



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/15C
B9/195C

23 November 2021

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

**Interim Report on Focused Review on Incentive Systems of Front Offices
in Retail Banks**

I am writing to share the interim insights of the focused review on incentive systems of front offices in sale and distribution of banking, investment and insurance products of 20 retail banks (“Focused Review”). The Focused Review conducted by the Hong Kong Monetary Authority (HKMA), with the support of an external consultant, forms part of the ongoing initiative of the HKMA to promote sound culture in the banking sector, and aims for better alignment of incentive systems of frontline staff with bank customers’ interests and identifying industry-wide practices for sharing with the industry.¹

As a key activity of the Focused Review, an industry-wide employee survey to gauge frontline employees’ perception on their banks’ incentive systems and culture (“Survey”) was completed. An overall response rate of 70%, was reached, which is a very encouraging level when compared with similar exercises in other jurisdictions. Given the scale and breadth of the Focused Review, this Interim Report shares the preliminary observations gleaned from the Survey, as well as the documents reviewed so far in relation to front office incentive systems. These include: (i) common themes on staff perception of front office incentive systems; (ii) key characteristics of front office incentive systems and behaviours that differentiate banks with more positive perceptions of customer and conduct outcomes by frontline staff; and (iii) common front office incentive frameworks and practices.

¹ HKMA Circular on “Focused Review on Incentive Systems of Front Offices in Retail Banks” issued on 16 March 2021.

The Interim Report highlights some common themes from the Survey results that are of interest to the industry. For example, financial incentives remain to be a heavily weighted motivator for frontline staff. That said, other intrinsic motivators, such as upholding the bank's reputation and achieving good customer outcomes, are also considered by frontline staff as important. For banks with more positive perception of customer and conduct outcomes by frontline staff, such as fair treatment of customers, the Survey results indicated that their staff tend to observe a more balanced focus on financial and non-financial factors in the incentive systems, and are generally provided with greater recognition of behaviours that are conducive to sound culture. Some common incentive practices have also been noted from the preliminary document reviews. For example, financial performance is more readily emphasised in incentive systems, while performance of non-financial factors is less salient. Details are provided in the attached Interim Report (**Annex**).

Building on the preliminary insights gathered so far, we are advancing to the next phase of the Focused Review and undertaking the remaining activities including focus group discussions and interviews with staff of the selected banks, as well as performing further document reviews. Upon completion of the Focused Review, the HKMA plans to share the observations and insights from the whole review, as well as effective incentive practices with the industry.

Should you have any questions about this circular, please contact Ms Christine Wong at bankculture@hkma.iclnet.hk.

Yours faithfully,

Arthur Yuen
Deputy Chief Executive

Encl.