



Financial Services

**Using Cloud-Based Technology to
Master Your Compensation Cycle**

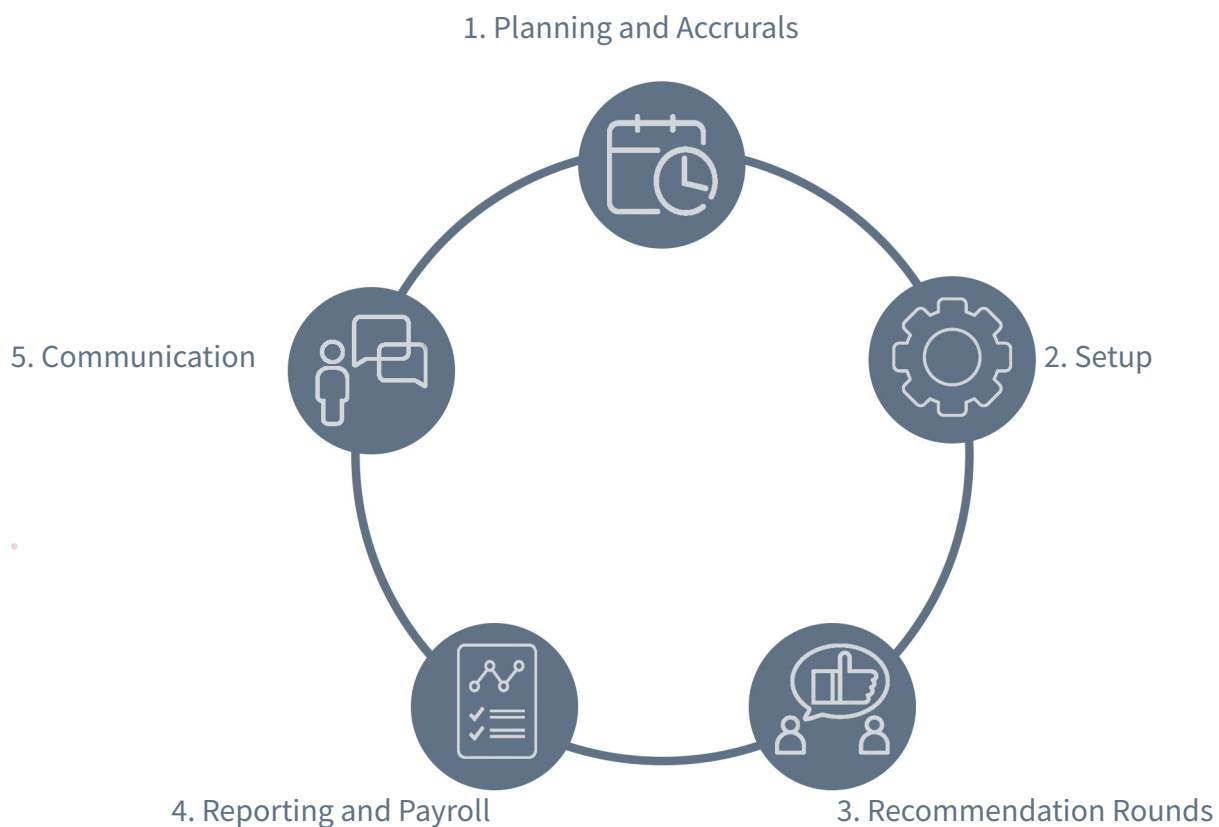
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Managing compensation in large financial services firms is a complex undertaking. Core HR solutions or talent suites don't support compensation management at the level of sophistication required, so many aspects of the processes are handled through expensive workarounds, manual procedures, or compromises.

However, technology now exists to fully automate all of a firm's compensation processes, which can dramatically improve operational efficiency, lower costs, enable execution of business strategy, aid in attracting and retaining talent, and support regulatory compliance. This "digital transformation" is already happening. Many of the world's leading financial institutions have streamlined their compensation lifecycle with an automated total compensation solution, securely in the cloud.

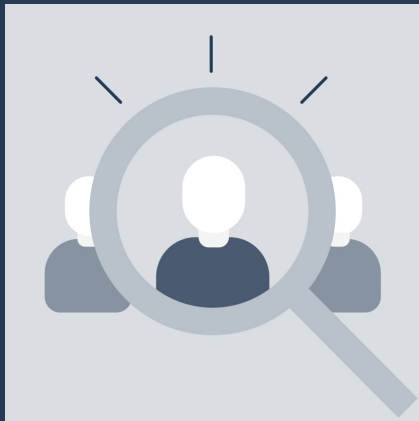
The Compensation Lifecycle



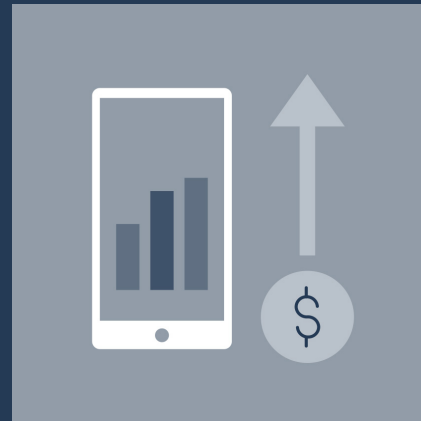
This cycle can repeat for different compensation types or plans with different calendars, such as Salary, Bonus, and Long Term Incentives. It often involves significant complexity related to organizational structure, differing local requirements, or within the plans themselves. In each step, most firms struggle with managing tasks in an efficient way.

An Array of Stakeholders

Before even beginning your compensation cycle, the first thing to consider is, who needs what? A platform to support these processes should consider the different needs of all internal and external stakeholders at each step of the cycle. Internally that includes employees, executives, line managers, finance, HR business partners, and compensation analysts.



EMPLOYEES



LINE MANAGERS



HR



FINANCE

Externally it means shareholders, analysts, auditors, and regulators. The functionality and reporting available in the system need to support not only standard compensation and financial reporting, but also things like the firm's requirements around pay fairness (Gender pay equity), data privacy (General Data Protection Regulations - GDPR), transparency and compliance reporting (Sarbanes Oxley (SOX), CRD IV), revenue recognition rules (ASC 606 & IFRS 15) and other regulatory scrutiny and audit, including EU and US federal and state regulations.

Each phase of the compensation cycle has unique requirements. The goal is to have all feasible compensation cycle tasks handled within the solution, avoiding the need for side processes that compromise accuracy and traceability.



Step 1: Planning and Accruals

To plan for the coming cycle, you first need to figure out, who will get paid what? For existing employees, this means refreshing the data on employee positions or titles and matching that to market benchmark data to determine what current staff should be paid going forward. Pay for new hires also needs to be estimated based on anticipated positions, titles, and market data. Contractual elements like guarantees and upfront payments need to be accounted for.

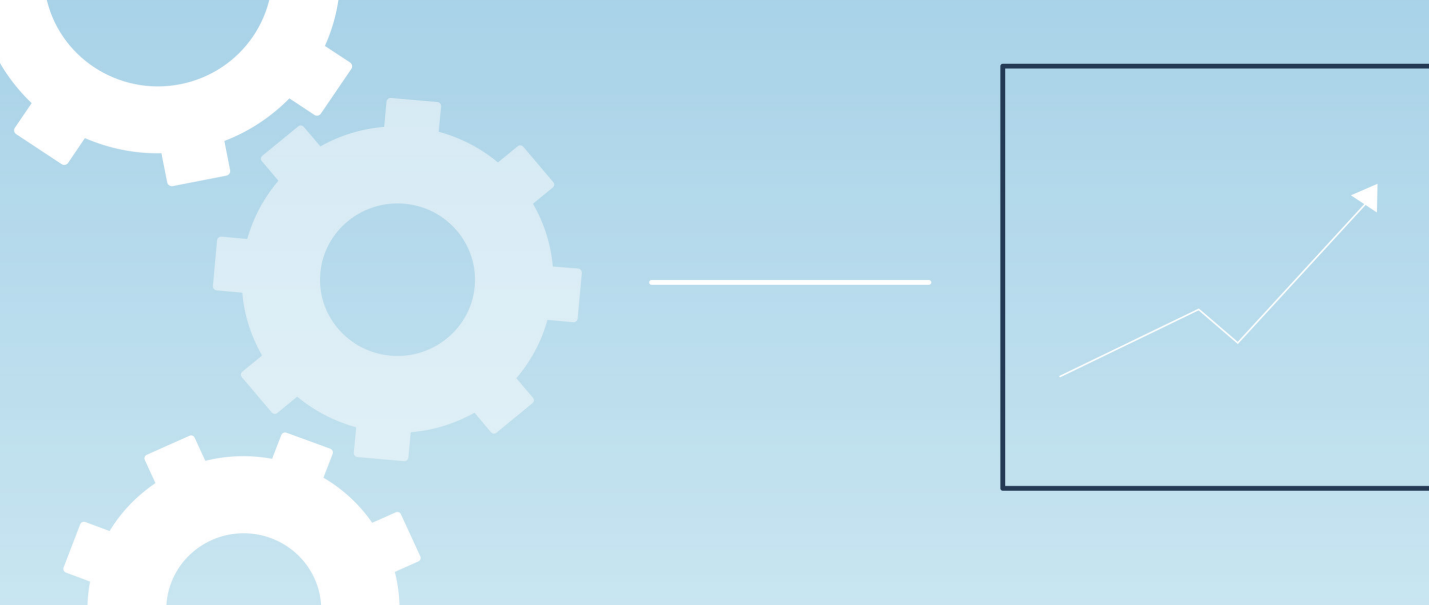
A baseline exercise is typically conducted to accrue for bonuses, often using a bottom-up approach based on last year bonuses, or a “same store” analysis that uses an assumed percentage increase over last year. You also need to factor in changes to the deferred compensation plans—will deferral eligibility change? Will the split of cash versus equity change?

Rapid Simulation

This is where a central automated platform, with one unified compensation database and the ability to run simulations, can be invaluable. In such a system, you can do the planning within an in-system model, and then run the actual compensation plan calculations within the model to see the payouts that will occur based on your planning assumptions. You can run any of your usual reports against the data to see the impact of changing assumptions.

The Iterative Accrual Process

From this analysis, you can determine how much to accrue for your bonus and merit pools. Of course, this is usually an iterative process: you submit a first round plan, it’s reviewed by management and finance, and you are asked to revise it. Again, this is where a compensation platform can help tremendously since you can change a few assumptions and rerun the model. You can even use an approval workflow process to manage and track this iterative process, providing an audit history of the plan versions and related approvals.



Step 2: Setup

Now that you are heading into the compensation round, you can get into the details of system setup. An initial task is to set up the organizational structure, and this is one area where a core HR system has trouble because the compensation hierarchy is rarely the same as the supervisory hierarchy reflected in the HR system. The HR hierarchy is a starting point, but then there is a “name and claim” process where people are allocated to buckets and where there can be matrixed relationships. Managing this process is another key benefit of a compensation solution that allows multiple, flexible hierarchies, contained within the system.

◆ An automated solution also provides consistency and control in the setup of rules for eligibility, compensation recommendations or calculations, deferrals, stock splitting and the application of FX rates for the payout of each type of compensation, as appropriate for the role and geography. Because the rules are defined within the system, all calculations are easily traceable for purposes of audit and compliance. And, within-system simulation capability, the rules can be tested and revised on-the-fly through as many iterations as necessary. This can save massive amounts of time, because when you make a change—to the stock splitter, the FX rules, etc.—you can see the effect on the bonus payouts immediately.

◆ Defining user profiles and the access rights that attach to them is an essential part of the setup. A central system provides much greater control and security since you can determine user access at a very granular level, both in terms of data and tasks, based on the user profiles.

Another setup task for financial institutions is refreshing the deferral table, which defines the portion of total compensation that will be deferred, which can vary by location, business unit, etc. Many companies have historically handled this offline in Excel or Access databases, which can be a time-consuming manual process, prone to errors and version control issues. A benefit of an automated system is that it can virtually eliminate the use of offline spreadsheets and databases. All of this data can now be stored in the system as “one version of the truth” where it can be accessed at any time. And perhaps more important is the ability to run simulations on-the-fly to see the impact of deferral table changes and adjust iteratively.

Compensation sheets also are set up within the system, not as standalone Word templates, and so can be thoroughly tested and validated before release. Therefore, after you define the different templates with their various legal and compliance footnotes, you can test them via live reports and can verify that the right templates are assigned to the right populations. Automation makes this easy to do, as opposed to a painfully manual process.

Lastly, reporting attributes can be defined for your user populations, so that each participant is provided with the right set of reports for their location, position, etc.



Step 3: Recommendation Rounds

Recommendation rounds are the operational part of the cycle where managers get involved in making bonus and merit recommendations for their teams. When you have an automated system, this process becomes dramatically more efficient and less painstaking for all involved. In a total compensation and performance solution managers can, through a manager self-service screen, enter their recommendations, submit and approve, view performance and compensation history, and get access to employee compensation sheets instantaneously.

Managers have access to performance information as they make their pay decisions, empowering them to link pay to performance. They can have the ability to run reports and analysis to show the correlation between pay recommendations and performance.

Finally, rather than a blizzard of emails with spreadsheet attachments, manager recommendations can be routed automatically through an approval workflow, with the appropriate levels of approval. At any level, the recommendations can be sent back for revision, with commentary. The entire process is tracked and recorded in an audit trail, including who approved what, when, and what changes were made along the way. There can be multiple rounds of recommendations before they are finalized, all tracked and managed through the system, and with the ability to report on the status of the approval process at any time.

Step 4: Reporting and Payroll

With all compensation and performance data existing in one central repository, it becomes easy to run all of the reports needed to understand compensation spend, analyze pay fairness, assess compensation effectiveness, and provide the data required by all stakeholders.

Reports that are typical for financial services firms are much easier to produce in an automated system than in Excel, such as divisional summaries, name-by-name reports, high-to-low reports and pay equity “seat belt” charts.

Real-Time Reports, Any Time

And keep in mind that reports can be run in real time at any time during the year as data is updated. For example, split funding can be updated as information becomes available, and reports run to check them, rather than waiting until the end of the year and then having a mad rush to get all the split adjustments into the system and verified.



Payment

Generating the payroll file can be subject to an approval workflow so that the payouts are reviewed and approved before being sent to the payroll system, again with full auditability. You can tailor a report to match your payroll file upload to your HRIS or payroll system rather than creating that manually in Excel or CSV files.

Step 5: Communication

With manual processes based on email, spreadsheets, and paper printouts, the communication phase can be a complete nightmare. With an automated system, it's merely a matter of selecting the population for whom you want to generate compensation sheets, and then essentially pushing a button. The sheets are generated using the approved payout data and customized for each payee based on their profile.

They then can be automatically distributed via email in a variety of formats like PDF, or you can send users links to view them online. Even if your process requires handing out paper printouts, Using an automated system, you can download printable PDFs of the compensation sheets and batch print them.

The same process applies to other communications that you want to generate and distribute, such as manager summary sheets, total rewards statements, and equity letters.

Mastering the Compensation Cycle

With an automated compensation platform, even the most complex Financial Services compensation cycle processes can be mastered and made vastly more efficient, accurate, and timely, while lowering risks and providing the transparency and process controls required for regulatory compliance. And, the business can be free to use compensation as a competitive tool, both in attracting and retaining talent and aligning employee behaviors with a strategy to drive performance.

beqom's Total Compensation Solution has been designed to meet the sophisticated compensation and performance management needs of large global organizations. beqom has been adopted and deployed by Global 2000 companies worldwide, including some of the world's largest financial institutions. beqom provides a unified compensation platform that empowers HR to own and manage all compensation related processes, and to implement a compensation strategy without compromise.



Happiness is the best driver for success

Our mission is to make the workforce of our customers happy. beqom drives happiness by allowing business managers to lead, align and motivate employees and partners. The beqom Total Compensation Solution is used globally across all industry sectors by over 100 large companies such as Microsoft and Vodafone. It addresses all performance and compensation aspects such as salary review, bonus, long-term incentives, commissions, benefits, non-cash rewards and all key drivers towards employee performance and sales performance.

HR, sales and finance departments leverage our platform to drive performance, retention, cost optimization and... happiness among their people.



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