



Coping with Compliance

SHORT VERSION

**The effects of regulatory requirements on
employees in the Nordic financial sectors**

2018

Introduction

The European Commission's response to the financial crisis of 2008 was to push out more than 40 new pieces of new legislation to reform the financial sector. This much needed reform was a major turn-around from the EU's previous de-regulatory path, making the European financial services in to one of the union's most regulated sectors. The purpose with the reforms was to prevent future crises through strengthened financial stability and to increase consumer protection. A decade later, much of the legislation has entered in to force and been implemented at national level.

The scope of this study is to map the effects of regulatory requirements on finance employees' work and wellbeing, which in turn is linked to consumer outcomes in the form of service and protection. The study has been conducted as a survey. In total 215 shop stewards from the NFU member seven unions, covering all five Nordic countries, responded to the survey. 84% of the respondents represent members in the banking sector and 10% are from the insurance sector. 5% represent members in currency exchange or both bank and insurance.

As regulation affects employees in many ways and areas, the scope of the study has been limited to the effects of requirements stemming from certain EU legislation: requirements on documentation, information to consumers and Know Your Customer (KYC). These three aspects of regulatory requirements set out specific routines and tasks that finance employees, working in sales and advice, are required to follow and do in their daily work.

The result

Increase in regulatory requirements

Approximately 80% of the respondents' experience that the amount of requirements on documentation, information to consumers and KYC have increased over the past 2 years, and a majority of these have experienced that the increase has been significant rather than slight. Documentation and KYC requirements are perceived to have

increased the most, when comparing the three types of requirements.

The respondents have not experience the same increase when it comes to requirements on information to consumers. That said, a large majority still thinks that the amount of requirements have grown. 79 % of the respondents think that the requirements have increased in some way and 40% that this increase has been significant

CHANGE IN THE AMOUNT OF DOCUMENTATION REQUIREMENTS DURING THE PAST 2 YEARS

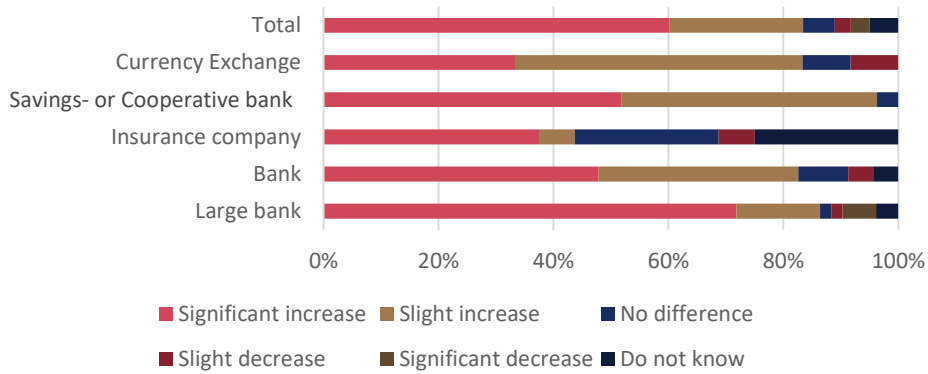


Table 1.1 The amount of documentation requirements have increased

CHANGE IN THE AMOUNT OF INFORMATION TO CONSUMERS REQUIREMENTS DURING THE PAST 2 YEARS

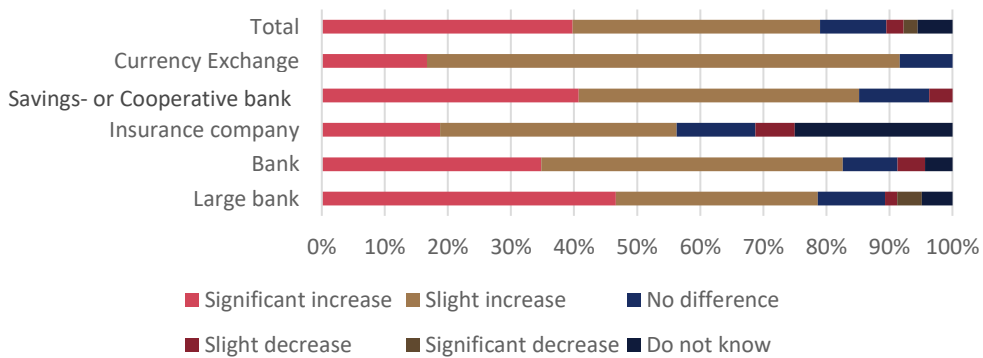


Table 1.2 The amount of requirements on information to consumers have increased

CHANGE IN THE AMOUNT OF KYC REQUIREMENTS DURING THE PAST 2 YEARS

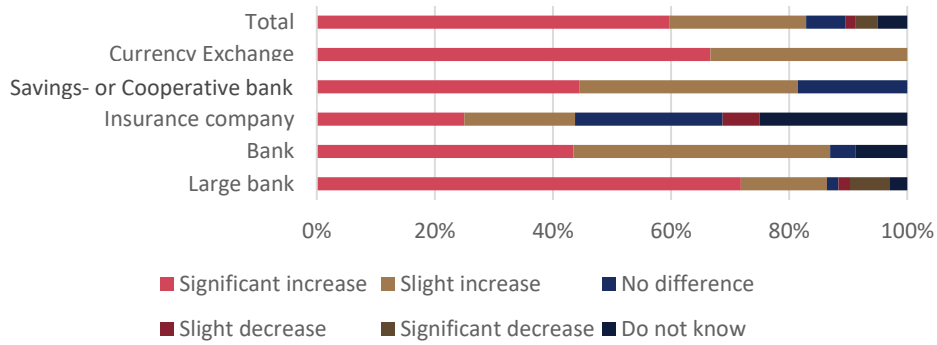


Table 1.2 The amount of KYC requirements have increased

Growing workload in the finance sector

EFFECTS OF DOCUMENTATION REQUIREMENTS ON WORKLOAD

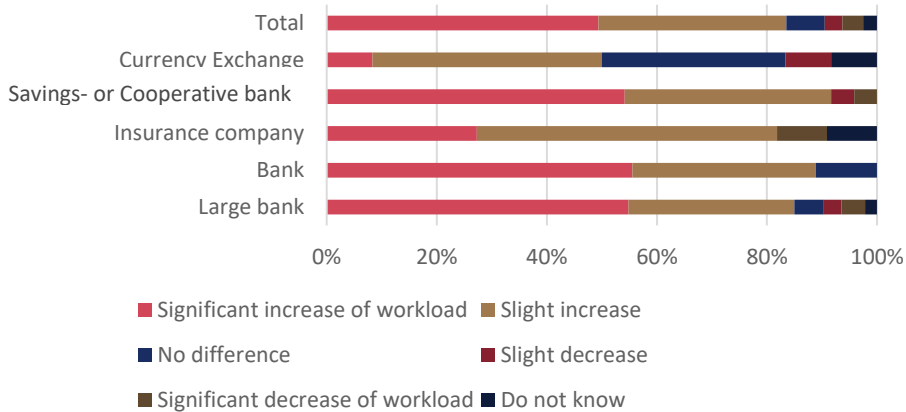


Table 2.1 Documentation requirements increase the workload significantly

The result show that the workload has grown due to the requirements on documentation, information to consumers and KYC. 84% of the respondents says that the workload has grown due to documentation requirements.

EFFECTS OF INFORMATION TO CONSUMERS REQUIREMENTS ON WORKLOAD

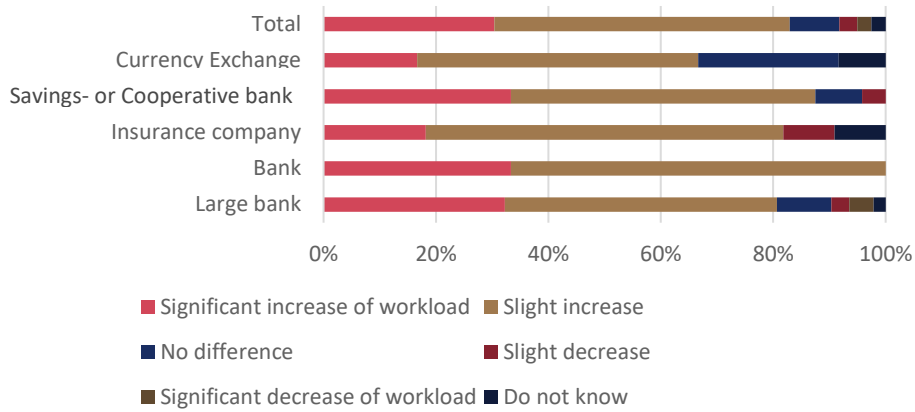


Table 2.2 Information-to-consumers requirements increase the workload slightly less

The respondents have not experienced the same degree of increase in workload due to requirements on information to consumers. About 30% state that the workload has grown significantly and more than 50% that the increase has been slight.

EFFECTS OF KYC REQUIREMENTS ON WORKLOAD

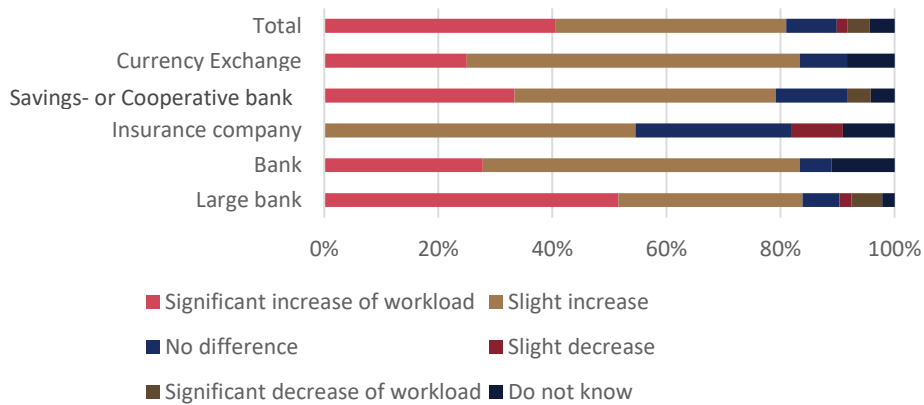
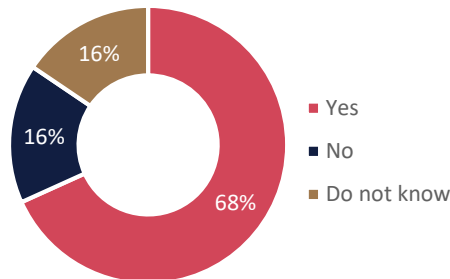


Table 2.3 KYC requirements increases the workload

About four out of five thinks that the workload has increased due to KYC requirements. Half of these think that it has been a significant increase and the other half that it has been slight.

Compliance and performance measurement



PRESSURE TO HAVE MORE MEETINGS WITH CUSTOMERS THAN THE EMPLOYEES HAVE TIME AND RESOURCES FOR?

Table 3. Employees are pressured to have more meetings than they have time for

When asked if any of their members have experienced pressure from their manager and/or team leader to have more meetings with customers than they have time and resources for, 68% state that they have had members who have experienced this. The result also shows that 49% of the respondents know of one or more of their members that within the last 12 months have experienced a conflict of interest between providing good customer service and following rules and procedures.

CONFLICT OF INTEREST BETWEEN PROVIDING GOOD CUSTOMER SERVICE AND FOLLOWING RULES AND PROCEDURES

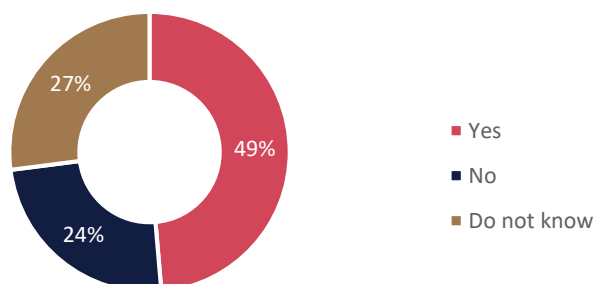


Table 4. Almost 50% have knowledge of one or more members who has experienced a conflict of interest

The regulatory requirements seem to have been piled on top of all the other work that employees are required to do, for example meetings with customers, competence development, and more. There seems to be a lack of understanding from management that requirements on documentation, information and KYC takes time for the employee to do. To be able to cope with the increased workload, many employees need to work unregistered overtime.

"The regulatory requirements take very long time but the sales requirements from the company does not decrease. This leads to stress!"

Quote 12 - NFU survey

Documentation requirements take time

One effect of the new requirements on documentation, information to consumers and KYC is that each customer interaction takes more time than it used to. Advisors no longer have time to help customers immediately, but instead they schedule a meeting in the future since they must allocate more time for the meeting.

According to the respondents, the reason is all the documentation that needs to be done in the meeting. One respondent reflects the opinion that some employees working in sales and advice today might try to avoid giving advice on certain matters.

"A simple creation of a savings account for children with a deposit of 50 kroner monthly is a such demanding tasks in terms of documentation that it is easier to say to the customer that we do not offer this product"

Quote 10 - NFU survey

The new requirements appear too time-consuming and/or complex in relation to the matter they are helping the customer with. This is worrying as consumers risk missing out on certain financial products or services due to a too complex regulatory framework in combination with lack of time.

Increasing stress levels

EFFECTS OF DOCUMENTATION REQUIREMENTS ON STRESS LEVELS

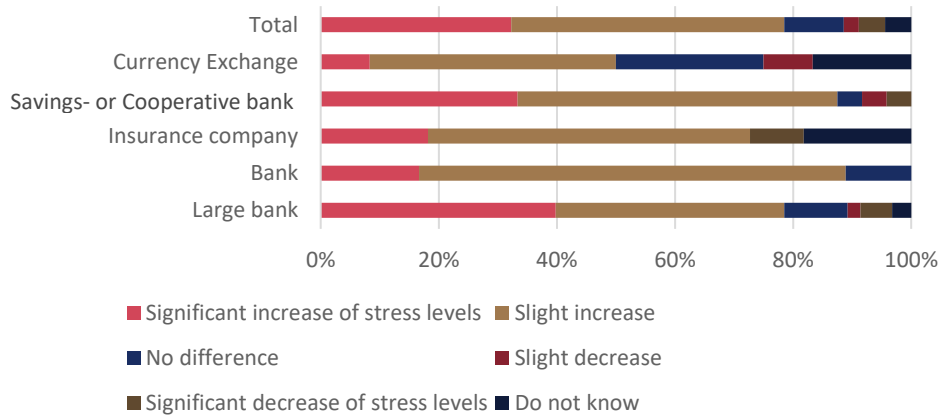


Table 5.1 Documentation requirements increases employees' stress levels

78 % say that documentation requirements have increased employees' stress levels, while 75 % perceive that information to consumers and 77% that KYC requirements have had the same effect on employees. Documentation requirements are perceived to have the most negative effect on employees, where 32% state that the requirements have increased the stress levels significantly.

EFFECTS OF INFORMATION TO CONSUMERS REQUIREMENTS ON STRESS LEVELS

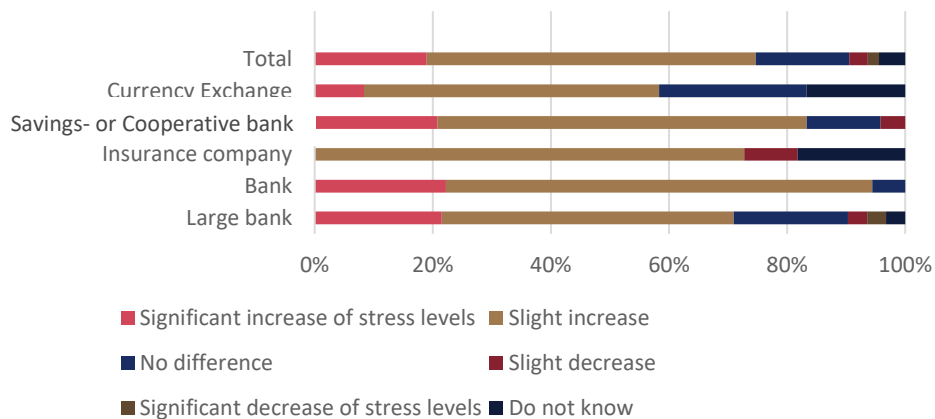


Table 5.2 Information to consumers requirements increase employees' stress levels slightly less

The main part of the respondents has stated that they have experienced a slight increase in stress levels due to requirements on information to consumers.

EFFECTS OF KYC REQUIREMENTS ON STRESS LEVELS

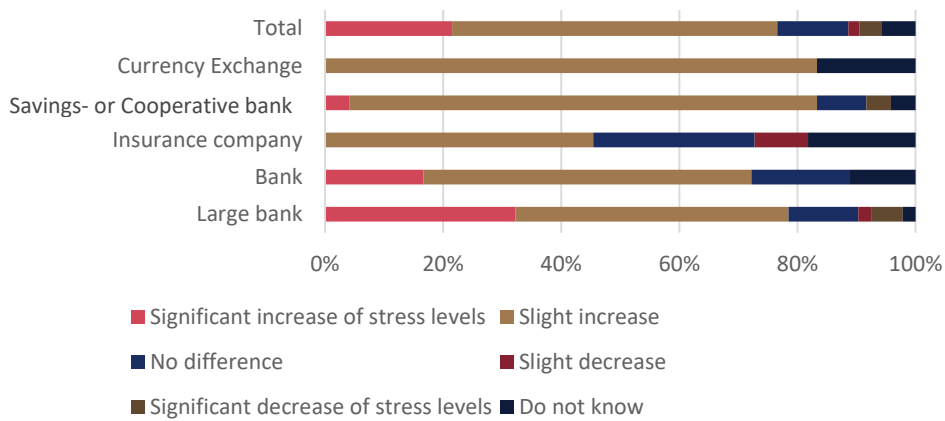


Table 5.3 KYC requirements increase employees' stress levels less

It should be taken seriously that the regulatory requirements all seem to increase employees' stress levels. To feel stressed and pressured under a long time can have severe implications on employees' health and well-being, as underlined in one of the comments from the survey;

"It feels like the pressure on us advisors increase for each day. I have several colleagues who have been on sick-leave due to burn-out or high blood pressure in recent years. [...]"

Quote 14 - NFU survey

Perception of regulatory requirements

A majority of the respondents think that documentation, information to consumers and KYC requirements are an administrative burden. 86% think this about documentation, 78% about information to consumers and 77% about KYC requirements. In addition, the main part of the respondents also perceive that the requirements should be simplified.

DOCUMENTATION REQUIREMENTS:

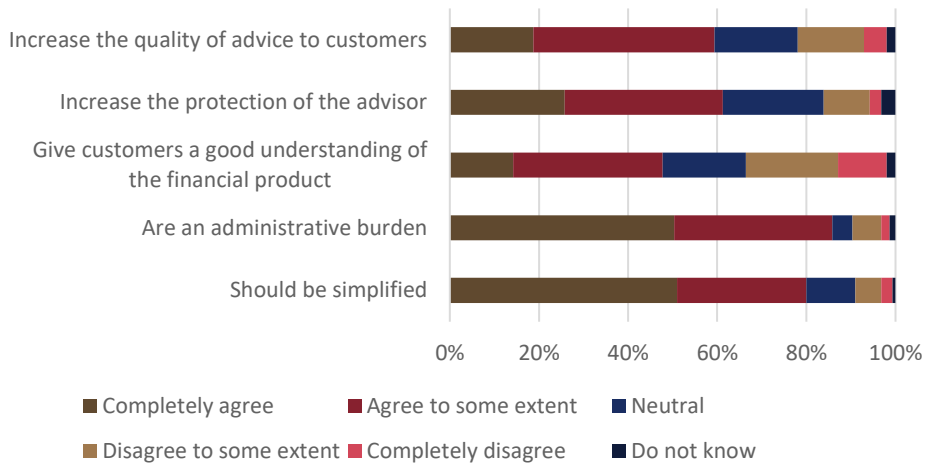


Table 6.1 The respondents think that documentation requirements are an administrative burden

A positive notion is that over half of the respondents agree to some extent or completely with the statement that the requirements increase the protection of the advisor. This could be a sign that the requirements provide a somewhat clear framework for employees to follow, but also that the requirements do not push down responsibility to junior staff from management.

INFORMATION TO CONSUMERS REQUIREMENTS:

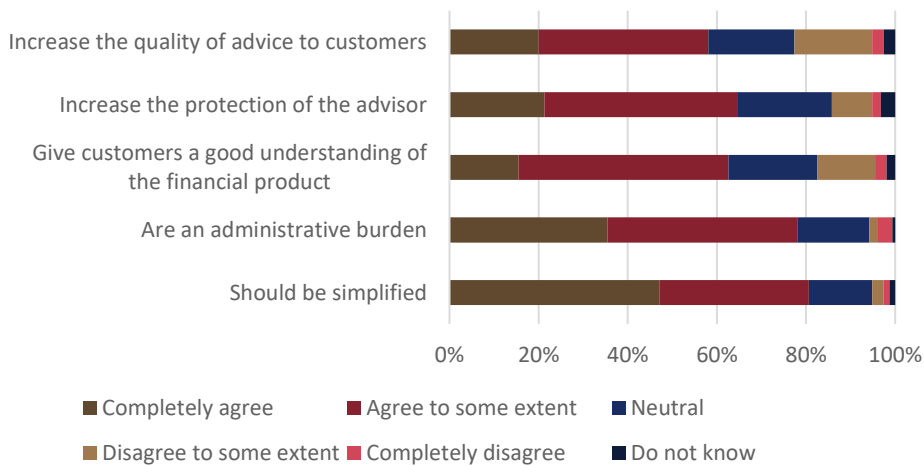


Table 6.2 Only a few completely agrees that the information to consumers give the customer a good understanding of the financial product

At the same time, only a few of the respondents completely agree when asked if the documentation (14%), information to consumers (15%) and KYC (7%) requirements give the customer a better understanding of the financial products, which has been one of the legislators’ main intentions with the regulatory requirements.

KYC REQUIREMENTS:

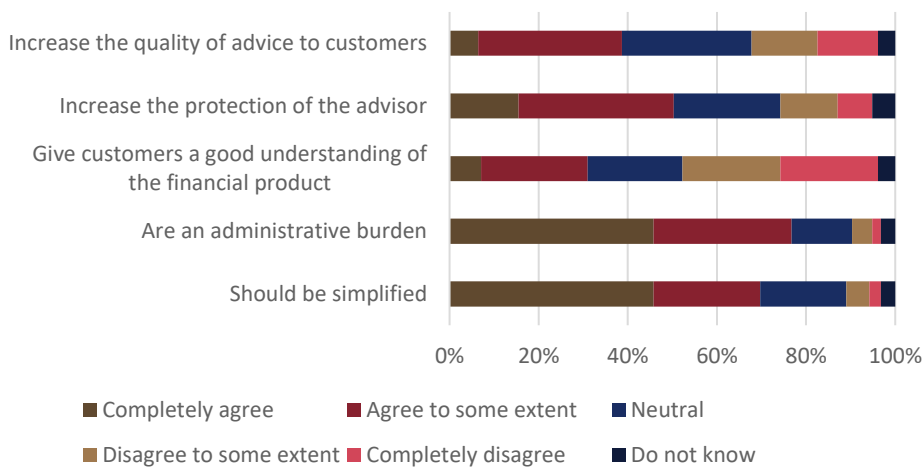


Table 6.3 The respondents think that KYC requirements should be simplified

In fact, about the equivalent percentage of respondents completely disagree when asked the same questions. However, the majority agrees to some extent that documentation and information requirements give the customer a better understanding of the financial products. 33% and 47% respectively state this. The main part of the respondents, 44%, disagrees with the statement that KYC requirements increase the customers’ understanding of financial products. This is not very controversial, as KYC requirements aim to identify and prevent money laundering and corruption rather than improve customers’ understanding.

Requirements on documentation and information to consumers are however perceived to increase the quality of advice by a majority of respondents. Almost two thirds agree with this statement. However, one fourth of the respondents think the opposite. KYC requirements are viewed to increase the quality of advice the least. 32% agree to some extent with this statement and only 6% completely agree. Almost one

third disagree completely or to some extent, meaning that the requirements do not increase and/or effect the quality of advice to customers. Once again, this result is not controversial as this is not the main purpose with the requirements on KYC.

It is also pointed out by one respondent that the information given to customers might be too complex to understand. The information to consumers often consists of an extensive document that the customer is to read and sign, but very few customers appear to have the time and/or patience to go through and understand of the information in the document. Instead, they just sign it without reading. This may not have been what the regulators intended from the beginning and does nothing to improve customer knowledge and understanding.

Effects on customer interaction

KYC requirements might also have negative effects on the employees work environment and on interaction with customers. Many customers tend to react in a negative way when asked routine questions related to KYC. Almost two out of five respondents are of the impression that customers react negatively to these types of questions.

CUSTOMERS' REACTION TO QUESTIONS RELATED TO KNOW YOUR CUSTOMER REQUIREMENTS

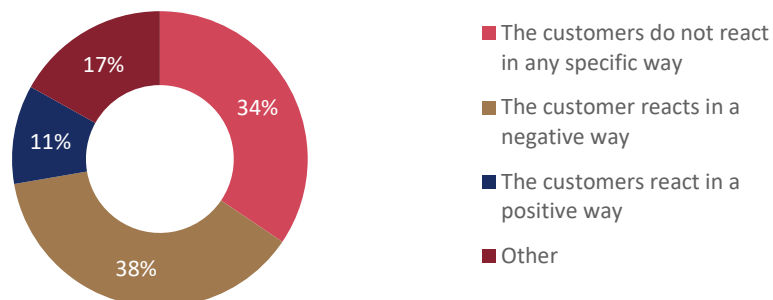


Table 7. 38% of the respondents' state that customers usually react in a negative way

The result however tells us that it depends on how the questions are asked and if the customers understand why the questions are asked. The respondents who had knowledge of customers reacting in a negative way when asked KYC-questions were also asked to specify in what (negative) way the customers generally reacted.

NEGATIVE REACTIONS FROM CUSTOMERS WHEN ASKED QUESTIONS RELATED TO KYC REQUIREMENTS

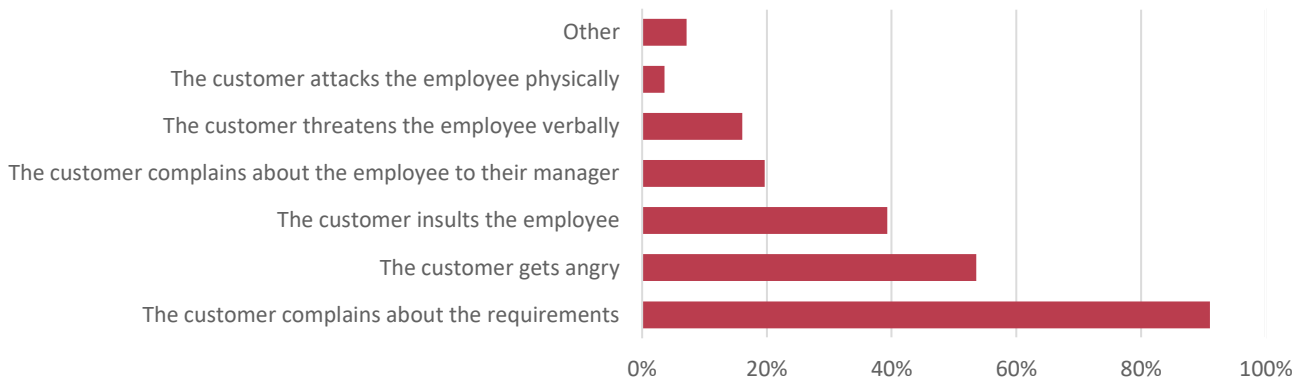


Table 8. The customers usually complain of the requirements if they react negatively

Their answers show that the most common reaction is to complain about the requirements, followed by getting angry. One fifth state that customers tend to complain to a manager. 39% answered that the customer insults the employee after being asked KYC-related questions, and 16% that they verbally threaten the employee. 4% actually state that they have knowledge of an employee that has been attacked physically by a customer. This raises serious concerns about finance employees' work environment as well as health and safety at work. The following quote from also gives reason to consider the potential negative effects on employees due to requirements on KYC.

"Members have been filmed by customers and the films [have] ended up on YouTube"

Quote 20 - NFU survey

This might be an extreme, and hopefully rare, example but nevertheless less worrying. Being filmed at work, presumably without permission, is a severe violation of privacy and to be constantly worried of how customers will react to the KYC-related questions is likely to cause some negative stress connected to the customer meeting.

Conclusions

The result of the survey paints a clear picture; the new requirements are all perceived to have increased employees' stress levels and workload. Employees are feeling increasingly pressured, scrambling to comply with regulation and at the same time meet with customers. This is worrying. Not only does stress impact employees' ability to provide sound financial advice to consumers, but it could also have severe long-term negative effects on health and well-being. It is clear that the legislators have been missing the employee perspective.

The respondents question if the requirements on information to consumers live up to their intended purpose, as the information documents also be too complex and/or lengthy for customers to understand properly. If this is the case, the information requirements are more of an administrative burden for employees rather than to the benefit of customers. Customers also tend to react negatively to being asked KYC-questions, sometimes even insulting or threatening the employees. This has the potential of severely damaging the employee-consumer relationship, as-well as employees' wellbeing and safety at work.

Employees seem to be put under pressure from two directions; compliance and management. As the regulatory requirements and time spent on compliance tasks have increased, there has been no adjustment of the demands management put on employees' performance in other fields, such as number of meetings and sales targets. The finance sector is built on trust, which in turn is created, for the main part, in the meeting between advisor and customer. If the customers experience that customer service is impaired, be it due to lack of time, sales targets or complex compliance demands, they might choose to take their business elsewhere or even worse, they might lose trust to the whole financial system.

In conclusion, it is evident that several factors affect the wellbeing and work environment of employees in the Nordic financial sector. The employee perspective needs to be "top of mind" for both legislators and management when working with legislation. By doing so, a well-regulated financial sector that supports employees' wellbeing, and sound financial advice and services with strong consumer protection, can be achieved.

Want to know more?

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Contact the NFU Secretariat for the full version of the report or find it at our website:

<https://nordicfinancialunions.org/publications/>

About Nordic Financial Unions

Nordic Financial Unions (NFU) is the voice of the employees in the Nordic financial sectors. We are an organisation for co-operation between trade unions in the bank, finance and insurance sectors in the Nordic countries. Through our seven affiliated unions in Denmark, Sweden, Norway, Finland and Iceland we represent the vast majority of the employees in the Nordic financial sectors.

MISSION

NFU – Nordic Financial Unions is a lobbying organization promoting the interests of Nordic financial trade unions in Europe.

- Through a high level of competence and dialogue we contribute to shaping a sustainable financial sector, fundamental for job creation
- NFU creates value for the affiliates by acting as a knowledge hub among trade unions in the Nordic financial sectors

VISION

NFU strives to make the financial sectors prosper in a way that is sustainable for employees, companies, consumers and society.

- This is done through influencing regulation, framework conditions and business strategies that support job creation and economic growth