Mitigate risk and drive profitability with effective sales performance management in banking

The importance of visibility, plan design, and auditability to reduce risk in compensation

The banking industry is challenged with heavy regulations and keeping up with ever-changing compliance requirements. Given the risks and exposure, the heavy regulations in the banking industry and ever changing compliance requirements, it's important to have a strategy in place for shaping compensation practices. Visibility into plans, good plan design, and complete auditability of the compensation process are key things to consider.

This issue is especially critical since US regulators, led by the Office of the Comptroller of the Currency (OCC), have started to examine sales practices at large and mid-size banks. The exams focus on ensuring that enterprise-wide sales practices can not be harmful to customers and a data-driven, documented risk management program will need to be in place that looks closely at sales targets and sales incentives.

Currently, only sales practices at banks are being investigated, but it can be assumed that the Consumer Finance Protection Bureau (CFPB) and Federal Reserve will likely follow suit to include activities of associated broker-deters and asset managers. One can expect that sales culture at banks will be an ongoing topic of interest and banks should prepare to make a permanent shift towards making customer protection the primary concern over revenue generation. The right incentive plan will focus on rewards that reinforce this positive culture message.

For bank decision makers, asking the following questions can help ensure regulatory compliance and give senior managers the necessary oversight of incentive compensation plans to drive long-term profitability and growth.

Why is commission important?

One could say that the financial industry has been operating on a trust deficit in recent years, ever since the financial crisis of 2008 – 2009 made us take note of compensation practices and put a spotlight on incentive compensation at all levels of the organization. More recently, we've seen banks receive hefty fines due to practices that failed to meet Federal regulations. With all this scrutiny, it's natural to wonder: is incentive compensation the right way to go? The answer is yes; incentive compensation has a tremendous value to the organization.

When incentive compensation is done right, it drives corporate strategy, better motivates sellers and contributes to revenue growth. Incentive plans are used to encourage, recognize and reward exceptional performance but also quickly align staff to strategic directives. A properly designed and executed plan can spur your sales staff to focus where and how you want – work smarter and harder – benefitting both the sales rep and the company's bottom line.

Incentive plans were created to motivate employees to achieve more and with this increased motivation, sales employees will become more engaged with their customers. Ultimately, they will provide a better customer experience, leading to an increase in cross-sells, upsells and higher margins.

Since most incentive plans are tied to earnings, organizations providing incentive plans will typically see their bottom line rise in direct proportion to the sales their employees generate. In fact, a study completed by CSO Insights found a direct correlation between the success of sales staff and the overall success of the organization. Motivating your staff with a well-designed incentive compensation plan is a key component in your organization's ability to make plan.

Once you determine the value that incentive compensation has, you can take the steps to ensure that you have all the key components to manage compensation effectively.

Do you have full visibility into the compensation process and potential risk?
Do managers, department heads and executive leadership have visibility across the sales organization? True understanding and better alignment with reps – along with their products and quotas – can effectively drive performance. Visibility means that you will always know who your top performers are and who's underachieving. It will also raise red flags about problems with either sales rep behavior or plan design and allow quick correction. Sales staff need clarity into their own performance, their earnings (what they are getting paid on and when), how they compare to their goals or peers and potential earnings they could achieve—establishing real trust between rep and the company.

For example, if a manager regularly looks at each salesperson's performance, or has the system running exception reports they can compare the performance to peers or historical data. Exception reporting dashboards can highlight unexplainable spikes and indicate potential cases of gaming the system or exploiting the plan.

Another component of visibility is centralizing all compensation data such as plans, payouts, modeling and quota into one system. If all your data is in one location, you'll be able to see the full picture and are more likely to notice any potential risks. Most systems are decentralized and heavily IT dependent, making it incredibly challenging to access the information you need in a timely fashion. It could take a week for a member of your IT department to compile a report for you when what you need is access to all this information on demand.

With visibility comes the agility to change. Once a risk has been identified, it becomes vital for you to correct course immediately or implement new controls. It's necessary to be able to change plans easily to reward the right behavior and model changes to understand the financial impacts of those changes. You may need to drastically and quickly overhaul an entire plan or simply add the ability to delay payments and apply claw-backs when necessary.

If you are using spreadsheets for your metrics, you will be limited to batch runs or report requests. You won't have access to real-time updates or dashboard views of current activity and your ability to implement changes quickly will be limited. Furthermore, if you are relying on programmers to make plan changes, the process can take several months. Providing business users with the tools to make changes quickly can allow plan changes to occur in a matter of weeks.

Are your compensation plans incenting the right behavior?

Plan design is critical. Sales people do what they are incented to do – you need to ensure that the plan is creating and driving the right behavior. Are sales quotas set too high, unfair and demotivating? Do you personalize plans to accommodate ramping up a new employee, a leave of absence, or a less fertile territory?

Lately, many companies have been revisiting how their sales people and executives are incented to perform. In addition to looking at how much sellers sell, organizations can consider how the product is sold – corporate values and earning customer trust can be factors in plan design. Once you determine what truly drives the right behaviors, the plan effectiveness can be vastly improved. In fact, more and more, it is expected that staff will be compensated based on margin performance—potentially with delays for validation.

Organizations may also choose to leverage more sophisticated and progressive pay plans or increase the complexity of plans. For example, the introduction of additional pay components that look at non-financial metrics such as customer service evaluations. While maximizing revenue may be your number one priority, corporate values and earning customer trust can also be factors in plan design. It is important to strike the right balance between driving the right short term behavior and encouraging higher performance and long term benefits. Almost every top sales person wants to be paid for performance thus, doing away with variable compensation altogether will hurt results. It is possible to motivate performance with an incentive plan, while still encouraging ethical behavior and protecting your clients.

Do you have complete auditability into the compensation process?

It has become increasingly important for organizations to report on incentive plans and policies in a way that is acceptable for compliance and Federal regulations. Sarbanes-Oxley requires oversight and audit for many business processes and financial institutions need to make sure that compensation practices are governed appropriately.

A lack of financial controls and audit trails within sales incentive compensation processes can expose organizations to risk. Precise tracking is required in order to comply with new compensation-related regulations. With an ongoing need to answer auditors' questions, manual processes and reports simply cannot track every detail necessary to comply with regulations. Being able to quickly generate reports on plans and processes is an important way to show regulators how your plans address risk-taking. In addition to reporting, there is a need for the agility to defer payments or handle claw-backs as risks become known. Beyond the regulation requirements, having a complete and strong audit system provides protection against past employee compensation appeals and lawsuits.

Providing a single view of the compensation plan portfolio, implementing data access restrictions and ensuring auditability will help organizations meet governance and compliance requirements. Consider whether your audit trail is complete enough – does your system automatically track every change and event? Can you easily and accurately trace every commission payment back to its source? Imagine what problems may lie down the road if the answer to either of these questions is 'no'. Do you have a system that can contain and complete all incentive compensation or are people pulling data out, making manual changes in Excel and then putting data back into the system? This happens daily in a majority of companies providing no tracking, audit or compliance.

The role of technology in effective compensation practices

Business leaders in banking need to effectively drive sales performance, implement measures to mitigate the risk and align behaviors with corporate objectives. Investment in Sales Performance Management (SPM) technology is a key part of that solution.

Key features and benefits

- Tie sales behaviors to corporate goals and maintain alignment
- Increase revenue and margins
- Cost savings by streamlining systems, automating commission calculations and reducing payment errors
- Improved sales, branch, product analytics and performance reporting
- Visibility into any potential risks and agility to make changes quickly
- Complete compliance and auditability

Sales performance management solutions address the lack of controls and audit trails associated with calculations, payments and adjustments. A business analyst can 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 and determine true ROI by including compensation costs against transactions. Executive teams and their boards can revisit 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.

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 drive performance but are also risk appropriate and supported by effective governance.