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The Troubled Waters for Retail Banking

Incentive opportunities and the mix of pay continue to be examined as the effectiveness, administrative burden, and risks of low dollar programs are under scrutiny.

For Retail Banking, let us remember the lessons we learned previously from the sub-prime mortgage, LIBOR gate, and other industry scandals. It will require collaboration, adaptation, and effort by regulators, leadership, investors, and probably most importantly managers and staff. We need to have a helpful discussion, not divisive finger pointing. We have to determine the best path forward that balances customer needs, regulatory guidance, and investor demands.

There are many challenges confronting us, many passionate beliefs on the cause, and many areas of the business that ultimately need to change.

My point of view is that after all the dust has settled, and we hold the people accountable for instances of true fraud, we still need to focus as an industry on how we move forward. There are two things we should accept:

1. Past sales practices are not tenable given the lack of transparency, risks, administrative burden, and confusion most retail banking incentive plans have instilled.

2. We need innovative, game changing thought on how we move forward from here.

Based upon my history of working with firms in challenging environments and data collected through our unmatched database of pay practice and compensation levels, here is my list of the top five areas we should focus on:

1. Increase transparency: Many Retail Banking plans are the most complex in the financial services industry. We need to develop programs that are easily understood by participants, governance, and customers.

2. Remove unneeded incentive programs: Many existing programs do not deliver significant monetary value to employees. We should thoughtfully ask why the programs exist and determine ways to ween ourselves off of an incentive focused culture.

3. Invest in staffing, training, and holding governance roles accountable when things go wrong: This will require management teams, risk and control functions, regulators, and Board of Directors to work together to build competencies that prevent the past from repeating itself. Clear rules, proper internal governance, and strengthened ethics, culture, and behavior will mitigate the risks… or at least make them easier to find.

4. Be wary of the double edged sword of moving away from productivity incentives: Yes, over weighting productivity measures can cause improper behavior, but so can incentives that are too focused on customer experience. What if they are willing to do anything for a customer?

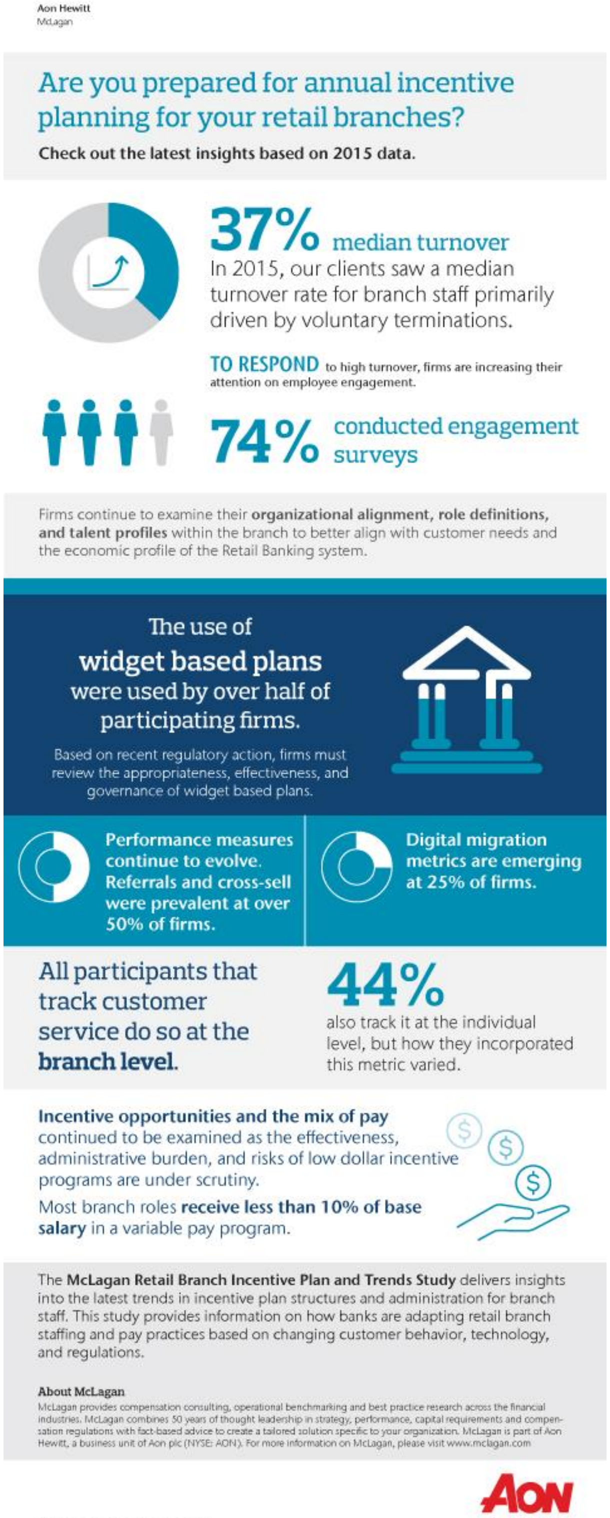
5. Redefine the sales culture within Retail Banking: Is it the sales person, the bank's brand, or its products that attracts and retains the customer? With the deployment of more digital platforms we need to reconsider the source of the sale and align incentives accordingly. Design your programs for 3-5 years from now, don't just react to the recent challenges we are confronted with.

There is no easy fix. It will take forward looking thought, change management, and patience.

Start with a comprehensive understanding of your Retail Banking programs versus market practice and regulatory guidance.

Then make bold decisions on where we can go from here.

To learn more about participating in the McLagan Retail Branch Incentive Plan and Trends Study, please contact our team.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Are you prepared for annual incentive planning for your retail branches?
Check out the latest insights based on 2015 data.
37% median turnover
In 2015, our clients saw a median turnover rate for branch staff primarily driven by voluntary terminations.
TO RESPOND to high turnover, firms are increasing their attention on employee engagement.
74% conducted engagement surveys
Firms continue to examine their organizational alignment, role definitions, and talent profiles within the branch to better align with customer needs and the economic profile of the Retail Banking system.
The use of widget based plans were used by over half of participating firms.
Based on recent regulatory action, firms must review the appropriateness, effectiveness, and governance of widget based plans.
Performance measures continue to evolve. Referrals and cross-sell were prevalent at over 50% of firms.
Digital migration metrics are emerging at 25% of firms.
All participants that track customer service do so at the branch level.
44% also track it at the individual level, but how they incorporated this metric varied.
Incentive opportunities and the mix of pay continued to be examined as the effectiveness, administrative burden, and risks of low dollar incentive programs are under scrutiny.
Most branch roles receive less than 10% of base salary in a variable pay program.
The McLagan Retail Branch Incentive Plan and Trends Study delivers insights into the latest trends in incentive plan structures and administration for branch staff. This study provides information on how banks are adapting retail branch staffing and pay practices based on changing customer behavior, technology, and regulations.
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McLagan provides compensation consulting, operational benchmarking and best practice research across the financial industries. McLagan combines 50 years of thought leadership in strategy, performance, capital requirements and compensation regulations with fact-based advice to create a tailored solution specific to your organization. McLagan is part of Aon Hewitt, a business unit of Aon plc (NYSE: AON). For more information on McLagan, please visit www.mclagan.com.

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