



# The Changing Face of Variable Pay Schemes in the GCC Consumer Banking Industry

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Over the last couple of years, incentive/commission schemes in the Gulf Cooperation Council ('GCC') have gained a lot of traction amongst local Consumer Banks. In some countries, banks have introduced incentive schemes in order to reduce the overall compensation expense which is derived from their bank-wide bonus pools. Though, most banks generally pursue the overarching concept of a 'Pay-for-Performance' philosophy, when introducing such schemes.

Given recent regulatory changes in Europe and the US and the related prevention of sales incentives (*international regulators are intending to control the element of risk mitigation and excessive over-selling*); international banks in the region have been forced to move back to the more customary practice of a discretionary performance bonus.

These regulatory changes are seeking greater scrutiny around Key Performance Indicators ('KPIs') and have asked for a rebalance between qualitative measures (e.g. customer service) and the quantitative measures (e.g. sales volumes, revenues, etc...) in order to control sales staffs' untainted drive for the maximum sales incentive payout possible.

The table below outlines the change and impact of the rebalance of measures between international (*prior and post regulatory changes*) and GCC Consumer Banks as a consequence of these regulatory changes:



Source: McLagan's GCC Sales Incentive/ Commission Study



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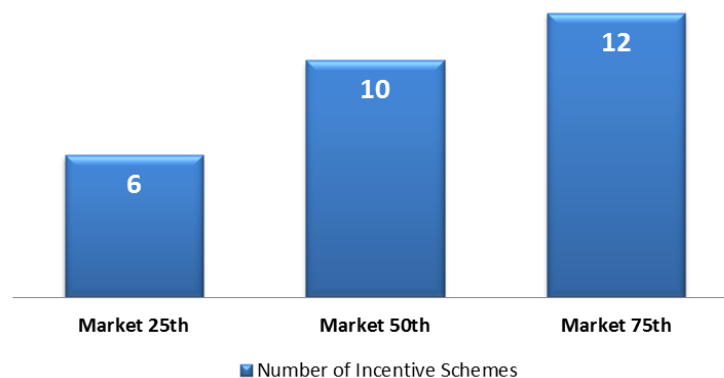
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Ironically, it is the dominance of quantitative measures that provide GCC Consumer Banks with a severe competitive edge in terms of talent attraction. In particular, employees in Branch Networks, Call Centers and Direct Sales Units are subject to high leverage in sales incentives, almost exclusively driven through sales volumes and units.

These employee groups are used to having sales driven targets and are likely to feel uncomfortable with their (often very substantial) variable pay subjugated by so-called ‘soft measures.’ It has also become apparent that the control mechanisms implemented by the international regulators ask for a further reduction of the staff bonus payouts among international banks. On the contrary, a greater focus on linking variable pay to qualitative measures (e.g. Net Promoter Score (‘NPS’) results at month/year-end) is likely going to have a positive impact on the level of customer service provided to the end consumer of Retail Banking products, which begs the question if not more local/regional regulators will follow suit and implement similar standards in the near future.

Whilst, local players do have a competitive advantage at present when it comes to the fight for best talent, they also suffer from some pertinent issues:

1. Across GCC banks, incentive schemes which are heavily weighted towards volumes and units are well perceived among employees. However, they may not drive the right behavior among sales staff. A recent study published on souqalmal.com in the UAE has shown that customer service levels among banks are at a very truncated level with an average NPS of just 15%. In contrast, NPS scoring among Consumer Banks in the US would average at about 29%.  
A number of large GCC banks have noticed this lack in customer service standards and have gradually started to weight staff’s Balanced Scorecards (“BSCs”) more towards qualitative customer service metrics. However, some of these banks now provide both incentives and bonuses to selected sales staff; the latter in an effort to capture just the qualitative measures, which in itself creates an unnecessary level of complexity.
2. Many GCC banks operate a large number of different incentive schemes which simply causes confusion among sales staff. In some instances, multiple sales incentive schemes are known to cover the same product.



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The concept of “less is more” is often a more effective and a preferred way when it comes to incentive scheme design. Interestingly enough, the sheer quantity of schemes often derives from the fact that different stakeholders in the organization pursue different goals and consequently decide to launch schemes with little involvement of others in the bank.

3. Another very common issue among GCC banks is that HR still remains to be the ‘alibi’ countersignature for incentive schemes. In fact, most incentive schemes are still largely designed by the business. International regulations are trying to prevent this practice by enforcing best standards on pay governance. Consequently, we anticipate many banks to have their incentive schemes designed by HR in collaboration with relevant business heads and oversight from Compliance and Finance; an approach that local players should take under consideration too.
4. Just a handful of GCC Consumer Banks offer short-term deferrals on the incentive arrangements. In most cases, such deferral arrangements are not utilized to their full capacity. This is apparent from the lack of awareness and usage of vehicles such as ‘performance-modifiers’, typically applied to drive performance of teams and departments. Short-term deferrals can be designed in multiple ways, but probably the most commonly used is the ‘plain vanilla’ concept, whereby a pre-set percentage of staff’s monthly/quarterly incentives are deferred for a period of 6 to 9 months subject to continuous employment with the organization- a rather effective tool in terms of keeping staff attrition at a modest level.
5. It is considered good governance to review all sales incentive schemes on a regular basis in order to ensure that eligible staff fit for purpose and targets are revised based on market realities and the competitive landscape. This is pivotal for firms to control compensation costs relative to the level of revenue generation; something that many GCC banks still lack in.
6. GCC Banks often face the issue that Team Leaders are being paid less on Total Compensation compared to Senior RMs which from a cultural point creates an issue. It further results a ‘vacuum’ in terms of talent not wanting to be promoted. This discrepancy often derives from the Team Leaders being paid based on a commission share that is driven by the performance of all of their direct reports. At some of the larger local players, Team Leaders have been put on discretionary bonus schemes, which assure that such pay discrepancies are being controlled and managed by their respective superiors.

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[www.mclagan.com](http://www.mclagan.com)**CONCLUSION:**

In principle, one has to acknowledge that the GCC Retail Banking industry has evolved into a bifurcated market that is driven by highly regulated international banks with an emphasis on driving customer service excellence, whilst GCC banks have the independence to steer their variable pay schemes in any direction they desire to. Consequently, they appear to be the major beneficiaries of this change as far as the fight for talent is concerned.

However, the continuous drive for sales volumes is unlikely going to help the local players in maintaining this competitive edge. Eventually, we would anticipate local/ regional regulators to follow suit and implement similar risk mitigated guidelines. Even if none of these regulations would be implemented, the importance of customer service standards would bring in effect a rebalancing of market shares between local and international banks.

Therefore, only those who strive for a balance between increasing sales revenues and customer service standards (by applying best market practices) will be in a truly advantageous position. Therefore, doesn't it seem that the best time to embark on such a journey of change is in fact, right now?

*For the last three years, McLagan have been running a dedicated Sales Incentive/Commission Study for Consumer Banks in the GCC region. This study looks into the mechanisms of incentive schemes by product, covering mortgage, personal finance, credit cards, liabilities sales, collection. For further information, please do reach out to your dedicated RM or alternatively to the authors of this alert.*

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