Other factors that may indicate a higher risk of inappropriate sales include the following:
Staff or branches that sell a higher-than-normal percentage of certain products, especially where those products have a greater impact on variable pay
Unusual combinations of products being sold to individual customers
Staff who achieve or miss a sales gateway by a small margin
High levels of product cancellations or non-use by customers
Customer use of a product that indicates they do not understand how it operates – for example, a savings account that the customer uses as if it is a standard transactional account, incurring high fees as a result
Sales of products that are unusual given the customer's characteristics
Sales to vulnerable customers
Complaints or poor customer feedback
Unusual customer purchase patterns, such as multiple transactional accounts

We believe that, if carried out with a sufficiently risk-based approach, effective controls are likely to identify inappropriate sales where incentives are based on sales performance. However, a number of banks told us that their controls had not identified any instances of inappropriate sales in the last year.

Positively, some banks told us of their intention to improve the way they identified potentially inappropriate sales through improved analysis of, for example, how customers use products they have purchased.

Board and senior management oversight

We requested information about reporting to and discussions of the board and senior management committees responsible for overseeing the risks associated with incentives.

We found that there is some reporting on the risks and the outcome of controls that detect inappropriate sales practices, although this varied between the banks and some receive very limited information. This is of significant concern to us, as risks that are not identified cannot be effectively mitigated and monitored.

In some instances, reporting on performance of controls related to inappropriate sales is provided and monitored at a middle management level, and banks stated material issues would be escalated to the bank's senior management and board on an exceptions basis. However, we expect that senior management and boards should not overly rely on this. We expect they proactively request information on the performance of controls, to give them confidence about the effectiveness of the bank's control framework. We also expect them to question whether a lack of issues detected means the issues do not exist, or that they are not being identified.

We did find evidence of boards and senior management receiving and discussing changes to incentive structures, such as those following the Sedgwick review. It is positive that they are engaged on the subject of incentives. However, we expect them to also be engaged in the ongoing oversight of risks associated with incentives, in addition to changes to incentive schemes themselves.

Next steps

We will write to all banks included in this review stating our expectations.

We expect banks to implement changes to their incentive schemes no later than the first performance year beginning after 30 September 2019. In March 2019 we will ask all banks how they will meet our expectations regarding incentives, and we will report on their responses. Any bank that does not, by that date, commit to removing incentives linked to sales measures for salespeople and their managers will be required to explain how they will strengthen their controls sufficiently to address the risks of poor conduct that arise with such incentives.

Glossary

Bank Conduct and Culture review	Review by FMA and RBNZ to understand whether there are widespread conduct and culture issues present in New Zealand banks.
Salesperson	Individual who sells directly to customers. Includes: branch staff; phone staff; online help staff; rural staff; Mobile Mortgage Managers; and Small and Medium Sized Enterprise (SME) business banking representatives. It does not include staff that sell to wholesale customers. Authorised Financial Advisers, Registered Financial Advisers, and specialist sales staff within banks. It also excludes third parties, such as external brokers.
Sales measure	A criteria based on sales performance against which an individual is assessed against, for example, when determining their variable pay. Sales measures are measures that are achieved by sales or referrals, whether at an individual or a team level. This includes sales/referrals numbers, sales value, asset or liability growth.
Scorecard	Scorecards assess performance against a number of performance measures. Each measure has its own weighting, which is used to calculate the overall performance rating and, in turn, variable pay. Example: • 25% based on sales performance • 25% based on customer satisfaction • 25% based on behaviours • 25% based on compliance
Sedgwick review	Retail Banking Remuneration Review by Stephen Sedgwick in Australia.
Vulnerable customer	Someone who, due to their personal circumstances, is especially susceptible to harm, in particular when a firm is not acting with appropriate levels of care (based on definition from "Customer Vulnerability" paper published by the UK Financial Conduct Authority, 2015).

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