



Compensation Management Issues

Insights

For Compensation Managers

Bank Regulations and Compensation

Human Resources Made Simple Through Technology

A Tale of Two Surprises

Surprise #1

One of our bank clients recently completed their regular exam by the state and federal regulators. Near the end of the onsite review, the Examiner in Charge (EIC) requested from the CEO a copy of the bank's job descriptions and compensation plan. This was a surprise to the CEO as this had never been requested in his 40 years of banking.

Should he have been surprised? Perhaps not after final regulatory guide lines were released in June of 2010. According to a review by the respected international law firm of [Troutman Sanders, LLP](#), it was clear that smaller banking organizations and community banks would have to be as cognizant as their larger brethren to:

- Ensure incentives balance risk and reward
- Implement appropriate risk management controls (for a discussion of the cost and value of risk management solutions see our whitepaper on Compliance Cost and Value)
- Build and sustain cultures of ethics and good governance beginning at the board level.

"During examinations, the Regulatory Agencies will review incentive compensation arrangements at smaller banking organizations for consistency with the safety and soundness of the banking organization while evaluating those organizations' risk-management, internal controls and corporate governance."

[Troutman Sanders, LLP](#)

Still seeing reforms in action is believing, and we strongly suspect this is just the beginning.

With last year's largest regulatory financial institutions reforms and the latest joint proposed rulemaking (February 7) to implement Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, we suspect this is just the beginning of reforms around incentive compensation and other benefit plans that could be considered excessive and result in inappropriate risk that leads to significant material losses.

Surprise #2 (Although he really shouldn't have been)

Luckily, our firm had just completed job descriptions and a compensation plan for the officer level positions at this bank. The CEO was able to fulfill the EIC request immediately and avoid any compliance consequences.

Our firm has created an automated compensation management software program that creates job descriptions in minutes and salary ranges from the CEO to the Custodian. We have several banks in multiple states that have licensed the software and have a state-of-the-art compensation management program. The process of creating job descriptions, completing job point ratings, and gathering outside market data can be very time consuming. Our Job Evaluation and Salary Administration Program within the DBCompensation™ software program saves HR bank staff a significant amount of time and provides management with an objective, defensible and fair compensation management plan.

The CEO did remark that it sounded to him that these items were going to be included in future exams for all banks. It is clear that integrity is a bank's most important asset. Begin embedding ethics and compliance into all your systems, processes and procedures.

DBSquared™ can help. If you need job descriptions, a formalized compensation review and/or proven totally integrated software program, please contact us.

