Learning from the **Changing Environment**

How FIs can keep a close watch on sales incentive programs

There is nothing inherently wrong with sales incentive programs. It is all in the execution.
Many financial institutions have sales incentive programs. While these programs help drive deeper client relationships or create new ones, recent actions by the Office of the Comptroller of the Currency and the Consumer Financial Protection Bureau are a reminder to all FIs that doing something and doing something the right way can be two different things.

To mitigate unsafe or unsound incentive programs, FIs should consider implementing the checks and balances by making an honest assessment of such programs using the tips and questions offered in the content below:

An effective program review starts with understanding what activity triggered the regulatory actions.

Perform a regular program review

A regular review of your institution's incentive programs is important to protect your FI and customers from inappropriate or unauthorized activity. Why do this? Because your regulator will likely ask about this issue during his next visit. An effective program review starts with understanding what activity triggered the regulatory actions. You should read the OCC and CFPB orders. Then review the elements of your programs; this must be an objective look at what you are currently doing and why. Next, compare the key elements of your programs with the program described in the orders; how are your programs similar and/or different from the activities which raised concerns from regulators?

Mind your culture

Each FI has its own culture, values and ethics, and it is imperative your incentive programs reflect those as well. You can determine whether they meet this criterion by asking yourself these questions:

- ☐ Do they incentivize the intended behavior – providing compensation for products used rather than products sold?
- ☐ Are the sales expectations in your programs excessive?
- ☐ Are the best interests of your customers at the center of all your sales efforts?

Weigh the balance

FIs must ensure their programs have adequate checks and balances in place. To determine if this is true, there are several questions to ask.

Do they meet the needs of all of your major stakeholders — employees, shareholders and customers?

- ☐ Internal Audit regularly review them?
- ☐ Are there established metrics for sales results?
- ☐ Are sales trends analyzed against expected metrics?
- ☐ Are the sales goals realistic for each branch?
- ☐ Are patterns of sales examined by location and selling associate to identify unexpected patterns?
- ☐ Are account openings confirmed as being intentional through a call back or comparable confirmation (similar to ACH and wire transfers)?

Examples of sales incentive programs

Some typical sales incentive programs are:

- ☐ Deposit gathering, such as CD specials
- ☐ Expanded lending, including low-rate personal lines of credit or no- fee credit cards
- ☐ Relationship building, such as a free safe deposit box when opening a new transaction account.
- ☐ Transaction account openings
- ☐ Savings account openings
- ☐ Cross-selling additional products/services

Clear overall goals

Having clear overall goals as a company is important. To assure those goals can be met, put these principles to work and ask some pertinent questions.

1. Develop some best practices to be delivered from the Board of Directors, executive leadership, and directors to elucidate these goals to employees. They should know that conducting business in an appropriate fashion is more important than what is most expedient.
2. Empower managers to be responsible for the integrity of each program and to act when issues arise.
3. Ask the following questions:
   - ☐ Are results too good to be true?
   - ☐ Are customer complaints analyzed to identify sales hot spots?
   - ☐ Are customer complaints across the organization reviewed together to identify trends?
   - ☐ Are complaints about your programs to your ethics hotline evaluated alongside customer complaints?

Build a checklist

Use the questions in this article to construct an initial review checklist to help you get started. Set the frequency of the review. Next establish the responsibilities of the sales team, compliance and risk teams, which would include defining internal audit responsibilities based on the results of the initial review. Use the existing review and quality assurance processes to avoid reinventing processes. Look across your organization for incentive programs; they are likely to exist in many different lines of business.

The behavior discussed in the orders may be an anomaly. Or, the behaviors may simply be reacting to the changing regulatory expectations outlined in the orders to establish a periodic program review process at your institution. If so, this is an opportunity not to be missed. Doing the right thing for your customers is part of the foundation of trust you work to build every day.