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## Introduction into compensation management

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*This section will introduce some of the key challenges for the sector, and hint at a possible solution using technology*

The process of managing incentive compensation is full of familiar challenges. Typical management systems, which are largely manual, consume vast amounts of managers' time and effort. They also lack detailed compensation breakdowns, so managers and executives can't see which plans work best. Payees can't see exactly how their compensation has been determined, so they create and maintain their own tracking systems rather than serving customers.

Traditional management systems also fail to provide the precise tracking you need to comply with new compensation-related regulations. These challenges combine to prevent compensation plans from achieving their primary purpose: enhancing performance. But, with a management system that overcomes them, you can focus on meeting requirements and boosting revenues.



## Compensation management in focus

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*This section will provide more granular detail on the problem/solution background, introducing IBM Incentive Compensation Management*

Many compensation managers rely on tools that simply aren't up to the task of administering multiple plans with complicated sets of variables. Because these tools can also be error-prone, managers spend more time than necessary ensuring accurate data gets to the right place on time. Additionally, spreadsheets, databases and other systems often require help from IT staff or outside consultants to create even a single new plan. As a result, compensation managers can't focus on designing the best possible plans to support the bank's short- and long-term strategic goals.

IBM Incentive Compensation Management (ICM) is a unified solution rather than a lone tool. By integrating data, calculations, workflow management and reporting, it automates complex compensation management tasks, reduces errors and improves efficiency. One bank using IBM ICM cut its processing time from two weeks to two days, even with nearly 25 million compensable transactions every month. Another saw a 90 percent reduction in error rates, and many IBM ICM users have eliminated the need for, and costs of, developers.



## Customer story (Elavon)

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*This section will explore how customer company Elavon was able to improve payment accuracy and reduce processing time from two weeks to two days*

Elavon wanted to identify and retain talent across its multinational operations. To achieve this, the company needed to track employee performance effectively, and calculate compensation payments accordingly. The solution Elavon implemented IBM Incentive Compensation Management. The IBM solution enables the automatic processing of close to 25 million compensable transactions every month. Thanks to the IBM solution, Elavon can calculate compensation payments within 48 hours of closing its books – an improvement of more than 85 percent. This helps to identify, reward and retain talent.

All of the vendors were put through demanding proof steps during the selection process. Elavon was impressed with the ability of Incentive Compensation Management to configure specific scenarios “on the fly”, including the use of a new reporting model. Ultimately, Elavon determined that IBM offered the optimal solution to meet its needs. Greater flexibility and business ownership leads to growth and savings IBM offered a solution that has enabled Elavon to enhance the relationship between its IT group and its business groups. At Elavon, new products are introduced regularly and pricing structures are always changing for existing products. The company’s business needs are very elaborate from a data point of view, and when data structures change, the system must be able to react quickly and seamlessly. With the IBM solution, the compensation team is able to configure new partners and products with immediate visibility of the results. IT no longer has to be involved to make every single change required. Consequently, Elavon is able to control the payment process with greater accuracy and flexibility, and shortened payment cycles. Rebecca Sandberg, Senior Director Compensation Strategy and Analysis at Elavon, says:

“Because IBM Incentive Compensation Management provides the ability to customize how calculations are set up, we are not relegated to predetermined, ‘boxed’ plans. Our data sources are now consistent and we can create customized calculation streams for different segments with access all in one place.” Hunt adds: “With IBM Incentive Compensation Management, we are now able to see results within 48 hours of closing our books. In the past, it would typically take two weeks before we could even see partial results. Incentive Compensation Management has revolutionized our ability to see results, which has enabled better customer service and dramatically improved payment accuracy.”

The product’s flexibility has allowed Elavon to easily build and maintain reports for management and has also provided important multi-language support, which has proved to be a critical resource as Elavon moves into non-English speaking regions. With thousands of payees scattered worldwide, and fragmented, inadequate and IT-dependent systems managing payouts, it is not surprising that the dispute resolution process was unwieldy. Before IBM Incentive Compensation Management, Elavon handled disputes through email, and there was no electronic workflow-related dispute system. This process was time-consuming, inefficient, unreliable and costly.

“The lack of transparency made dispute-related research virtually impossible,” said Sandberg. “We needed something that was streamlined and integrated. IBM Incentive Compensation Management gives us a workflow system that is logged and flows based on hierarchies. It has provided us with a dispute resolution process that works efficiently for everyone involved.”



## Employee motivation

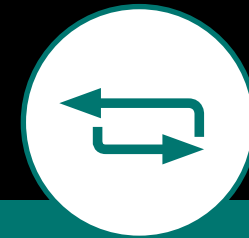
### 4

*This section will focus on how ICM can drive employee behaviour and improve employee efficiency*

Today's banks span multiple divisions and locations. For your bank to succeed, everyone needs highly detailed information that clearly connects actions to the resulting reward. When you see what truly drives the right behaviors, you can substantially improve plan effectiveness. When payees see precisely what's spurring their compensation, they'll do more of it.

With IBM's flexible ICM solution, you tailor plans to specific needs, such as location, employee type or other factors. Customized plans and low error rates also increase trust in the data and help reduce reliance on productivity-draining shadow accounting. Both payees and compensation managers can more quickly resolve compensation disputes, so everyone has more time and energy to focus on growing assets and revenues.

IBM's ICM solution shows you the detail you and your payees need, whether you base compensation on scorecards, credit quality, referrals or other metrics. In fact, current IBM ICM users manage compensation in diverse business lines including payments, retail branches, brokerage and investment banking.



## Regulation and compensation

### 5

*This section highlights the regulatory challenge facing financial organisations and details clawback and compensation management capabilities*

Modern banks face regulations from several entities and multiple levels of government, and they have an ongoing need to answer auditors' questions. With typical compensation management methods, these tasks usually involve building manual reports or other arduous activities. Even the most meticulous of these manual processes cannot track every detail necessary to comply with regulations.

In addition, traditional compensation management systems often lack the ability to defer payments or handle clawbacks as risks are realized or become better known. These systems also lack scenario-modeling capabilities.

With IBM ICM in place, you can configure plans to, for example, reduce the compensation of a commercial banker if a loan booked several quarters prior has deteriorated. You can also generate reports on your plans, process and governance and clearly illustrate to regulators how your plans address risk-taking. Even with multiple business units operating autonomously, reporting is easier and more efficient than ever before.



## Maximise personnel ROI

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*This section will spotlight the ways in which ICM can assist company reorganisation by providing incentives to employees to improve performance*

Compressed margins and new entrants have made banking a fiercely competitive industry. Today, you need to be able to quickly respond to opportunities and threats and to maximize the return on investment (ROI) on all personnel.

Whether you're going through a merger or a branch transformation, incentives accelerate results. With traditional, manual compensation management systems, testing and implementing new plans often feels grueling. But with IBM's ICM solution, you can incorporate incentives from day one of a new strategic initiative and adjust those incentives to optimize results. In fact, one bank more than doubled its cross-sell ratio after implementing IBM ICM.

Other tasks, such as comparing actual compensation expense to forecasts, are also essentially impossible with traditional systems. IBM's ICM solution is designed to make continuous analysis easy. So, you can compare plan results with objectives, forecast cash flow and identify impacts on overall bank earnings. You can change as quickly as the market does and always align compensation with your overall strategy



## An interview with IBM

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*David Bannister discusses with IBM the reasons why automation is necessary and how firms can improve their bottom line*

Matthew Blanchard, Head of Incentive Compensation, IBM UK&I, explains to *Banking Technology's* David Bannister why automation is necessary and how firms can improve their bottom line.

In their conversation they cover:

- Why automating incentive management is more than simply a compliance issue, and can have direct effects on a company's profitability
- The range of firms that can benefit from automation in terms of market sector and in terms of size – from the smallest to the largest
- How off-the-shelf compensation systems can easily integrate with multiple internal systems to gather data in support of a business model

Watch the video at: <http://www.bankingtech.com/437572/transforming-compensation-management-to-increase-results-and-mitigate-risk-in-banking/>



Learn more about IBM's Incentive Compensation technology here

<http://www.ibm.com/analytics/uk/en/business/sales-performance-management.htm>



## Dodd-Frank white paper

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*This section will draw on the Deloitte white paper *Dodd-Frank and the impact on compensation administration: A point of view to illustrate the regulatory backdrop to financial institutions' needs**

Section 956 of the Dodd-Frank Act requires financial institutions to demonstrate that covered persons' incentive compensation arrangements are not excessive and do not incent behaviour which places the institution at risk. Additionally, these institutions will need to comply with enhanced policies, procedures and disclosure of incentive-based compensation arrangements. This will require organisations to upgrade their technological capabilities in order to collect, monitor and report detailed information about incentive compensation arrangements on an as-needed basis to Federal Regulators.

Institutions should consider developing an integrated, enterprise-wide, compensation governance structure to assess current practices, the systems which support them, and performance and risk data against regulatory reporting requirements. Second, institutions must determine how they will identify covered persons under Section 956, and how they will evaluate the risk for which each covered person is responsible. A covered person associated with a given product portfolio, for example, may not be assigned the entire risk value of that portfolio (e.g. team-managed mutual funds). That is, there may be a difference between the risk value of a given portfolio, and the amount of risk credited to a given covered person. At the same time, shrinking incentive pools, difficulty in attracting and retaining valuable workers, evolving generational needs and appetite for a flexible, virtual workplace environment are creating the need for innovative compensation arrangements. Therefore, financial institutions are simultaneously faced with the need to unify their compensation reporting capabilities to reinforce and support the development and maintenance of balanced risk-taking incentive compensation arrangements, as well as rethink their employee value proposition and understand how to effectively compensate and leverage people for success.

Lastly, institutions should consider leveraging existing packaged solutions to provide an integrated incentive compensation management platform across the enterprise. Historically focused on Sales Performance Management (SPM), a number of packaged solutions exist today which are designed to be flexible and powerful enough to manage incentive compensation arrangements across large, multi-national institutions with a variety of disparate lines of business. These solutions are in some cases as complex as the businesses they support. However, when implemented properly, these solutions can provide a unified, systematic, and auditable platform for enterprisewide incentive compensation management, which in turn, can provide institutions with greater visibility into enterprise-wide decision making and global consistency with local flexibility around rewarding specific talent markets and critical workforces.

The business case for these technology packages has usually centered on reducing administrative costs, improving the time-to-market for compensation plan changes, providing greater transparency into compensation plans, and providing detailed sales performance analytics. All of these reasons remain valid, and indeed these solutions are currently deployed to many lines of business at some of the world's largest financial institutions. The reporting requirements under the Dodd-Frank Act will require institutions to take these capabilities to the next level, and have a cross-business unit view into incentive compensation.

Dodd-Frank requires sophisticated and far-reaching reporting capabilities in order to meet the requirements of Federal Regulators. These capabilities differ from previous incentive compensation reporting in that they must cross lines of business and link credited risk to compensation. Fortunately, a combination of process alignment and existing, tested technology packages can reduce the substantial administrative costs these regulations impose, while adding value by supporting future compensation program requirements more effectively than the fragmented, manual processes commonly used today.



## Conclusion

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### *Summarising the benefits of unified and automated incentive compensation management and the potential it holds to improve business*

The benefits of a unified, automated incentive compensation management solution extend to everyone working in a modern, complex banking organization. Compensation managers work more intelligently and more efficiently. Payees clearly understand which behaviors trigger which rewards and become motivated to repeat them. Even extraordinarily sophisticated banks can improve execution, agility and growth.

Highly effective and efficiently managed compensation plans help you attract the best, most motivated employees and help them reach their full potential. In today's competitive banking environment, even a small edge can be extremely valuable. Multiply that advantage by every employee across every division and every location, and you can see a tremendous impact.

Some of the best-known banking brands are already achieving results with IBM Incentive Compensation Management, thanks to its uniquely flexible and scalable systems. Explore the resources linked throughout this flipbook to discover more about how you can benefit, too.