VAN Radar 2019

Perspective session summary

Session: Adviser remuneration: what's next?

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Recommendations from the Sedgwick Report are changing the way banking staff are incentivised, giving advisers deep insights into how to implement the changes required by the Hayne Royal Commission.

Your obligations according to ASIC

Since 2013, financial services businesses have not been allowed to receive or pay conflicted remuneration. The rule isn't volume-based – it applies to any remuneration structure or process. Today, advice businesses have two obligations. They must:

1. Be efficient, honest and fair
2. Have adequate arrangements to identify and manage any existing or potential conflicts of interest with **any** clients – not just wholesale or retail.

Variable rewards in the context of total remuneration

One of the key Sedgwick Report recommendations was to eliminate variable rewards in campaigns. For example, in a product switch campaign, rewards should only be a small proportion of fixed salary. This should be no more than 50% of the variable proportion of an individual's remuneration – and 20% by 2020. In the UK, where these changes are already in place, variable rewards represent just 7% of remuneration in most banks.

Effective measurements for remuneration

- Customer measures should be genuinely customer centric based on the quality of the outcomes.
- Reward behaviors and conduct that are consistent with the culture you want.
- Credible gateways – the level an adviser meets before they can unlock rewards – can't be a low hurdle. Effectiveness and remuneration entitlement can be measured by a combination of behavior, sales, interactions.
- Don't depend on Net Promoter Scores (NPS) as a measure of effectiveness, because NPS is usually recorded directly after an interaction but true customer value can take up to 10 years to deliver.
- Put systems in place to check the quality of advice may be an option. Many businesses are trying to develop technology and AI systems to do this. A more effective focus may be to look at systems to develop the advice, like Map My Plan, and leave checking and personalisation to the human experts.
- Some banks, like ANZ, have developed solutions based on insights from the UK, but these are still driven by financial measurements.

How to set targets

- Consider the impact of targets on employee stress, satisfaction and motivation.
- Manager discretion is required, as some people will be financially-focused while others are service focused. You need to be fair while pulling the right levers.
- Review remuneration structures for frontline staff at least annually.

What does the future hold?

We can look to changes in the British financial sector to see what might happen here. In the UK, 90% of advisers have moved out, but there's been no noticeable business impact. Employee engagement has risen. Work cultures are becoming more collaborative, with remuneration based on manager discretion rather than quantitative measures.

Early indications show that the changes are positive. The focus is less on overcharging and recommending inappropriate clients and more on saying no to the wrong clients. Putting the right measures and priorities in place means you can attract and retain clients that pay and value the service your advice business provides.

Claire Wivell-Plater is the Chairman of The Fold Legal