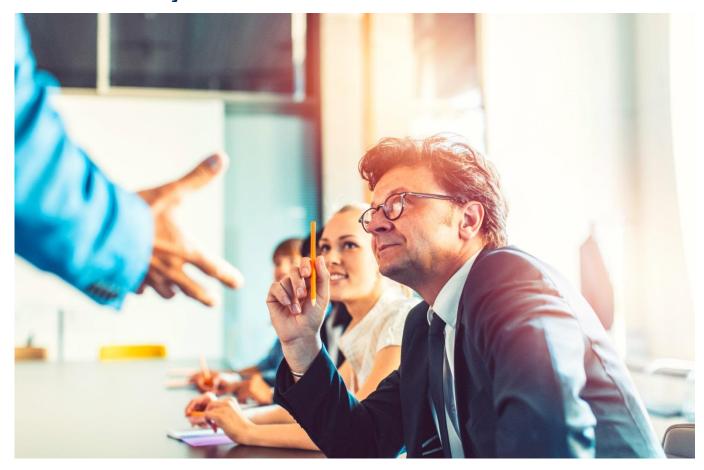
FINANCIAL SERVICES TRENDS

INCENTIVE PLANS

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The news has highlighted the recent issues related to the abuses conducted by one of the money center institutions related to incentive programs. The bank had instituted incentive programs that created a culture that placed excessive pressure on retail personnel to open accounts and related services. This practice resulted in the staff opening accounts and signing up customers for services they did not request. The government took notice and, in order to curb future abuses, the Consumer Financial Protection Bureau (CFPB) implemented CFPB Compliance Bulletin 2016-03, dated November 28, 2016.

The guidance provides the following requirements for financial institutions.

- Maintain a robust compliance management system (CMS) to monitor activity related to incentive programs. The program should include:
 - Board and Management oversight should have controls in place to review activity compared to expected levels
 - b. Policy and procedures outline the program and qualifying incentives and outline controls for managing the risk related to the program.
 - Training set expectation levels related to incentive programs, provide outlines for potential risky behavior and establish ethical standards that must be adhered to.
 - Monitoring review for unusual patterns or spikes in activity by product line, individual employees and locations.
- 2. Include steps to implement corrective action in the event of non-compliance.
- 3. Ensure a process is in place to receive and review consumer complaints for potential abuses.
- Perform independent compliance audits on the incentive programs. Audit should be conducted by someone independent from the compliance program and business functions.

The guidance does not provide a dollar threshold for which programs are subject to the requirements, so the belief is that it applies to any and all programs. Typical areas that would be impacted are incentives related to any new product/service sold to a consumer for which an employee is directly compensated. Common programs touch on new loan or deposit accounts, new credit cards, new ACH customers and new RDC customers.

Recently, bank examiners have been inquiring about what steps an institution has taken to address these concerns. Should you determine your bank has a program in place, we are certainly available to assist you with reviewing your compliance with this new guidance.

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