

# **Staff Incentives, Remuneration and Performance Management in Consumer Credit Firms (Rules and Guidance)**

## **Financial Conduct Authority (FCA)**

**RPC rating: validated**

### **Description of proposal**

The FCA has introduced new rules and guidance into the Consumer Credit Sourcebook (CONC) and released Non-Handbook guidance on staff incentives, remuneration and performance management. The Non-Handbook guidance includes all guidance which is not already contained in the FCA's own handbook, and the CONC is a specialist sourcebook which sets out obligations specific to credit-related activities and other activities connected to those carried out by the firm. The guidance is designed to help consumer credit firms identify and appreciate the risks their practices might pose to customer outcomes and understand in turn what is expected of them. The FCA expects that it will address concerns from consumers and consumer organisations, about how consumer credit firms pay and incentivise their staff and manage the risks arising from these arrangements.

These measures are intended to clarify existing requirements within the Senior Management, Systems and Controls (SYSC) sourcebook and Principle 3, which both require adequate management of these risks. The FCA states that these new rules and additional guidance will also help firms to comply with the existing rules more effectively.

### **Impacts of proposal**

The key areas where the FCA expects costs to business include:

- consideration of the rules and guidance;
- changes made to incentive schemes and performance management measures to reduce and eliminate risk of non-compliance;
- detection and management of risks arising from incentive schemes and performance management;
- and implementation costs, including for IT systems and training.

Overall, the regulator estimates a total of £19.18 million one-off costs, and £5.76 million on-going costs per annum, across 10,700 firms. These cost estimates are based on a survey from their consultation paper CP17/20, which sampled 35 firms across the 15 affected sectors. The costs also draw upon the FCA's thematic review on required changes to the rules and guidance based on its cost benefit analysis (CBA) survey within consultation paper CP17/20. The FCA expects that the smallest firms will be the least affected, as firms with up to 2 employees could expect minimal costs if any at all. Firms with between 3 and 15 employees are expected to incur some one-off costs, but minimal ongoing costs.

The benefits of the regulation have not been quantified, as firms who responded to the survey noted that it would be difficult to estimate the benefits as they are related to changes in consumer behaviour. The FCA argues that benefits will include:

- increased customer satisfaction leading to greater customer loyalty and retention;
- increased sales, or reduced customer acquisition costs;
- fewer complaints from customers and therefore reductions in the associated costs of dealing with those complaints;
- improved staff satisfaction leading to reductions in staff turnover and associated costs; and
- improved governance and risk management.

The RPC validates the estimated equivalent annual net direct cost to business (EANDCB) of £7.6 million at 2016 prices with a 2017 present value. This will be a qualifying regulatory provision that will score under the business impact target (BIT).

## Quality of Submission

The IA provides a clear rationale:

- for intervention and a sufficient breakdown of where the costs and benefits will fall. It provides a correct EANDCB (validated at 2016 prices with a 2017 present value). The RPC is pleased to see that the FCA has considered the specific impacts on smaller firms and concluded that the smallest firms will experience the lowest impacts.

The FCA could helpfully have:

- outlined what steps were taken in an attempt to monetise the benefits of the measure. The IA could be strengthened by including some evidence on the number of complaints received and the cost of dealing with a complaint, this would give an indication of the potential benefits even if it cannot be completely estimated. However, if this information is not readily available it would not be proportionate to gather it, but it would be useful and benefit the quality of the IA to address this;
- outlined and quantified the potential benefits arising as a consequence of avoiding non-compliance due to the regulatory changes. Benefits to firms could be made where there is less non-compliance and therefore less costs involved in regulatory investigations; potential fines and the enforcement costs of these penalties.
- explained more clearly how their related thematic review and consultation papers have been used to support the estimates for these costs.
- outlined their acknowledgement of the opportunity costs. The FCA mentions that some firms may make changes in response to new guidance which could be made 'within [firms'] existing resources'. It appears that these opportunity costs to firms have not been fully taken into consideration. The IA would therefore benefit from a fuller discussion of the opportunity costs of having to consider these new rules and guidance.
- provided a full range of costs involved from which their estimates were calculated. Since only nine firms out of the sample of 35 firms indicated that there would be costs involved, there would likely be a wide range of estimates for these costs.

### **Other comments**

The IA could be improved by:

- a clearer presentation of the figures. In particular, it should be explicit as to whether figures are stated in millions or not, as shown in the summary of costs and benefits.
- a more detailed explanation as to why these regulatory changes are taking place and what has prompted them,
- a more detailed explanation as to how these regulatory changes will address the concerns that prompted them.
- a clearer presentation of the breakdown of costs from the CBA referenced in the body of the document. In particular, a breakdown of costs across the 4 key areas where the FCA expects firms to incur costs would be helpful.

- including some of the details from the consultation papers and policy statements within the body of the IA. This would improve the IA's usability as a stand-alone document. It would also be helpful to reference clearly between these papers and the IA to provide consistency and clarity across the documents the FCA provides, and to source data and assumptions more clearly. For example, it would be especially helpful to provide a clear reference for the expected number of firms affected (10,700).
- using sensitivity analysis. As the sample size is very small in comparison to the total number of firms affected, the costs may not be completely representative of the population. There is also uncertainty in some of the expected costs, following on from the thematic review and the consultation papers.
- some discussion as to how the regulator plans to monitor and evaluate the effectiveness of the guidance.

### Departmental assessment

Classification	Qualifying Regulatory Provision
Equivalent annual net direct cost to business (EANDCB)	£7.6 million (final estimate)
Business net present value	-£65.2 million
Overall net present value	-£65.2 million

### RPC assessment

Classification	Qualifying regulatory provision
EANDCB – RPC validated <sup>1</sup>	£7.6 million (2016 prices, 2017 present value)
Business Impact Target (BIT) Score <sup>1</sup>	£37.9 million

### Regulatory Policy Committee

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<sup>1</sup> For reporting purposes, the RPC validates EANCB and BIT score figures to the nearest £100,000.