2017 INCENTIVE COMPENSATION SURVEY

FINAL REPORT

APRIL 2018

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Operational Risk

ACKNOWLEDGMENTS

The 2017 survey was designed as an outcome of the Incentive Compensation Round Table that took place on April 4, 2017.

The purpose of the survey was to capture the current status of the incentive compensation structure across a range of RMA member institutions and to gather detailed information on current and best practices and challenges.

The survey focused on:

- Incentive Compensation Framework.
- Non-Material Risk Takers.
- Sales Campaigns/Contest/Discretionary Awards.

The final report provides participants' responses, while protecting the confidentiality of individual institutions by masking the source of the responses.

Note: Due to rounding, percentages in the tables may not add up to 100.

The RMA staff members contributing to the study were Edward J. DeMarco, Jr., and Sylwia M. Czajkowska.

Institutions (18) that participated in the survey:

Anonymous (3)
BBVA
BMO Financial Group
Charles Schwab Corp.
Citizens Bank
Comerica
Discover Financial Services
Frost Bank
Huntington National Bank
Investors Bank
KeyBank
M&T Bank
Peoples United Bank
Royal Bank of Canada
State Street
Wells Fargo

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About RMA

The Risk Management Association (RMA) is a not-for-profit, member-driven professional association serving the financial services industry. Its sole purpose is to advance the use of sound risk management principles in the financial services industry. RMA promotes an enterprise approach to risk management that focuses on credit risk, market risk, operational risk, securities lending, and regulatory issues. Founded in 1914, RMA was originally called the Robert Morris Associates, named after American patriot Robert Morris, a signer of the Declaration of Independence. Morris, the principal financier of the Revolutionary War, helped establish our country's banking system.

Today, RMA has approximately 2,500 institutional members. These include banks of all sizes as well as nonbank financial institutions. RMA is proud of the leadership role its member institutions take in the financial services industry. Relationship managers, credit officers, risk managers, and other financial services professionals in these organizations with responsibilities related to the risk management function represent these institutions within RMA. Known as RMA Associates, more than 18,000 of these individuals are located throughout North America and financial centers in Europe, Australia, and Asia.

Members actively participate in the RMA network of chapters. These chapters are run by RMA Associates on a volunteer basis and they provide our members with opportunities in their local communities for education, training, and networking throughout all stages of their financial services career. Chapters are located across the U.S. and Canada as well as in global financial centers.

RMA members also avail themselves of benefits offered through headquarters in Philadelphia, Pennsylvania. To assist members in advancing sound risk management principles, RMA keeps members informed and provides access to industry information at this site; publishes *The RMA Journal* and a variety of newsletters, books, and statistics; conducts workshops and seminars; holds conferences, including an annual convention (Annual Risk Management Conference); and has numerous committees working on a variety of projects.

Visit RMA at www.rmahq.org.

Note: As a not-for-profit, professional association, RMA does not lobby on behalf of the industry.

EXECUTIVE SUMMARY

The survey was conducted by The Risk Management Association (RMA) between October 2017 and January 2018. Most of the questions were multiple choice with opportunities to provide comments. Some questions were open text, designed to provide information and insight about best and current practices.

A total of 18 responses were received from a wide range of financial institutions including community, regional, and large banks headquartered in the United States and Canada:

- Asset size between $10-50 billion: 2 responses.
- Asset size between $50-100 billion: 5 responses.
- Asset size between $100-250 billion: 7 responses.
- Asset size over $250 billion: 4 responses.

The following areas were addressed in the survey:

- Incentive Compensation Framework.
- Non-Material Risk Takers.
- Sales Campaigns/Contest/Discretionary Awards.

Incentive Compensation Framework

Incentive compensation programs are evolving quickly. When asked to rate the maturity level of the incentive compensation program within their institutions on a scale from 1 to 5 (where 1 is completely mature, and 5 is not mature at all), none of the participants selected "Not Mature at All," and 27.8% responded "Completely Mature". A majority of participants (38.9%), selected scale 2 as the level of maturity in their organization.

For over 60% of participants, the incentive compensation function is centralized. Over 33% of institutions provided a detailed explanation of why they chose "hybrid" as their answer.

The next section of the survey focused on gathering details on roles and responsibilities that various teams play in the incentive compensation process. The detailed survey report includes extended description of roles for each of the following:

- Human Resources.
- Corporate Risk.
- Legal.
- Compliance.
- Line of Business.
- Other(s), such as the Board of Directors, Finance, Internal Audit.

Approximately 60% of respondents have not made any adjustments to the definition of a "covered employee". Those who have made the adjustments (40%) provided a description of their implemented changes.

There is diversity in the numbers of incentive compensation plans that are in place in the institutions that contributed to the 2017 study. The range of responses varies between 15 and over 200 incentive compensation plans. All of the respondents predict that the number of plans will decrease within the next 2 to 3 years. For some, those changes will be more significant than to others.

Approximately 41.6% of those surveyed have either "made changes" or are "planning to make changes" to the incentive compensation team/reporting structure. The most repeated theme for change was about centralizing the incentive compensation team.

The survey data shows that the incentive compensation staff levels range from 10 to 4,200. Of those who provided the data, 58% indicated that their staff level does not exceed 20. Close to 17% of participants have decreased compensation staff in the last 12 months, and 58% have added staff (with a majority adding just one person to their team). All indicated that they do not plan on any additional changes in 2018.

Non-Material Risk Takers ("MRTs")

About 87% of the participants indicated that their institution subjects non-MRTs to incentive compensation adjustments in the event of misconduct. Participants provided various examples of who participates in the adjustments process for non-MRTs. Some examples included: HR, CRO, CHRO, and Line of Business Management.

There is a range of practices on how incentive compensation adjustments for non-MRTs are determined. Types of sanctions that are available to non-MRTs vary, but in most cases participants listed termination, clawbacks, and compensation adjustments.

Individual risk scorecards or a subset of MRTs are used by 60% of respondents.

Sales Campaigns/Contests/Discretionary Awards

Close to 85% of institutions considers sales campaigns/contests/discretionary awards as incentive compensation. For over 61% of participants, the oversight of sales campaigns/contests/discretionary awards is centralized.

Based on the recent attention to sales practices issues, close to 70% of respondents have made changes or are planning to make changes to their incentive compensation plan structures.

Technology plays an important role in helping institutions capture valuable information. About 83% continue to invest in technology or processes that will help them monitor and aggregate information about processes and trends in order to provide a more holistic, enterprise view of their sales practices.

More than 90% of those who participated have a process in place for capturing complaints about sales without customer consent. The same group also monitors complaints about sales pressure or unreasonable goals that come through social media, integrity hotlines, HR, and other channels.

Insights

Please see the following pages for detailed responses and examples of the range of practices that banks employ for incentive compensation.

Thank you to RMA-member banks for contributing to this benchmarking study. The full report is available to those institutions that contributed to the study.