

Banks can target service before sales to avoid a banking royal commission

Written by The Conversation

The US\$185 million fine levied on US bank Wells Fargo for [unauthorised accounts](#) opened by employees seeking bonuses appears to have become a tipping point for industry action in Australia.

Reacting to sales targets and bonus incentives, Wells Fargo employees artificially inflated their sales by secretly opening accounts. They then transferred funds using these accounts, triggering overdraft fees and other charges. Staff also falsely opened credit card and debit card accounts, causing credit card holders to incur annual fees. Debit cards were issued with PINs, again without the customer's knowledge. More than two million such fake accounts were created.

This week [Westpac chief Brian Hartzler said](#) the bank would remove all product-related incentives across its 2,000 branch tellers and instead base their incentives on customer feedback about service quality.

The move comes after a long history of sales-driven banking cultures. Wells Fargo confirmed it had fired over 5,300 employees for such behaviour, between January 2011 and March 2016.

Employees of Wells Fargo had been vocal about the [high-pressure culture](#) that existed in the bank in an LA Times article in 2013. They spoke of being regularly humiliated by managers in front of their colleagues and threatened with the sack for failing to meet targets. Some begged family members to sign up and open unneeded accounts. The root cause of this pressure on Wells Fargo employees was the bank's corporate culture, and a cross-selling target of at least eight financial products per customer.

US regulators [say the record fine](#) levied on Wells Fargo should "Serve notice to the entire industry that such initiatives need to be carefully monitored as a basic element in any company's compliance program, to make sure that incentives for employees are aligned with the welfare of customers".

Such misdemeanour's by financial services providers are not unusual. Earlier in 2016 [Santander Bank was fined US\\$10 million](#)

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for allegedly enrolling customers in overdraft protection services that they had never authorised.

Regulators in Australia have also become concerned that sales incentives are harming the financial industry's integrity. The Australian Bankers Association is conducting a [review](#) of "product sales commissions and product based payments that could lead to poor customer outcomes".

In its submission to the review, the Finance Sector Union of Australia (FSU) has focused on these poor customer outcomes. It puts much of the blame on the "conflicted remuneration" that causes "the systematic application of remuneration and work systems that drive employees to sell and/or push products and services" to bank customers.

The [FSU submission](#) is based on a survey of 1,298 bank employees undertaken in August 2016. Based on feedback from members, it says bank staff employment is often dependent on "their ability to gain referrals, sell the product of the week or reach a volume based target". The FSU concludes that "existing remuneration systems are having a detrimental effect on the lives of bank employees" and that the Australian banking industry's remuneration systems is "causing the industry harm".

This week Reserve Bank Governor [Philip Lowe also weighed in](#) , saying remuneration structures within financial institutions should promote behaviour that benefits not just an institution, but its client.

Australian banks are some of the most profitable in the world and are in a strong position to lead by example in gaining and then sustaining the trust of their customers. Cross selling of products and services can be achieved by a rigorous focus on customer service that produces not just customer satisfaction, but customer delight.

Achieving this means confronting the dilemmas created by "conflicted remuneration," whereby bank executive rewards are directly related to sales and subsequent profitability. If sales targets continue to lead to customer harm, banks will lose the vital ingredient of trust that banking relies on. And those calling for a banking royal commission will be granted their wish.

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Steve Worthington does not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and has disclosed no relevant affiliations beyond the academic appointment above.

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