



BEST PRACTICES IN REMUNERATION AND INCENTIVES

across the Financial Services Industry in Malaysia



2016



The Asian Institute of Finance (AIF) is publishing this report on organisational best practices in the area of remuneration and incentives in line with the aspiration to develop and advocate the highest standards of professionalism and ethics across the financial services industry in Malaysia.

This AIF report is based on primary research across all four major subsectors of the financial services industry; namely banking, insurance, capital markets and Islamic finance, in order to enhance the advancement of universal standards of professionalism and recommend a more robust remuneration and incentive system among highly-skilled talent.



INTRODUCTION

Understanding and developing best practices in the area of remuneration and incentives will encourage good behaviour and deincentivise the need for employees to take excessive risks, as well as restoring and enhancing public trust in the financial services industry.

Best practices in remuneration and incentives will enhance staff capability and encourage long term customer satisfaction, as well as improve revenue, profit, employee productivity, staff retention and good citizenship. Biased remuneration and incentive practices based purely on sales may induce unethical employee behaviour.

For the purpose of this project, 'remuneration and incentives' have been defined as the total package of compensation and benefits, both cash and non-cash forms, offered by organisations to their employees.

Objectives

To identify and recommend organisational best practices in the area of remuneration and incentives currently implemented across the four major subsectors of the financial services industry, as well as to determine the level of alignment with identified best practices in Malaysia.

Methodology

This research was carried out by collecting two types of data: in-depth interviews with Human Resource department executives at the Asian Development Bank (ADB) and focus groups discussions with HR executives from selected organisations in Malaysia's financial services sector.

Only senior management executives directly involved in remuneration and incentive policies were invited to participate in the study.

KEY FINDINGS

Although the majority of respondents stated that their organisations have a formal remuneration and incentives strategy, professional standards was viewed as being a less important part of these strategies compared to other organisational goals.

Fig 1. Current Integration of Competency and Ethics in Remuneration and Incentives Plans

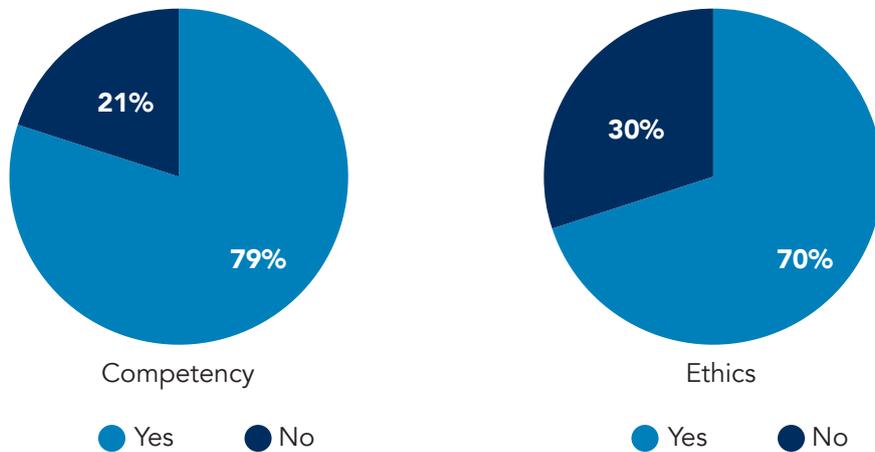
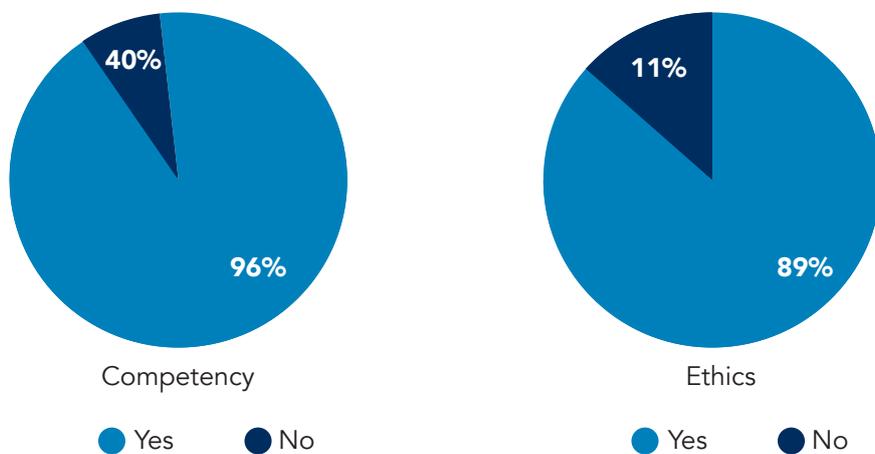


Fig 2. Feasibility of Integration of Competency and Ethics in Remuneration and Incentives Plans



Rewarding competence and improving profitability were regarded as being more important than rewarding ethical behaviour or enhancing public trust.

Fig 3. Prioritised Goals of Remuneration and Incentives Plans



The results suggest that the main challenge to integrating professionalism in remuneration and incentives plans is the difficulty in identifying the metrics for professionalism and ethical conduct.

However, since feasibility of integration as well as securing management support were not perceived as being a challenge, the results suggest the need to further foster an environment of professionalism and public trust in the financial services industry in Malaysia.

Fig 4. Main Challenges for Integration of Competency and Ethics in Remuneration and Incentives Plans



RECOMMENDATIONS

STEP
01

Acknowledge ethical conduct

Organisations need to acknowledge and reward ethical conduct through personal and public recognition including non-financial rewards.

STEP
02

Consider professionalism in individual discretionary bonuses

Organisations need to take professional competency and ethical behaviours into consideration when determining individual discretionary bonuses and incentive programmes.

STEP
03

Mitigate extrinsically-motivated unethical behaviours

The majority of respondents concurred that unethical behaviours were mostly extrinsically-motivated and thus there is a need to develop systematic ways to mitigate these.

STEP
04

Overcome barriers that hinder the integration of professionalism in remuneration and incentives plan

Barriers, such as defining and identifying metrics for professional competency and ethical conduct, should be systematically defined by the financial services organisations and addressed accordingly.





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