

Hayne Royal Commission Addresses Front-Line Remuneration

February 11, 2019

In the Royal Commission Final Report, published on 4 February 2019, Commissioner Hayne made recommendations not only about executive compensation but also regarding the remuneration of front-line staff (see [HERE](#)).

The report focuses mostly on financial services front-line staff, whose duties cover not only customer service but also sales of products or services.

While recognizing that incentives are a legitimate part of motivating staff, the Hayne Report shows concern with approaches that only gives weight to an employee meeting financial and performance metrics. The report observes that concentrating only on '*what* is to be sold' can create risks. It suggests that equally important is '*How* the employee does the job'. By having a more balanced approach, the company can avoid promoting behaviour that is inconsistent with the interests of customers.

Hayne suggests that all entities should examine and reflect on how their variable remuneration system is structured and the conduct it motivates. The resulting system should be well thought-through and having features that address both the *what* and the *how*.

The report also warns against using variable pay as the only way to motivate staff. He believes that there are other methods to incentivise hard work and achieve similar financial performances without the same risks. The pride generated from the front-line for "being trusted" and "feeling that they are doing a good job" could be valued more to employees than receiving bonuses.

It emphasizes that companies should use other methods such as positive feedback, promotions, or higher base salary. Against poor behaviour, the report proposes methods such as withholding promotions, removing duties, and taking other disciplinary actions.

In the end, Hayne suggests that having good management at all levels

is seen as the key to having a successful *how* culture as well as ‘the best and most effective way to obtain the best results.’

Hayne also recommends implementing Stephen Sedgwick’s recommendations (see [HERE](#)) published in the Retail Banking Remuneration Review April 2017. He states however, that the application of Sedgwick’s guidance will only improve front-line performance if they are implemented both “in letter and in spirit.”

All in all, the Royal Commission Final Report suggests two main recommendations for front-line remuneration:

1 . All financial service entities should have annual reviews on the design and implementation of their remuneration policies to concentrate on both *what* and *how* employees do their work.

2 . All recommendations listed in the Sedgwick Review should be implemented.