

# TECHNOLOGY CAN DEFUSE COMMISSIONS COMPLEXITY

BY MATT ESSIEH

**T**ODAY'S FINANCIAL INSTITUTIONS are aggressively competing in the retail investments and insurance products businesses. Dramatic organizational culture changes have created sales environments and product mixes designed to capture more share-of-wallet and forge deeper relationships with customers.

Ironically, many financial institutions find their greatest challenge is in the back office, where they must manage compensation and incentive programs for an army of representatives who sell a myriad of products. Compensation is a central, strategic piece of an effective retail investments sales program. Yet all too often, banks and broker/dealers find themselves ill-equipped to handle the volume and complexity of commissions-related data that must be captured, verified, reported, and acted upon in order to keep the sales engine running smoothly.

## **Challenging back-office capabilities**

Retail investments and insurance programs create their own set of challenges for the back office. Tracking the activities of a dispersed sales force of both platform and/or dedicated reps with varying commission rates and various certifications or licenses to sell specific products is one hurdle. Dealing with multiple vendors with different commission structures and rates is another. Then there is the revenue-management challenge for a potpourri of products, including annuities, mutual funds, securities, and life and health insurance. Taking care of employees and revenue-sharing agreements among bank departments, like trust or private banking, is vital to success. Special incentive programs created within the bank to encourage referrals and cross-selling, or those offered by product vendors, require careful monitoring and prompt, accurate employee payouts. Management needs timely analyses and reports to make strategic decisions about the sales force, product mix, and commission rates. And all of this data

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and activity must be reconciled every month.

These challenges become even more complicated as a program grows, especially if the growth is fueled by merger or acquisition. Often, existing compensation and incentive management systems are cobbled together. Some may even be strictly manual. Banks and broker/dealers are grappling with the effects of rapid growth, and haven't scaled up their back-office capabilities to match their new size. They are typically offering many

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products, and getting sales-data feeds from multiple vendors and clearing firms, but they don't have a reliable, comprehensive system to manage this avalanche of information.

As retail investments and insurance programs get more complex, commissions management gets more complicated. The tendency is to re-allocate or add more staff to track, report, and administer the program. But if the larger staff is using the same old systems, no real advantage is gained.

A better solution is to apply appropriate technology tools to streamline today's compensation and incentive programs, and be prepared to handle future programs, as well.

## **Examining your program**

A recent report from Datamonitor suggests that financial service companies are ready to invest in commissions and incentive management solutions in 2006, because they recognize the critical importance of this activity to the success of their retail investments and insurance sales programs. If you are one of the financial

institutions ready to find a technology solution for the headaches of complex commissions tracking and reporting, begin by examining the characteristics of your program. To wit, examine the following:

- **Rep hierarchy:** Do you have platform and dedicated sales reps, thresholds, or breakpoints for certain product sales? Do you split commissions?
- **Branch structure:** How do you calculate and pay out referral incentives to branch employees?
- **Payment basis:** Do you pay your reps on a cash or accrual basis? Are monthly draws against commission permitted? Do you pay performance bonuses?
- **Timely reporting:** How frequently and promptly do your reps get their own production status reports?
- **Product mix:** Are you selling a single product or the full range of retail investments? Do you anticipate changing or expanding your product mix?
- **Vendor mix and sales promotions:** How many vendors do you work with? How many send you electronic feeds? How are you currently tracking and using that information? How do you track their special sales promotions?
- **Commissions and bonus calculations:** Who does it now, and who verifies the data against performance guidelines?
- **Systems integration:** Are the various components of your programs electronically integrated into one system? If not, why not? What barriers exist?

Seek a technology partner who offers these solutions.

While no two financial institutions or broker/dealers are alike in their needs, virtually any organization will benefit from a technology solution that has these key capabilities:

**Ability to respond quickly.** In today's competitive environment, managers need to be able to adjust programs easily and quickly as conditions change or opportunities arise. Avoid getting bogged down with a technology partner who is unable to make rapid course corrections as you need them.

**Scalability.** Select a system that can be expanded as you add new business lines or vendors, or as you grow the number of reps in your organization. It is far more efficient to invest in multi-product, multi-vendor capability *now*, even if you currently sell only one type of product.

**Flexibility.** As business dynamics change, so will your compensation and incentive plans, which must be flexible to address your bank's mix of products and types of sales reps. Look for a technology solution that can be equally dynamic—one that tracks commissions, aggregates data, and generates reports in the manner that best fits your organization. In the banking business, things change, so the ability to customize is important.

**Technology integration.** You don't need to start from scratch with an entirely new system. Look for a technology solution whose products will integrate seamlessly with your existing platforms. The last thing you need is a disruption in your sales efforts while bringing your commission activities up to speed.

**Automated reconciliation.** While this is especially criti-

cal for organizations that recognize revenue on an accrual basis, the ability to reconcile automatically will save time and personnel costs, and produce more accurate, timely reports for cash-based organizations, as well.

### Seeing tangible results

A large regional bank recently consulted with an experienced technology partner and streamlined its commissions program dramatically. The institution has a broad branch network, and both licensed platform reps and dedicated reps who sell mutual funds, annuities, and life insurance products from multiple vendors (who provide different types of data feeds). The complex compensation plan included a variety of performance guidelines and featured a draw against commission, tiered payout

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schedule, and quarterly performance bonuses tied to production goals and absence of customer complaints. Life insurance sales included referral incentives, and the commission structure included a licensed platform override for dedicated reps.

Using technology, this complexity was organized, and a simplified system for tracking and reporting commissions and incentives was developed. Results have been dramatic. It typically required two weeks after month-end to close the books on commissioned sales. Now they are closed at month-end, exactly. Production status information is available to reps online on a daily basis. Reconciliation time has been reduced from weeks to days, thanks to the aggregation of data and automated interfaces. Commissions and incentive information is automatically sent to the payroll office, and reps receive their reports electronically. Accuracy and timeliness has improved significantly.

Investing in an integrated software system for gathering, aggregating, and reporting data will accomplish many objectives for banks and broker/dealers that are building retail investments and insurance sales programs. It will increase the accuracy and timeliness of commissions-related activity, and provide a clear audit trail. It will speed up the payment of commissions to sales reps, providing them with additional motivation to excel. It will give program managers data on product sales, rep performance, and other key information from which a coherent sales and marketing strategy can be built. And it will provide information that can be leveraged with vendors when negotiating commission rates.

With the careful application of appropriate technology tools, financial institutions can create and manage effective compensation and incentive programs that will drive sales of retail investments and insurance products, and create a true competitive advantage. □