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GUVERNER

Pursuant to Article 43, paragraph (2), item (9) and Article 77 of the Act on the Croatian National Bank (Official Gazette 75/2008 and 54/2013), Article 101 paragraph (2), item (5) of the Credit Institutions Act (Official Gazette 159/2013, 19/2015, 102/2015 and 15/2018) and Article 7, paragraph (5) of the Consumer Home Loan Act (Official Gazette 101/2017), the Governor of the Croatian National Bank hereby issues the

## **Decision on remuneration policies and practices related to the provision of banking products and/or services to consumers**

### **I GENERAL PROVISIONS**

#### **Subject matter and scope**

##### **Article 1**

(1) This Decision regulates the requirements for adopting and implementing remuneration policies and practices aimed at protecting consumers from undesirable detriment arising from the remuneration of the staff offering and/or providing banking products and/or services to consumers.

(2) The provisions of this Decision shall be applied by the following service providers:

- a) credit institutions with head offices in the Republic of Croatia, authorised by the Croatian National Bank;
- b) credit institutions from other Member States authorised to provide banking services within the territory of the Republic of Croatia through branches or directly, in accordance with the law governing the operation of credit institutions;
- c) branches of third-country credit institutions authorised by the Croatian National Bank to provide banking services within the territory of the Republic of Croatia;
- d) credit unions with head offices in the Republic of Croatia, authorised by the Croatian National Bank;
- e) credit intermediaries with head offices in the Republic of Croatia, authorised by the Croatian National Bank; and
- f) credit intermediaries from other Member States authorised to provide credit intermediation services in the Republic of Croatia through branches or directly, in accordance with the law governing consumer housing loans.

(3) The provisions of this Decision shall not exclude the application of the Decision on employee remuneration (Official Gazette 31/2017) except that part thereof which is contrary to the provisions of this Decision which regulate staff remuneration referred to in Article 2, items (3) and (4) and Article 4, paragraph (5).

(4) Where the service providers referred to in paragraph (2) of this Article outsource in whole or in part an activity associated with the provision of banking products and/or services referred to in Article 2, item (5) and Article 4, paragraph (5) of this Decision or that activity is in whole or in part carried out by another person in some other manner, service providers shall ensure full compliance at all times with the requirements laid down in this Decision and all other applicable regulations governing outsourcing of operations.

## Definitions

### Article 2

The terms used in this Decision shall have the following meaning:

- 1) *consumer* means a natural person acting for purposes outside his/her trade or freelance occupation;
- 2) *service provider* means any legal entity referred to in Article 1, paragraph (2) of this Decision;
- 3) *sales staff* means any natural person who:
  - a) works for the service provider and directly offers or sells banking products and/or services to consumers, or
  - b) works for the service provider and directly or indirectly manages the person referred to in item (a);
- 4) *staff participating in the procedure of collection of due and unpaid liabilities* means any natural person who:
  - a) works for the service provider and directly contacts consumers having payment difficulties; or
  - b) works for the service provider and directly or indirectly manages the person referred to in item (a) of this paragraph;
- 5) *banking products and/or services* means:
  - a) *consumer housing loan agreements*, as determined by the law governing consumer housing loans;
  - b) *other forms of credit*, in addition to credits referred to in item 5(a) of this Article, as determined by the law governing the operations of credit institutions;
  - c) *deposits*, as determined by the law governing deposit insurance;
  - d) *payment accounts*, as determined by the law governing the payment system;
  - e) *payment services*, as determined by the law governing the payment system;
  - f) *payment instruments*, as determined by the law governing the payment system;
  - g) *other means of payment*, as determined by the law governing the operation of credit institutions;
  - h) *electronic money*, as determined by the law governing electronic money;
- 6) *management body* means one or more bodies of service providers appointed or selected in accordance with the applicable regulations, which are authorised to set the service provider's strategy, objectives and overall direction and which oversee and monitor management decision-making, and include the persons who effectively direct the business of the service provider;

7) *remuneration* means all forms of fixed or variable remuneration, including payments made or benefits, monetary or non-monetary, awarded to the sales staff directly by or on behalf of service providers. Non-monetary benefits may include, but are not limited to, career progression, health insurance, discounts or provision of car or mobile phone, generous expense accounts or seminars;

8) *fixed remuneration* means all remuneration that to the largest extent reflects the professional experience, competencies and responsibilities arising from the job description of an individual member of the sales staff and that does not depend solely on performance evaluation of that member of the sales staff;

9) *variable remuneration* means all remuneration which reflects solely the results of performance evaluation of the sales staff;

10) *quantitative criteria* means numerical and/or financial data for determining sales staff remuneration such as quantitative sales targets, developments in the number of new clients, the number of complaints received during a period, sales-related financial indicators, etc.;

11) *qualitative criteria* means all the criteria other than quantitative which may relate to numerical or financial data used for a qualitative analysis of sales staff results and/or provision of services to consumers, such as the structure of products and/or services offered/sold during a certain period, the content and/or number of complaints received and their structure during a certain period, etc.

### **Principle of proportionality of application**

#### **Article 3**

When discharging the obligations referred to in Article 5, in addition to paragraphs (7), (8) and (9), Article 6, Article 8 and Article 9 of this Decision, service providers shall act in accordance with the principle of proportionality, i.e. in the manner and scope appropriate to their size, internal organisation and the type, scope and complexity of their operations.

## **II REQUIREMENTS FOR REMUNERATION POLICIES AND PRACTICES RELATED TO THE OFFER AND SALE OF BANKING PRODUCTS AND SERVICES**

### **General and specific requirements for remuneration policies and practices**

#### **Article 4**

(1) In Articles 5 to 9, this Decision regulates general requirements for all service providers with respect to the adoption and implementation of remuneration policies and practices related to the offer and sale of retail banking products and services.

(2) Service providers shall apply and implement the general requirements referred to in Articles 5 to 9 of this Decision to the sales staff.

(3) The service providers referred to in Article 1, paragraph (2), items (a) and (c) of this Decision shall also apply the general requirements referred to in Articles 5 to 9 of this Decision to credit intermediation service fees paid to the service providers referred to in items (e) and (f) of that Article.

(4) The service providers referred to in Article 1, paragraph (2), items (a), (c) and (d) of this Decision and, where applicable, service providers referred to in Article 1, paragraph (2), items (b), (e) and (f) of this Decision, shall apply the specific requirements referred to in Articles 10 to 13 of this Decision if they offer and/or sell consumer housing loan agreements.

(5) The specific requirements referred to in Articles 10 to 13 of this Decision shall apply to activities related to the offer and/or sale of consumer housing loans and to the staff participating in these activities which pertain to:

- a) consumer housing loans design;
- b) the offer and/or sale of consumer housing loans;
- c) the assessment of creditworthiness of consumers in consumer housing loan agreements; and
- d) the provision of consumer housing loan-related advisory services.

## **II.1 GENERAL REQUIREMENTS FOR REMUNERATION POLICIES AND PRACTICES**

### **Design and application of remuneration policies and practices**

#### **Article 5**

(1) Service providers shall prescribe and implement remuneration policies and practices that take into account the rights and interests of consumers in such a way that sales staff offers to the consumer or negotiates with the consumer a product and/or service which is in line with the consumer's request and/or which is, if information on personal circumstances, needs and intentions of consumers are taken into account, in the consumer's interest.

(2) In particular, service providers shall ensure that monetary and/or non-monetary forms of remuneration do not introduce incentives whereby the sales staff favour their own interests, or the service provider's interests, to the detriment of the rights and interests of consumers.

(3) When designing remuneration policies and practices, service providers shall assess if these policies and practices introduce any risks of detriment or acts detrimental to consumers.

When making this assessment, service providers shall consider as a minimum: the role and responsibility of the sales staff, the desired business conduct of the sales staff, type and complexity of banking products and/or services offered and/or sold by the sales staff to consumers and the manner of distribution of such products and/or services.

If potential risks of detriment or acts detrimental to consumers are identified during that assessment, service providers shall prescribe measures to mitigate those risks.

(4) Service providers shall ensure that the human resources function participates in the design of remuneration policies and practices.

(5) The human resources function and, if in place, the risk control and compliance functions shall provide analysed input each from their respective areas for the design of remuneration policies and practices. Where, in the design of remuneration policies and practices, service providers use input and other functions and business units of service providers, the compliance function shall ensure compliance of such input with the provisions of this Decision.

To the extent applicable, the input may include, for instance, information on service quality monitoring, trend analysis of sales fall/increase with the aim of identifying increased risk areas and taking remedial action, monitoring of performance evaluation of above-average and below-average rated members of the sales staff, the number and reasons for complaints related to individual banking products and/or services and the number and the reason for withdrawing from concluded agreements on individual banking products and/or services.

(6) For the purpose of evaluating the performance of a relevant member of the sales staff, service providers shall prescribe in remuneration policies, irrespective of the forms of sales staff remuneration, the appropriate criteria to be used for performance evaluation and to apply such criteria in accordance with the provisions of this Decision to its remuneration practices, taking into account the rights and interests of consumers.

(7) The criteria for evaluating performance referred to in the previous paragraph of this Article shall be in line with the roles and responsibilities of the members of the sales staff.

(8) The remuneration policies shall prescribe, in addition to the criteria referred to in paragraph (6) of this Article, the expected outcome of the assessment of these criteria in the form of performance evaluation and the periods and time limits for carrying out performance evaluation.

(9) Service providers shall ensure regular, timely and consistent performance evaluation referred to in paragraph (6) of this Article which shall also take into account all the individual criteria defined in relation to the sales staff member whose performance is being evaluated.

(10) Service providers shall ensure that the number of persons evaluating sales staff performance is adequate for the fulfilment of the requirement referred to in paragraph (9) of this Article and that these persons possess adequate knowledge to carry out performance evaluation and direct knowledge of the performance of an individual member of the sales staff who is being evaluated.

(11) When designing remuneration policies and practices, service providers considering variable remuneration of sales staff shall prescribe appropriate qualitative and quantitative criteria to determine the level of variable remuneration in order to ensure that the rights and interests of consumers are taken into account.

(12) Service providers shall not design remuneration policies and practices that:

- a) solely link remuneration to a quantitative target for the offer or provision of banking products and/or services;
- b) promote the offer or sale of a specific product or category of products over other products, such as products or services which are more profitable for service providers or members of the sales staff and are detrimental to the rights and interests of consumers;
- c) are structured in such a way that they offer incentives to the sales staff to make short-term profit and are detrimental to the rights and interests of consumers.

(13) Where service providers allow in their remuneration policies and practices for variable remuneration, they shall ensure that the ratio between the fixed and variable components of sales staff remuneration is appropriately balanced and takes into account the rights and interests of consumers. Remuneration policies and practices shall allow the operation of a flexible policy on variable remuneration, including the possibility to pay no variable remuneration where appropriate.

(14) Remuneration policies shall be clear and easy to understand and shall not promote unclear combinations of different policies and practices which increase the risk of detriment or acts detrimental to consumers.

## **Criteria definition**

### **Article 6**

(1) When defining the criteria for performance evaluation referred to in Article 5, paragraph (6) of this Decision and the criteria for determining the level of variable remuneration referred to in Article 5, paragraph (11) of this Decision, service providers may take into account the following:

- a) the objectives and long-term interests of service providers as regards the protection of rights and interests of consumers;
- b) performance indicators of service providers contributing to the achievement of the objectives and interests referred to in item (a) this paragraph;
- c) the achievement of planned quantities contributing to the achievement of the objectives and indicators referred to in items (a) and (b) of this paragraph;
- d) team/individual contribution to the achievement of the objectives, indicators and planned quantities referred to in items (a), (b) and (c) of this paragraph;
- e) knowledge of banking products and services/internal processes/internal bylaws of service providers;
- f) desired sales staff conduct (consistency, responsibility, integrity, honesty, righteousness, transparency, professionalism, long-term viability of operation, quality of the service provided, adequate communication with consumers, taking into account customer requests ...);
- g) desired sales staff conduct in respect of sensitive consumer groups;
- h) development objectives;
- i) consumer satisfaction;
- j) prevention of conflict of interest in complying with the requirements under this Decision;
- k) the quality of pre-contractual information provided to consumers;
- l) the speed and/or quality of resolution of consumer requests;
- m) the speed and/or quality of resolution of consumer complaints;
- n) analysis of complaints trends by individual banking products and services;
- o) targeted additional education of the sales staff aimed at improving knowledge and conduct and contributing to compliance with the requirements under this Decision;
- p) prevention of detriment to consumers;
- r) prevention of detriment to service providers as a result of inappropriate/unsuitable offer or sale of banking products and/or services or mis-sold banking products and/or services; or
- s) other relevant factors.

(2) Service providers shall define the criteria for performance evaluation referred to in Article 5, paragraph (6) of this Decision and the criteria for determining the level of

variable remuneration referred to in Article 5, paragraph (11) of this Decision in a manner that does not result in one of the following poor remuneration practices:

- a) remuneration which is based solely on a subjective assessment of the person evaluating the performance of a member of the sales staff;
- b) performance-based remuneration which negatively impacts sales staff motivation;
- c) introduction by service providers of considerable changes to fixed remuneration of the sales staff based on the achievement of a criterion;
- d) encouraging competition among sales staff by providing different incentives for a product or a category of product that is sold and/or by providing equal incentives for a whole range of products, increasing them for a sale of a specific banking product and/or service in a particular time period which coincides with promotions or marketing activities of the service provider;
- e) payment of additional remuneration to the sales staff in a particular time period to boost consumer demand for a new banking product or service;
- f) the sales staff determines sales priorities on their own, affecting the fulfilment of the remuneration criteria;
- g) promotion of the sale of more profitable products and/or promotion of the sale of tied products of service providers' contractual partners to the detriment of the rights and interests of consumers;
- h) no variable remuneration is awarded unless minimum criteria for each of the banking products or services sold by the sales staff is fulfilled (prompting the sales staff to offer to consumers banking products based on the need to fulfil a criteria);
- i) performance evaluation is not supported by adequate indicators of individual criteria fulfilment.

## **Documentation and availability of remuneration policies and practices**

### **Article 7**

(1) Service providers shall document remuneration policies and practices and keep them for audit purposes for at least five years from the last date that they applied.

(2) The documentation referred to in paragraph (1) of this Article shall include, but is not limited to:

- a) the objectives of remuneration policies and practices;
- b) internal organisational scheme of the service provider showing the relevant staff falling within the scope of remuneration policies and practices;
- c) the criteria for performance evaluation, the expected outcome of the assessment of these criteria in the form of performance evaluation, the period and the time limit for carrying out the evaluation and the criteria for variable remuneration where service providers grant variable remuneration;
- d) forms for performance evaluation of the members of the sales staff.



(3) Service providers shall make available to the Croatian National Bank, at the latter's request, documented remuneration policies and practices.

(4) The Human resources function shall inform each member of the sales staff in a simple and transparent manner of the remuneration policies and practices that are applicable to them. The information shall be provided within a reasonable time frame and at any rate before the members of the sales staff are allowed to offer and sell products or services to consumers, i.e. before the application of changed remuneration policies and practices to ensure timely adjustment of that staff member conduct to the principles of the remuneration policies and practices in place. The human resource function shall inform other relevant functions and, where applicable, other relevant bodies of the service provider of remuneration policies and practices.

(5) The applicable remuneration policies and practices shall be easily accessible to all members of the sales staff on a continuous basis.

### **Adoption procedure**

#### **Article 8**

(1) The management body shall, in line with its role and responsibilities, approve remuneration policies and practices and retain ultimate responsibility for such policies and practices.

(2) Where applicable, the management body of the service provider shall require approval from the remuneration committee for remuneration policies and practices with respect to compliance with the provisions of this Decision.

(3) Where applicable, the compliance monitoring function shall confirm compliance of service providers' remuneration policies and practices with the provisions of this Decision.

(4) Changes to remuneration policies and practices, where they are necessary, shall be allowed only subject to approval from the management body.

### **Compliance monitoring and subsequent changes**

#### **Article 9**

(1) The management body or, where applicable, the remuneration committee shall review its remuneration policies and practices as a minimum on an annual level to ensure compliance with this Decision.

Where, in the design of remuneration policies and practices the potential risk of detriment or acts detrimental to consumers as defined in Article 5, paragraph (3) of this Decision are identified, service providers shall, when reviewing policies and practices, determine whether these earlier identified risks led to detriments or acts detrimental to consumers, using in the process as a minimum the data used in the previous assessment.

Service providers shall include in their remuneration policies and practices review an analysis of overall sales staff performance evaluation for the evaluation period completed prior to the review.

(2) When after the review referred to in paragraph (1) of this Article it is determined that remuneration policies and practices do not have the intended or prescribed effect, service providers shall change their remuneration policies and practices in accordance with this Decision.

When introducing changes to remuneration policies and practices, service providers shall take into account the input from the control risk function if it points to a direct relationship between sales staff remuneration and the results of sale of certain banking products or services, highly profitable to service providers.

(3) Service providers shall put in place effective internal controls to verify compliance with remuneration policies and practices and, where applicable, eliminate any non-compliance with this Decision. These controls should as a minimum include an assessment of the quality of the service provided to consumers by, for instance, checking consumer documentation and determining appropriateness of the executed sale or monitoring telephone sale calls. A reporting system shall be put in place to enable taking appropriate remedial actions on the results of such controls.

(4) Service providers shall prescribe a process for remuneration policies and practices review, the participants in that process and their roles and responsibilities.

## **II.2 SPECIFIC REQUIREMENTS FOR REMUNERATION POLICIES AND PRACTICES**

### **Objectives of consumer housing loans-related remuneration policies Article 10**

(1) The service providers referred to in Article 4, paragraph (4) of this Decision shall prescribe in their policies of remuneration related to the activities of offer and sale of consumer housing loans:

- a) the objectives, business strategy and long-term interests associated with the protection of the rights and interests of consumers;
- b) the criteria for performance evaluation and the award of remuneration to the staff participating in consumer housing loans design, offer and/or sale of consumer housing loans, assessment of creditworthiness of consumers and provision of advisory services, based on which they plan to achieve the objectives and interests referred to in item (a) of this paragraph;
- c) the measures for the prevention of conflict of interest with respect to the achievement of the objectives and interests referred to in item (a) of this paragraph.

(2) The service providers referred to in Article 4, paragraph (4) of this Decision shall ensure that remuneration policies are in line with and promote appropriate and effective risk management without giving rise to risks that exceed the level of the risk associated with the granting of consumer housing loans that is tolerated by service providers.

(3) The service providers referred to in Article 4, paragraph (4) of this Decision having the objectives, strategies and interests referred to in paragraph (1), item (a) of this Article prescribed in other internal bylaws shall not be required to prescribe them separately.

(4) When defining the criteria referred to in paragraph (1), item (b) of this Article, the service providers referred to in Article 4, paragraph (4) of this Decision shall take into account honest, fair, transparent and professional conduct of staff.

### **Consumer housing loans design Article 11**

(1) The service providers referred to in Article 4, paragraph (4) of this Decision shall ensure that their staff participating in the design of consumer housing loans is informed about applicable remuneration policies and practices referred to in Article 5 of this Decision.

(2) The service providers referred to in Article 4, paragraph (4) of this Decision shall ensure that, when designing a new or making changes to the existing consumer housing loan referred to in the previous paragraph of this Article, they take into account appropriately the general requirements referred to in Title II.1 of this Decision.

### **Consumer housing loans-related creditworthiness assessment Article 12**

As concerns the staff of the service providers referred to in Article 4, paragraph (4) of this Decision that participates in the procedure of consumer creditworthiness assessment and

the staff directly or indirectly managing that staff, irrespective of whether such staff is considered sales staff or not, the service providers referred to in Article 4, paragraph (4) of this Decision shall ensure that the criteria for performance evaluation of each member of the sales staff and the award of remuneration to each member of the sales staff as a minimum meet the following conditions:

- a) they contribute to efficient risk management;
- b) they contribute to efficient prevention of conflict of interest;
- c) they do not give rise to risks that exceed the level of the risk tolerated by service providers;
- d) they are aligned with the business strategy, objectives and interests referred to in Article 10, paragraph (1), item (a) of this Decision;
- e) they do not result in the award of remuneration solely based on the criteria of meeting the quantitative target for granting a certain number or share of loan applications;
- f) they do not prioritise the granting of applications for a specific product or a category of product to other products, to the detriment of the rights and interests of consumers; and
- g) they do not prioritise the granting of applications to a consumer or a group of consumers, to the detriment of the rights and interests of other consumers.

### **Provision of consumer housing loan-related advisory services** **Article 13**

(1) The service providers referred to in Article 4, paragraph (4) of this Decision shall include in the criteria for performance evaluation and the award of remuneration to a member of staff providing advisory services and a staff member directly or indirectly superior to that staff, irrespective of whether such staff is considered sales staff or not, among others, the criteria that will appropriately reflect the acting of an individual member of that staff in accordance with the requirements referred to in Article 22, paragraph (4) of the Consumer Housing Loan Act.

(2) As concerns the staff referred to in paragraph (1) of this Article, the service providers referred to in Article 4, paragraph (4) of this Decision shall, when designing remuneration policies and practices and defining the criteria for performance evaluation and the award of remuneration to an individual member of that staff, ensure as a minimum:

- a) that remuneration is not linked solely to the quantitative target for the provision of advisory services;
- b) that the advice does not promote offer or sale of an individual consumer housing loan to the detriment of the rights and interests of consumers;
- c) that the structure of remuneration that does not promote short-term profits to the detriment of the rights and interests of consumers.

### **III REQUIREMENTS FOR REMUNERATION POLICIES AND PRACTICES FOR PERSONS PARTICIPATING IN THE PROCEDURE OF COLLECTION OF DUE AND UNPAID LIABILITIES**

#### **General requirements Article 14**

For persons participating in the procedure of collection of due and unpaid liabilities, service providers shall adjust and apply appropriately the general requirements related to the design and implementation of remuneration policies and practices, documentation and availability of remuneration policies and practices, the adoption procedure, compliance monitoring and subsequent changes prescribed in Title II.1 of this Decision.

#### **Definition of criteria for performance evaluation Article 15**

Service providers shall ensure that the criteria for performance evaluation and the award of remuneration to the staff participating in the procedure of collection of due and unpaid liabilities as a minimum meet the following conditions:

- a) they contribute to efficient risk management;
- b) they do not give rise to risks that exceed the level of the risk tolerated by service providers;
- c) they are aligned with the objectives and long-term interests of service providers in relation to the protection of rights and interests of consumers;
- d) they reflect the desired staff conduct (consistency, responsibility, integrity, honesty, righteousness, transparency, professionalism, long-term viability of operation, quality of the service provided, adequate communication with consumers, taking into account customer requests with respect to measures facilitating repayment in all situations where this is justified from the business perspective ...);
- e) they do not result in the award of remuneration solely based on the criteria of meeting the quantitative target of achieving a certain amount of collection, planned quantity or number of agreed measures for repayment facilitation;
- f) they reflect the quality of information provided to consumers on collection activities that the service provider intends to take or has taken for the purpose of collection;
- g) they promote efficient decision-taking on adequate measures facilitating repayment;
- h) they prevent the risk of detriment to the consumer.

### **IV TRANSITIONAL AND FINAL PROVISIONS**

#### **Entry into force Article 16**

(1) This Decision shall enter into force on the eighth day after the day of its publication in the Official Gazette.

(2) Service providers shall align with the provisions of Articles 5 to 7 and Articles 9 to 15 of this Decision by 30 April 2019 at the latest.

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Zagreb, 16 November 2018

Croatian National Bank  
Governor  
**Boris Vujčić**