

# NFU Policy Paper

**Coping with Compliance – Policy recommendations  
concerning the effects of regulatory requirements  
in the financial sector**

31 January 2018

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# NFU Policy Paper on Regulatory Requirements

## *Introduction*

The primary focus of financial institutions is to provide responsible and sustainable financial services. A precondition to do this is that finance employees have sufficient time and resources to provide customers with good advice and services. This is key to build trust and long-term growth for the financial sectors. It is also crucial in order to ensure employee well-being, sound financial advice and consumer protection.

The NFU study "Coping with Compliance" (2018) shows that regulatory requirements, documentation, information to consumers and Know your customers (KYC), stemming from EU legislation have increased in the Nordic financial sector during the past two years.

The increase in regulatory requirements have impacted the employees in the Nordic financial sectors in terms of increasing workload and stress levels. It is evident that finance employees are pressured from two directions; regulation and management. As the regulatory requirements and time spent on compliance tasks have increased, no adjustment has been made regarding the demands management put on employees' performance in other fields, such as number of meetings and sales targets.

The growing amount of regulatory requirements are also viewed as an administrative burden that should be simplified according to the study. Potential negative implications due to the requirements are increased risk of conflict of interest between providing good customer service and following rules and regulation. The result also questions if the regulation lives up to its intention; to improve customer understanding of financial products, increase the quality of financial advice and support the over-all financial stability.

## *Policy recommendations*

Both legislation and management play an important part in setting the framework for how finance sector employees conduct and carry out their work. As shown in the NFU studies "Coping with Compliance" (2018) and "Do you measure up?" (2016), regulatory requirements and performance measurements systems have contributed to increasing the over-all pressure on employees in the financial sector.

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NFU strives for a Nordic financial sector which operate and perform in an ethical and sound manner in order to support long-term oriented and sustainable growth for the benefit of employees, consumers, society and the sector. Legislation should support, and not limit, this objective. The current regulatory framework is however not fit for purpose.

Financial legislation must be fair, well-designed and strive to avoid building regulatory complexity. Excessive and unproportionate regulatory burden leads to cost cutting and short-term oriented behavior by financial institutions, at the cost of consumer protection and quality of advice. This is exemplified by the fact that the pressure on employees in the sector is growing. Consumers are also at risk of losing out on certain financial services and/or products because the regulatory requirements connected to them are too complex and time-consuming. Unnecessary complexity creates an opaque regulatory framework which undermines the quality of financial advice and services, sustainable growth, rule compliance, as well as sound and effective supervision.

It is apparent that the employee perspective has been lacking in the EU legislative process. To support the employee perspective, trade unions' influence throughout the whole legislative process should be strengthened. The employee perspective should also be recognized as equally important as the consumer and industry point-of-views.

Further investigation of the cumulative effect of financial legislation in Europe should be encouraged. Currently, there seem to be a lack of understanding of how regulatory requirements effect the consumers, sector and employees.

NFU strives for balanced and strong financial regulation. This is key to promote sustainable financial sectors and prevent future financial crisis. The focus should be to create a good balance for the sector, to the benefit of consumers, employees and society.

Management play an equally important part in setting the framework for employees of the financial sector. The NFU study indicates that it might not only be the regulatory requirements alone that cause the increasing workload and stress in the sector, but the lack of good management and leadership. When the amount of regulatory requirements increase in the financial sector, management must ensure that employees have sufficient time, resources and knowledge to be able to comply. Compliance tasks cannot just simply be put on top of all the other things employees need to do, but expectations and goals need to be adjusted to take the new requirements in to consideration.

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It is crucial in order to ensure employee well-being and a high quality of advice and financial services to customers. In the end, it is key to build trust to the financial institutions, individually and collectively. Cooperation and dialogue with trade unions and their representatives is essential to succeed with this objective. The Nordic model of corporate governance, where employee representatives are a natural and recognized part of company boards, should be seen as a best practice example.

In conclusion, NFU recommends that:

- Employees must be recognized as an essential stakeholder of the financial sector, both by legislators, policy makers and the industry
- Employees must be given sufficient time, resources and training to carry out their duties towards the customer in a sound and professional manner
- Financial regulation must consider the employee perspective and strive to minimize the administrative burden it puts on employees, to the benefit of customers
- To ensure that the employee perspective is given the weight it deserves, trade unions should be an involved stakeholder throughout the whole legislative process, including the transposition and implementation of both hard and soft law
- The employee perspective must be taken in to consideration when reviewing current and developing new legislation, also in the EU Commission's impact assessments. The cumulative effect of legislation also needs to be assessed, taking the employee perspective in consideration
- Regulatory requirements must be transparent and understandable for the sector, employees and consumers alike. Legislation should avoid excessive complexity and create a transparent and stable framework that supports quality financial advice and services, sustainable growth, rule compliance, as well as sound and effective supervision
- Management and business strategies, such as performance measurement systems and other targets, must be realistic, balanced and adjusted to new regulatory requirements that employees need to comply with
- Cooperation and dialogue with trade unions and their representatives at sector and company level is essential to ensure that the employee perspective is considered in management strategies