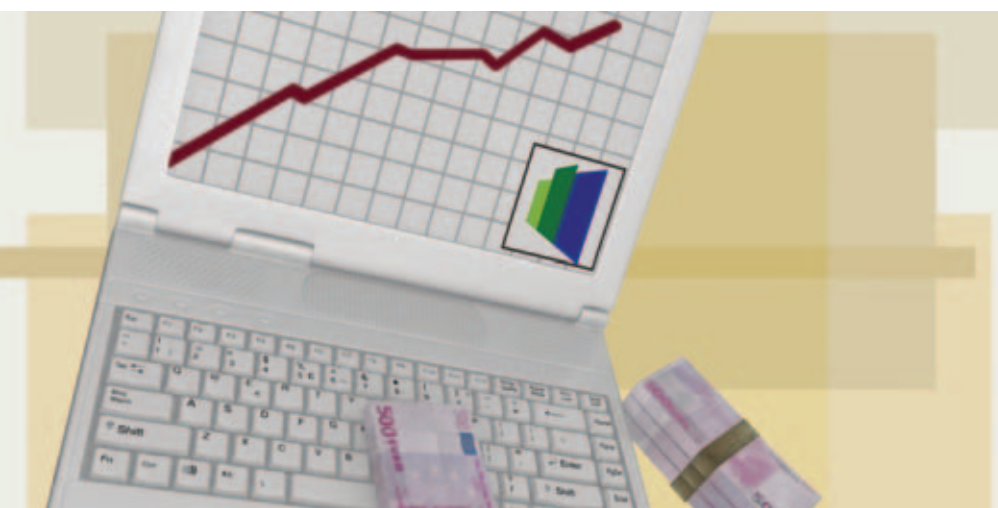


Incentives in European banking

Wachovia's **Terry Gilbert** discusses why electronic incentives systems are a crucial strategic business tool that can drive competitiveness and reduce costs within Europe's banking industry.



- EIM can drive success in customer-facing roles.
- An electronic EIM system will provide feedback on business strategy.
- A good system will enable a bank to handle growing workforces after acquisitions.

new clients, are involved with wealth management relationships or drive relationships with customers.

A good incentive structure can be useful in helping banks to motivate branch tellers, relationship managers or customer relations staff. In telesales, it can also be used to encourage upselling, cross-selling

Electronic incentive management (EIM) systems allow banks to develop and manage incentive commissions linked to achieving strategic business objectives. To get the most out of EIM, it is essential to know what you are hoping to achieve through incentives and which employees should be on such a scheme.

Utilising the best system and harnessing all the benefits it offers can give a bank the flexibility to manage big mergers and acquisitions and compete more effectively.

Incentivise the right staff

Senior decision-makers must establish the best strategy, framework and parameters for incentives to get the most effective and efficient use of the incentive budget.

Failing to do this means your incentive plan is unlikely to influence the behaviour of employees in the way you want.

It is also important to understand why incentives are valuable in the first place and who should receive them (see box, right). This is a crucial question, as it represents a business cost that needs to be justified. Incentives are most successful when applied to staff that produce

and referrals, as well as improving customer service.

However, applying salary incentives to ancillary staff positions is often a waste of money. There is little point offering incentives to staff in HR, auditing and accounts payable, or even sales support functions, such as credit or risk.

These roles are better dealt with by providing a bonus structure based on the success of the company or business as a whole, or by investing in a higher base salary for some of these positions. Not every employee should have a variable component in his or her salary structure.

Excellent sales tool

One of the advantages of an EIM system is that it allows banks to indicate which products to sell into which channels in order to maximise revenue streams, profitable organic growth and customer attraction and retention.

For every new bank account that is opened, banks need to know what its potential growth and fee and/or interest income are likely to be.

Data helping management to assess selling models is particularly helpful. It provides an insight into a bank's cost-of-sales to revenue ratio and indicates where money is producing effective and efficient results, and where it needs to be modified.

An additional benefit of an EIM system or process is to provide reliable, real-time data on employee performance, allowing banks to focus on any potential problem performance areas.

The pros of electronic EIM

- Consistency
- Accuracy
- Built-in compliance
- Relative speed
- Flexibility
- Scalability
- Analytical and diagnostic tools



Wachovia has chosen Callidus Software's EIM solution for its 30,000-strong workforce.

Data from the EIM manual processes or electronic systems is part of the foundation for strategic information, which is used for year-to-year incentive planning and design meetings. Every year, a bank's incentive managers agree on the coming year's incentive strategy, schemes and framework, but they may also need the flexibility to make regular adjustments. That makes for more effective, efficient use of limited resources and assets, and gives management the ability to adjust according to changing market conditions.

{ 'Flexibility is crucial, as the number employees on incentives could increase dramatically overnight.' }

By providing a statistical and mathematical view of cause and effect on the plans, the overall information for good decision-making is greatly enhanced.

Added benefits

There are two basic approaches to incentive management: manual and electronic. Manual processes are designed by humans and require a lot of manual intervention. While such systems provide localised control and flexibility, they have high error rates. Recent research has shown that as many as 90% of manually produced spreadsheets have significant errors.

Also, spreadsheet processes are structured in such a way that additional controls, which are usually manual, have to be put in place to ensure compliance with legislation such as Sarbanes-Oxley. These controls are

usually labour intensive and time consuming. As any IT expert will tell you, it is very difficult to put a systematic electronic solution on top of a manual process.

There are many benefits of electronic systems for EIM, including consistency, accuracy, built-in compliance and speed. Another key advantage is their flexibility for growing employee populations, which can be difficult to manage with spreadsheets. In this era of consolidation, flexibility is crucial, as the number employees on incentives could increase dramatically overnight.

Electronic platforms also provide scalability and a high degree of analytical and diagnostic tools that are not available in manual platforms. This removes the human element and provides a strong audit trail.

The tools to handle change

In banking, change comes relatively slowly, especially to back-office operations such as incentive payments. The issues of centralisation versus localisation, and change management come into play here. Typically, change happens most often in an environment of accelerated need or crisis. When you are working with spreadsheet technology and suddenly need to pay a workforce that has doubled in size, you may have a problem.

In 2001, when Wachovia Bank merged with First Union, it had 20-year-old technology for incentive payments on one side of the equation and payment spreadsheets on the other. To meet this challenge, Wachovia had to find a technological solution that provided scalability to help it continue to grow, drive revenue and win new customers.

Within months of trialling a number of solutions, Wachovia chose Callidus Software's EIM solution and rolled it out quickly to a 20,000-strong workforce that has since grown to over 30,000. Wachovia was handling over five million

transactions a month, which has since grown to over eight million a month. The bank has also expanded its EIM system to handle the payments for its call centres and mortgage and dealer finance departments.

Now Wachovia is one of the four largest banks in the US and the incentive management system has been a powerful tool in helping it manage the integration necessary to ensure mergers are completed quickly and efficiently.

Controlling costs

Incentives have become the major portion of a financial institution's operating expense. In the banking industry, salaries and incentives represent 60–70% of operational spend, with the incentives normally the larger portion of that mix.

It is crucial that the European banking industry ensures that its incentives payments are accurate and can motivate staff in the right way. With accurate payments in place, European banks can reduce costs and drive competitiveness in today's increasingly competitive and globalised economy. FBA

What's the incentive?

Incentives are typically paid to achieve any number of objectives, including:

- Boost sales of a specific product
- Capture new revenue
- Protect client base
- Develop and grow new markets
- Increase profitability
- Grow or protect existing market share

Terry Gilbert

Terry Gilbert is the vice president/manager for salary and incentive management at Wachovia. He is responsible for administration, participating in the design and implementation of compensation and HR plans. Gilbert joined Wachovia in 2000 from Office Depot, Inc, where he was the manager of incentive development. Prior to this, he spent over 30 years at the Eastman Kodak Company. He holds a BS in business administration and behavioural science from the Rochester Institute of Technology and is a Certified Compensation Professional (World@Work) and Certified Instructor (World@Work) on the elements of sales compensation certification, course 5.