pay is variable
 - + Disproportionate reward from marginal sales - one extra sale both earns commission on that sale and increase the rate of commission on all other previous sales
 - + Accelerators or stepped payments i.e. only earning a bonus above a minimum target
 - + Different rewards for different products / services
 - + Variable salaries that change, based on volume measures
 - + Rewards are only paid if staff meet all minimum targets on a range of difference volume-based measures
 - + Competitions or promotions designed to increase sales volumes
 - + Incentive schemes for managers that are linked to team volumes
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GOOD MEASURES.

- + Bonus based on quality customer outcomes, rather than volume or profitability
 - Recognise actions that are in the best interests of the customer.
 - Based on the results of independently scored quality assurance assessments
 - + Reductions in or disqualification from bonus for failing to meet quality standards. QA reduction must be greater than any increase based on sales volumes
 - + Bonus paid to line managers based on the QA results of their team, reinforcing the focus at all levels
 - + Deferral or clawback of incentive payments until measurement is made
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TO BE MORE SPECIFIC...

Quality

- + Favourable client surveys
- + Number of client referrals
- + Outstanding client reviews
- + Qualitative assessments of advice

Compliance/Professional Standards

- + Manager appraisal
- + File reviews
- + Client complaints

Financial

- + Overall business revenue
- + Performance against budget
- + Lead generation and new client appointments



GOOD MONITORING

- + Focuses on the suitability of advice and products recommended
- + Checks customer was treated fairly.
- + Includes sitting in on discussions, listening to phone calls or directly contacting customers
- + Is done by capable staff



QUESTIONS.

