Bank insiders reveal truth about sales incentives

Summary:
Have you ever suspected that your banker was rewarded for selling you products that were unnecessary, too expensive and not in your interests? Well a new report commissioned by the Australian Bankers Association proves it. The Sedgwick review was designed by the bankers to defuse calls for a Royal Commission. Well it's backfired. Bank insiders spill the beans on the pressure staff are put under to meet sales targets and boost their pay with bonuses and commissions. Commission programs of this nature create perverse incentives and staff are encouraged to act against the interests of clients. Read the full report linked below this article.

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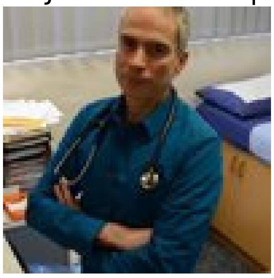

Shocking claims aired in new bank report, but no ban in sight

A new report has exposed serious flaws in the way bankers are paid to sell financial products, but it stopped short of calling for an outright ban, prompting fears the bank-funded review will not go far enough to prevent dodgy sales and alleviate pressure on staff.

Perhaps more revealing than the conclusions of the issues paper, released on Tuesday, were the shocking whistleblower reports it contained. *[Complete PDF of report - link below]*

One teller reportedly encouraged a customer to open nine separate bank accounts to help the branch meet a sales target. A second teller was then "reprimanded" for helping the customer close the other eight "unnecessary" accounts, according to the issues paper.

A bank employee confided that: **"If I am not on my numbers by 2.00pm I know I will have to have a performance conversation."**

Another said: **"I know that if it is Thursday and I haven't made my target by Friday I will be performance managed on Monday."**

A third said they feared for their job because they were not selling enough products. **"If I do not meet my daily sales target I have to explain how I will catch up at morning meetings of the team. I am behind in sales of wealth and insurance products and need to catch up to keep my job."**

Another bank employee criticised the weasel words used to disguise sales tactics. "It's no longer called 'sales' but 'helping customers'. But everybody knows it is about selling. For example, **the bank wants more accounts opened because it makes it harder for customers to leave."**

One whistleblower alleged that **managers were put under even more intense pressure.**

"Bank managers get ten times the pressure of the sales force. The manager has no power at all," the informant said. "They receive multiple emails and teleconferences to talk about 'the [sales] stats'."

Another said some branches were "renowned for problem selling", while others acted as "clean-up" branches that specialise in rectifying the problems caused by the "selling branches."

Despite these claims, former public service boss Stephen Sedgwick, who is heading the review, found no clear evidence that sales commissions were creating "such significant systemic risks of poor outcomes for retail banking customers as would warrant the outright banning of product-based payments".

His "tentative" finding, pending further investigation, was that "some banks should re-examine elements of their present practices, and I concur with those who believe it is appropriate to reduce the emphasis on product-based payments whenever possible".

The review is one of three commissioned by the Australian Bankers Association in a seeming effort to fend off popular calls from Labor, the Greens and One Nation for a royal commission into bank misconduct.

The big four banks – CBA, Westpac, NAB and ANZ – are all **'vertically integrated', which means they create many of the financial products they sell.**

To drive sales, many bank tellers are paid bonuses based on how many loans, credit cards and bank accounts they sell. Third parties, such as mortgage and life insurance brokers, as well as bank managers and senior executives also receive 'incentives'.

The report found the average bank teller was paid a fixed wage below the Australian average (which is roughly $79,000). This is **topped up with "variable reward payments", which can be as high as $10,000 a month.**

Consumer groups say these payments are far too opaque (they are rarely disclosed when a customer signs up) and may result in **customers being pressured to buy unsuitable financial products.**

Erin Turner, head of campaigns at consumer group CHOICE, said “everything we see” confirms that **conflicted remuneration is hurting bank customers.**

“We know that people are getting a raw deal in banking, whether that’s paying too much for a credit card to being mis-sold complex financial products that have a devastating impact on their lives,” she told The New Daily.

“We need more transparency, at a minimum.”

Ms Turner praised the Sedgwick report for providing more detail than she expected, but urged the review to release specifics, rather than broad overviews, of risky practices at particular banks.

“It’s really important for customers to know if they are going into a bank with a hard-sell sales culture or if they are walking into somewhere that’s going to treat them well as a customer and look after their needs first.”

Finance Sector Union national secretary Julia Angrisano echoed this concern, saying it was **proof of the need for a royal commission with the power to subpoena documents.**

“We’re pleased with the engagement so far with Stephen Sedgwick, but I am somewhat cautious that after almost six months there’s this idea that Sedgwick doesn’t have all the information he needs,” Ms Angrisano told The New Daily.

“There is an ongoing need for a royal commission to really dig deeply, with all the powers to compel all the information that’s needed, so we can properly examine the problems across the banking sector.”

Professor Peter Swan at the University of New South Wales, an expert in corporate governance, warned that **incentives were inherently dangerous** because they were “very effective”.

“Misapplied they can often lead to horrendously poor outcomes from the point of view of the consumer,” he told The New Daily.

“If you incentivise people, chances are they will devote all their efforts to those activities, and neglect other matters of importance.”

Professor Swan’s preferred fix was to align incentives closer with the interests of consumers, rather than ban them outright. An example might be a requirement for bank executives and tellers to sign up for the credit cards and home loans they sell.

Failing this, an outright ban might be preferable, he said. “I am sympathetic to the view that **having no incentives at all may be better than having poorly-designed incentives.”**

Source: Jackson Stiles - The New Daily - *link below.*

Websites For More Information: Source: Shocking claims aired in new bank report, but no ban in sight
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