

"Financial Institutions Performance System, Raising Bad Loan"

Empirical research in the US, high default rates ... UK 'Incomplete Sales Concerns' Study

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The Financial Services Commission (FSC) has announced plans to induce performance awareness throughout the financial services company's compensation, personnel, evaluation, and education systems.

However, in the US and Europe, financial companies are cautious in expanding their

performance outlook, and are examining effects and adverse effects through empirical research. In particular, the UK Financial Supervisory Authority (FCA) is concerned that the incentives of financial institutions will lead to an increase in financial products' incomplete sales. Some banks are not able to do the introduction themselves, but it is argued that they should proceed in the direction of minimizing side effects by examining methods of verification and diversification.

성과급 도입에 따른 대출승인을 비교 *자료:미국경제연구소 조사보고서(2012.8)

구분		고정급		성과급	
		2004년	2005년	2004년	2005년
대출 심사 단계	심사건수	6920	7564	7996	7788
	승인건수	2192	2744	2548	3680
	승인율	30.6%	35.7%	32.2%	46.6%
대출 승인 이후	대출희망금액 평균(달러)	30만2074	30만3082	30만2966	30만2224
	대출승인금액 평균(달러)	22만4614	25만3219	21만6048	30만1004
	12개월내 부도건수	91	119	107	192
	12개월내 부도율	4.2%	4.3%	4.2%	5.2%

*2005년에 성과급을 지급받은 대출담당자도 2004년까지는 고정급 지급

According to the National Bank of Korea (NBER) survey report on August 22, a research paper

titled "Incentives for Loans Lead to Loose Loan Standards" was published in August 2012.

Sumit agarwal The paper by the Federal Reserve Bank of Chicago and Itzhak Ben David, professor of Ohio State University, suggests that the introduction of incentive schemes for lenders leads to an increase in bad loans .

The paper analyzed the data of a US commercial bank when it changed the compensation system for the lender from fixed to incentive. It was based on data that bank executives conducted pilot tests (preliminary examinations) on 130 small business loan managers at New England regional headquarters.

A comparison of 30,000 small business lending survey data handled by 130 lenders over the 24-month period by the repair system showed that

the loan approval rate of those responsible for the performance-based loan increased by about 31 %
The loan approval scale was about 14.9% higher and the mortgage approval ratio (LTV) was about 2.4% p higher. The default rate was 28% higher.

In particular, loan approval for gray zone borrowers, which are difficult to determine whether to approve loans, has increased significantly. The acceptance rate of incentive recipients increased by 2.9% p in the second half of the month compared to the first half of the month, but the researchers analyzed that they increased the approval amount at the end of the month to receive monthly incentives.

Researchers say that "delinquency rates have been intensively concentrated in lenders,

A bank official said, "Performance merits, which

are based on sales performance alone, are not a result of the profit and loss of the financial company and consumers. "This is a result of the financial performance of the financial companies, which is expected to cause major damage due to the recent earthquake and recent stock market decline," said the

UK FCA. FCA believes that the unfair incentive system of financial institutions is the fundamental cause of incomplete sales of financial products and has been conducting research since 2012. As financial companies demand high sales through incentive schemes, started from the problem consciousness that recognizes the 'make money'.

FCA is through the meantime, research △ financial companies fail to recognize incomplete sales risks inherent in the incentive system, △ incentive system is too complicated and

management does not understand it properly, △ executives' bonuses are determined by the performance of sales staff, The

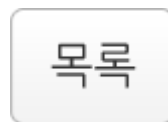
FSA, the forerunner to the FCA, imposed a £ 28 million fine in Lloyd 's Bank in 2013 for aggressive incentive schemes to encourage salespeople to sell poorly, with £ 100 million (

EBA) regulates the award of bonuses to banks . The EBA has also issued an order to reimburse executives for bonuses already paid . The bonus should not exceed twice the base rate, and large banks should distribute and pay the bonus over a long period of time. Exceptions were made for small banks, but last December, we decided to abolish the exception. To prevent the bank from seeking excessive risk, it decided to extend the regulation to all European banks.

Domestic banks are not operating an incentive system based on the performance of loan officers. For executives, there is a place to pay performance bonuses in conjunction with the bank's earnings, but the earnings have not been returned due to sluggish earnings.

An official from the financial sector said, "There are many analyzes that the US has experienced the financial crisis in 2008 since the financial regulations were largely relaxed in 1999." While the US and Europe are gradually strengthening financial regulation, A more cautious approach is needed. "

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