

White
Paper

Mitigate risk and improve compensation effectiveness in banking

**Watson
Financial
Services**



IBM

Abstract

Pressure for transparency in compensation practices.
Regulatory changes to govern excessive risk taking.
Compensation processes and tools that need modernizing.
These are just a few of the challenges faced by banking organizations. Learn how you can mitigate risk and improve compensation effectiveness with an incentive compensation solution from IBM.

Financial Crises in the past had put a spotlight on incentive compensation for top executives. More recently, the topic of compensation oversight has extended to non-executives that are in a position to expose their organization to excessive risk. Sarbanes-Oxley had already put a mandate on governance and audit for many business processes, but financial institutions face added reforms to make sure that compensation practices are governed appropriately. The proposed Basel III accord even raises the possibility that banks that miss certain risk ratios will face restrictions on staff compensation.

The growing need

Auditors have identified that a lack of financial controls and audit trails within sales incentive compensation processes are exposing organizations to risk.

Beyond compliance and audit, companies are revisiting how their sales people and executives are incented to perform. More and more, it is expected that staff will be remunerated based on margin performance — potentially with delays while payout worthiness can be validated.

Business leaders in banking are on the hook to implement measures to mitigate the risk and align behaviors with organizational objectives and risk tolerances. Investment in Sales Performance Management (SPM) technology is a key part of the solution.

Key features and benefits

- Align sales behaviors with corporate goals
- Automate commission calculations
- Analytics and performance reporting
- Detailed audit log
- Reduce administrative costs and errors

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The role of technology

Sales performance management solutions address the lack of controls and audit trails associated with past practices, such as manual calculations, payments and adjustments. Performance management software enables a business analyst to define a repeatable business process and approval hierarchies, with a detailed audit trail of virtually all actions. Reporting and analytics give senior management the ability to analyze compensation by the associated risk levels.

Executive teams and their boards are revisiting policies with respect to the autonomy they vest in staff that are in a position to adversely impact the company's financial viability. One such measure is sales and executive compensation plan designs that are based on hold backs tied to profitability (or some other measure). Robust calculation engines with the ability to handle complexity are required to effectively execute such an approach.

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IBM delivers

IBM helps organizations close the gap between business strategy and sales performance. With IBM, organizations can dramatically reduce sales administration costs, drive improved sales performance and address risk and compliance concerns.

With a sales performance management technology infrastructure, banks can implement incentive compensation programs that are risk appropriate and are supported by effective governance.

About IBM Industry solutions

IBM Industry solutions software delivers data-driven insights that help organizations work smarter and outperform their peers. This comprehensive portfolio includes solutions for business intelligence, predictive analytics and decision management, performance management, and risk management.

IBM Industry solutions enable companies to identify and visualize trends and patterns in areas, such as customer analytics, that can have a profound effect on business performance. They can compare scenarios, anticipate potential threats and opportunities, better plan, budget and forecast resources, balance risks against expected returns and work to meet regulatory requirements. By making analytics widely available, organizations can align tactical and strategic decision-making to achieve business goals.

For more information

To learn more about IBM Industry solutions, contact your IBM sales representative or visit: ibm.com/industries/sales-performance-management

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