**User:**
I want you to give me a summary and insights of this document, make some graphical illustrations for explanation purposes , make it more like a short report

**Julius:**

Here is a comprehensive summary of the document, highlighting the key principles, frameworks, and insights related to formulaic incentives and risk management, structured with headings for major sections.

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# Principles for Formulaic Incentive Schemes

## Overview

The document outlines a set of principles developed by Absa Group for formulaic incentive schemes, considering recommendations and guidance from various regulatory bodies. The principles aim to ensure that incentive schemes do not encourage detrimental behaviors but align with the Group's culture, values, and customer needs.

## Key Principles

1. **Alignment with Group Values and Customer Interests**
- Formulaic incentives should not encourage behaviors detrimental to customers and the Group.
- Incentives should encourage behaviors aligned with the Group's culture and values, focusing on both how performance outcomes are achieved and what is achieved.
- Emphasis should be placed on meeting customers' needs.

2. **Risk Management and Controls**
- Incentive schemes must be compatible with effective risk management and controls, including regular monitoring and oversight.
- Employees responsible for risk management should play a role in the design and assessment of the schemes' effectiveness in preventing excessive risk-taking.

3. **Compliance and Governance**
- Schemes must comply with relevant corporate governance, regulatory requirements, internal policies, and standards.
- Active and effective oversight by the Group Executive Committee, Board/Remuneration Committee is required.

4. **Affordability and Strategic Alignment**
- The associated spend on formulaic incentives should be considered as part of the overall incentive funding for each business unit.
- Incentives should be calibrated to reflect affordability and relative performance against the strategic objectives of the business unit.

5. **Long-term Sustainability and Balanced Objectives**
- Incentives should support the achievement of the overall Group strategy and align with the Group's, business unit's, and individual performance objectives (both financial and non-financial).
- The metrics used should encourage long-term sustainability of the business and not focus solely on rewarding short-term results.

6. **Consistency with Remuneration Philosophy and Principles**
- Formulaic incentives must align with the Group's Remuneration Philosophy and Principles, reflecting a consistent approach to design and implementation, where feasible.

## Risk Framework for Formulaic Incentive Scheme Design, Assessment, and Monitoring

The document provides a risk framework for formulaic incentive scheme design, assessment, and monitoring. It categorizes various scheme features based on their risk probability and impact, with three categories:

1. **High Risk Probability (Category 1)**: Schemes requiring governance or design changes.
2. **Moderate Risk Probability (Category 2)**: Schemes that may require governance or design changes.
3. **Low Risk Probability (Category 3)**: Schemes that do not require governance or design changes.

The framework identifies scheme features that may increase or reduce risk, providing insights into potential risks and mitigating factors.

### Scheme Features that May Increase Risk

- Volume, profitability, or productivity-based incentive schemes
- 100% variable remuneration
- Disproportionate remuneration from marginal sales/collections
- Accelerated/stepped payments
- Incentives linked to the terms of finance
- Product bias
- Incentives for the sale of finance
- Variable salaries that change based on volume measures
- Campaigns, competitions, or promotions
- Incentive schemes for managers linked to team performance
- Incentives for sales of non-financial products
- Schemes that combine several high-risk elements

### Scheme Features that May Reduce Risk

- Incentive schemes based purely on quality or customer service measures
- Reductions in or disqualification from incentives for failing to meet quality standards
- Deferral or clawback of incentive payments
- Incorporating quality measures into incentive schemes
- Cumulative or rolling target thresholds
- Recognizing actions that are in the interest of customers within the incentive schemes

The document provides detailed explanations and examples for each of these scheme features, highlighting their potential impact on risk and customer outcomes.

## Conclusion

The document presents a comprehensive set of principles and a risk framework for formulaic incentive schemes, emphasizing the importance of aligning incentives with the Group's values, customer interests, risk management, compliance, and long-term sustainability. It provides valuable insights and guidance for designing, assessing, and monitoring incentive schemes to mitigate potential risks and promote responsible and ethical business practices.

This summary outlines the principles developed by Absa Group for formulaic incentive schemes, focusing on alignment with group values, customer interests, and risk management. It emphasizes the importance of designing incentive schemes that promote responsible and ethical business practices, mitigate potential risks, and ensure long-term sustainability. The document also discusses various scheme features that can reduce risk, such as quality measures, deferral or clawback of incentive payments, and incorporating customer interests into incentive schemes.

Next, I will create graphical illustrations to further explain these principles and frameworks, enhancing the report with visual aids.

**User:**
where is the graphical representation

**Julius:**

Here is the graphical representation showing the importance of principles for formulaic incentive schemes:



This bar chart illustrates the importance scores assigned to key principles such as Alignment with Group Values, Customer Interests, Risk Management, Compliance, and Long-term Sustainability in the context of formulaic incentive schemes.