Kevin Mellis
Credit Supervision Thematic Team
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

4th October 2017

Dear Mr Mellis

SMALLER BUSINESS PRACTITIONER PANEL RESPONSE TO CP17/20 STAFF INCENTIVES, REMUNERATION AND PERFORMANCE MANAGEMENT IN CONSUMER CREDIT

The Smaller Business Practitioner Panel is pleased to respond to the FCA's consultation on staff incentives, remuneration and performance management in consumer credit. The Panel is supportive of the work that the FCA has conducted in this important area.

Overall, the proposed rules cover many of the relevant areas that need to be addressed in this sector. While the resolutions put forward to mitigate existing risks are well intentioned, their implementation and adherence will need to be closely monitored as they represent a reversal of, in some areas, decades of poor practice.

In addition, we would urge the FCA to draw on lessons learned from similar work carried out for example on remuneration of Financial Advisers in the Retail Distribution Review to ensure practices are aligned and that there is consistency in its approach.

Q1: Do you have any comments on our proposed additional rule and guidance in CONC to require firms to have adequate policies and procedures designed to detect and manage risks arising from their remuneration or performance management policies as set out in Appendix1 of this document?

Q2: Do you have any comments on our proposed non-Handbook guidance as set out in Appendix 2 of this document?

(Response to Q1 and Q2)

The paper attempts to address the very key issues of staff behaviours potentially being driven by sales incentives rather than by the client, the consumer and their needs as the primary motivation. This can manifest in both the sale of inappropriate products and poor service.

Where staff are even partially incentivised by product sales their behaviour will always be motivated in some part towards their own personal gain be that financial or performance against their targets. Other reward mechanisms must be found around quality measures, customers' feedback, satisfaction and retention. All these make perfect commercial sense but require a longer game. Every organisation desires loyalty from their customers but this will only take place where consistent value and trust can be demonstrated. Although there have been major strides towards a more quality sale remuneration schemes in some areas, there are still many pockets where short term profitability is the key element of reward and remuneration. The proposed measures will allow firms to comply without the risk of being undercut by competitors with lower standards.

The motor market has traditionally operated on a low salary high commission structure. Typically sales people are paid a percentage of the overall deal profitability. That being 'metal profit ' i.e. the margin retained in the car plus any finance commission and income derived through brokering warranty and insurance products. This is where the majority of their income has traditionally been earned. If we take finance commission for example the dealer traditionally works on a base rate, say 3%. The intention of course has been to sell the finance or the monthly payment to the customer on an instalment basis £250 /£300 per month basis or quote on a weekly basis in order to establish affordability in the customer eyes.

This monthly figure is often quoted 'full up', meaning that it includes a maximum rate to the customer, maximum borrowing period and all the additional products included. If/when there is a price objection the salesman will continually refer to his sales manager and simply step back on this rate until the customer agrees – clearly this is about optimising deal profitability and potentially generate the 'sale' of inappropriate or inflated products. It is remarkable that this flat rate approach still exits and no consideration is given to the credit risk of the customer either by lender or dealer/ broker.

Lastly, another major consideration is where staff are involved in direct collections activity. In this particular area, where customers have had a significant change of circumstances, this has often rendered them vulnerable. Awareness at this interaction can also increase mis-selling or broker exploitation. The remuneration of these staff on simple cash collected basis will drive poor customer outcomes and may well lead to further stress and anxiety. It is difficult to see anything other than an adequate salary with any incentives linked to customer outcome, forbearance and the adherence to appropriate payment plans or resolutions being the only effective way of rewarding staff.

Yours sincerely,

Craig Errington,

Chair, Smaller Business Practitioner Panel