

# INCENTIVE COMPENSATION MANAGEMENT CHALLENGES & TECHNOLOGY: CONSIDERATIONS FOR THE FINANCIAL SERVICES INDUSTRY

## PART 2: OPERATIONS AND ADMINISTRATION

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In **Part 1** of this two-part report, we covered five strategic and analytical factors that must be considered in decisions regarding the acquisition of an Incentive Compensation Management (ICM) solution for companies in the financial services industry. In addition to those five factors, there are also operational and administration challenges that are equally important when evaluating ICM solutions. In this report we address the following five challenges:

- 1 | Managing Plans Across Multiple Lines of Business
- 2 | Transaction Volume & Assignments/Crediting
- 3 | Tracking Assignments/Credits & Referrals
- 4 | Higher Standards for Regulatory Compliance
- 5 | Deploying Incentive Compensation Plans

### CHALLENGE 1 | MANAGING PLANS ACROSS MULTIPLE LINES OF BUSINESS

A critical objective of most banks is to be able to measure performance program efficiency by rolling up revenues and incentive costs to assess the total cost of the incentive compensation program. This ratio provides an effective measure of incentive compensation management but is difficult to achieve. Banks are composed of many divisions, such as Commercial and Retail Banking, Wealth Management, Insurance, and Mortgages. Each of these group manages their plans and utilizes a patchwork of systems to track, calculate payouts, and provide payroll outputs to ensure that participants receive their incentives.

Further, they have grown through acquisition and all too often the incentive plans become grandfathered on their systems, increasing the makeshift nature of the program administration. These methods also include manual and spreadsheet processes that are fraught with input or calculation errors, difficulty integrating data, and inconsistency of payouts. This is exacerbated by the number and complexity of the plans in all the bank divisions.



### ICM Technology Alignment & Considerations:

ICM solutions provide the ability to catalog all plans to be administered in the solution, creating uniformity and harmonization across different business units and facilitating the development of consistent processes for efficient, ongoing plan management.

Although these solutions offer a uniform approach to managing incentive plans, solutions have varying architectures and needs to be evaluated against anticipated levels of complexity. In addition to the harmonization of plans from a configuration standpoint, these systems also give administrators the ability to roll up revenues and compensation expense costs at a divisional and corporate level for performance reporting, which can be reviewed at the executive level.

## CHALLENGE 2 | TRANSACTION VOLUME & ASSIGNMENTS/CREDITING

In addition to the operational systems concerns in banks, the internal transaction processing methods are not built for incentive compensation administration. High transaction volumes and complex assignments/crediting are required to account for millions of pieces of customer information. Examples of this include:



Personal and  
business  
investments



Corporate  
credit card  
usage



Interest on  
loans and  
mortgages

These are a few of a multitude of transactional data sources that cause challenges because of the need for data checking, accurate assignments, and approvals that ensure the payment information is correct. These processes become unmanageable if done manually for organizations of 50 or more payees. Most banks typically have hundreds, if not thousands, of payees on incentive programs with payouts routinely over \$500MM annually. All stakeholders, payees, managers, administrators, executives, regulators, and the public rely on the integrity of how banks process this transactional data and incentive payouts.



### ICM Technology Alignment & Considerations:

Banks expend an inordinate amount of resources on tracking and assignments that could be better utilized in other functions. ICM solutions add value in these situations through timely, rapid, and accurate transaction processing that include:

- Exception and error handling
- The ability to efficiently manage shared assignments (splits)
- The effective management of a large multitude of products with differing commission rates

Integration of the ICM system with other operational systems or direct importing of transactional data at the end of performance periods limits manual processes, reduces the potential for input or spreadsheet errors, and transforms weeks of data aggregation into real-time transaction processing for calculation and payout.

When focusing on transaction volume and assignment complexity, some ICM solutions are much more adept than others. During a vendor evaluation period, it is critical to confirm references with other customers of similar volume size and assignment complexity. Within the context of a product demonstration, firms should request to see how assignments would be set up and managed in complex scenarios. This will provide important context as to how difficult the solution will be to maintain on a go-forward basis.

## CHALLENGE 3 | TRACKING ASSIGNMENTS/CREDITS & REFERRALS

A big part of the client acquisition process is referrals. Referrals occur when someone with a high net worth comes into a branch looking for services. Upon assessing their financial position, a branch advisor will refer them to a specialist. It is essential that larger opportunities get referred to advisors in the specialty departments (e.g. wealth management, mortgages, commercial) with specific expertise and experience in those markets. To initiate and reinforce this behavior, the referral becomes an important performance component for the branch advisor, so part of their compensation can be a fee paid for each referral.



### ICM Technology Alignment & Considerations:

The ICM system adds value to these referral situations by tracking and assigning who made the referral, when, and the outcome. Usually, if the deal closes, it also incorporates an automated process for recognizing approvals, paying the referrals within the system, and managing how and when it gets paid out.

## CHALLENGE 4 | HIGHER STANDARDS FOR REGULATORY COMPLIANCE

In an ideal world, the banking environment would be simple and eligible participants would all be on the same plan, with simple assignments and calculations. However, this is not the world we are living in. The banking industry has become a competitive landscape where:

- Sustainable and ongoing revenue growth and profitability are the primary mandates.
- Expectations are to satisfy shareholders and employees.
- Banks must remain compliant within an ever-changing regulatory environment, requiring systems with flexibility and the capability to respond, rather than react to change.
- Incentive plans must be specific to each role, with measures that may be different relative to the markets, types of customers, product margins, and channels that the roles are servicing.
- Plans must be accessible and easy to update, modify, and implement.
- Metrics can be tracked and assessed relative to participant performance.
- Audit capability is required after processing to confirm that the proper calculation and payout were consistent with the role and plan design.



### ICM Technology Alignment & Considerations:

ICM solutions meet the governance requirements for banking incentive compensation for eligibility, design, approval, implementation and monitoring. Regulators have created a more restrictive incentive environment today that dictates compliance reporting requirements that can only be met with an effective ICM system in place. With a focus on compliance and auditing capabilities, firms evaluating ICM solutions will be able to distinguish between solutions, identifying the ones that more closely meet their needs.

## CHALLENGE 5 | DEPLOYING INCENTIVE COMPENSATION PLANS

Above all else, the incentive compensation plan is a communications tool. It tells plan participants what the bank values and wants to pay them for delivering, as well as where to spend their time and effort. Banks are not alone in their failure to adequately communicate to their participants more than the plan mechanics. Most organizations underachieve in this aspect of program management. All the time and effort spent developing the plan is negated if the plan is not understood by the people whose behavior it is intended to influence. It is also imperative that participants have access to their plan document so that when they are uncertain about how a payout will be processed and what they will earn on a particular activity, they have a resource to address their question or concern.



### ICM Technology Alignment & Considerations:

Solutions can provide payees with access to plan design documentation that can be distributed through an automated workflow process to ensure sign-off of plans by participants and management. Along with plan documentation, many systems offer what-if scenario capabilities to show potential for increased earnings based on eligible opportunities in their pipeline.

## SUMMARY

This report is intended to provide some insight into the incentive compensation challenges facing the financial services industry. It demonstrates the ability inherent in ICM systems that enables organizations to design, manage, administer, report, and oversee the incentive compensation program so that it delivers superior results, demonstrates uncompromising integrity, and supports development of a reputable culture.

Incentive compensation is a journey. Future challenges in incentive compensation for financial services firms may include supporting qualitative measures of individual and team performance, like customer experience and engagement, and generational differences and expectations that will necessitate different types of compensation plans. Finally, changes to processes and technology, including online purchasing and the proliferation of buying channels, will continue to impact how we utilize ICM.

For financial services case studies that illustrate ICM solutions in action, we invite you to download the [Huntington Bank Case Study](#) and [U.S. Bank Case Study](#).

To learn more and to talk with an expert, please request a [free consultation](#).

## ABOUT **opensymmetry**

OpenSymmetry is a global consulting company that specializes in the planning, implementation, and optimization of incentive compensation management (ICM) solutions supported by the industry's leading technology suppliers. Since 2004, OpenSymmetry has enabled its customers, ranging in size and industry, to achieve greater operational efficiency and get better business results.