



Officer Incentive Plans & Profitability

profitability performance strategic planning

Summary: Financial institution profitability does not just depend on the customer, but on your officers too. Ensuring that officer incentive plans are tied to your institution's goals will facilitate overall performance and profitability. We give you the steps to take including designing and reviewing incentive plans, making adjustments as necessary, and using officer feedback.

Michael Phelps won a record number of gold medals at the 2008 Summer Olympics in Beijing. He is the youngest, most decorated Olympic athlete – with a total of 28 medals at the age of 35 years old. While that is amazing, it is not so strange that Olympic athletes are naturally incentivized by the reward and honor of a gold medal.

Financial institutions may not have gold medals, but they have incentive plans that help motivate their teams. Now is the time to begin designing next year's plan to provide time for adequate discussion and buy-in at your institution. A well-designed officer incentive plan ensures the frontline's goals are in line with your institution's goals, making your job easier.

There are a number of factors to consider, depending on what type of performance your community financial institution (CFI) wishes to improve. Setting goals on a single metric, such as volume or NIM, may result in more credit risk and less desirable returns. With the inclusion of profitability attributes, the incentive plan encourages officers to focus on quality returns when pricing deals.

Designing and reviewing incentive plans. First, you will need to determine your CFI's objectives and then link them to officer goals. A combination of profitability goals and strategic goals helps ensure short-term and long-term goals are being met. Here are a few to consider:

- Overall loan growth
- New loan production
- Deposit growth
- Fee income generation from loans, deposits, and other products
- Risk-adjusted customer profitability

You may want to weigh the markers used differently and, over time, those weights may shift depending on your goals. Incorporating too many markers may make the goals difficult for officers to execute as they have too many objectives to focus on. Being able to track the set goals is essential to the success of an incentive plan. The design may take time, but once it is established, ongoing performance reviews with officers can be done easily.

Adjustments and future considerations. Of course, some adjustments may need to be made for each plan year. For instance, when using 2020 performance results to compare to 2021, loan growth from the Paycheck Protection Program (PPP) would likely be separated from other loan growth. Or you may want officers to receive additional credit for successfully converting PPP customers and find a way to track it.

When it comes to deposit growth, depending on the current environment, some CFIs will set criteria to only measure noninterest-bearing deposits instead of interest-bearing DDAs or CDs. However, when considering which deposit goals to track, tracking all deposit types may be helpful. If your institution’s goals change in the next year to focus on more deposit product types, these balances are already being tracked. Some CFIs will charge their loan officers to bring in deposits with loan deals, as they may be stickier than standalone deposit relationships. They may choose to closely track these, to see if the promised deposits come to fruition.

Officer feedback. Encouraging officers to provide feedback and discussing any concerns about changes to the plan prior to implementation can help with the success of officer performance. Setting officers up for success also means ensuring they have a good understanding of customer profitability and know the drivers to get the best returns.

This is good for your officers and your institution, making everyone’s job easier.

COMPETITIVE AND CONSISTENT LOAN PRICING

Achieve a 360-degree customer relationship view so you can determine the best loan pricing based on your customer data while driving higher bank profitability. Learn more about [Profitability FIT](#).

ECONOMY & RATES

Rates As Of: 05/03/2021 05:19AM (GMT-0700)			
Treasury	Yields	MTD Chg	YTD Chg
3M	0.01	-0.02	-0.08
6M	0.03	-0.02	-0.06
1Y	0.05	0.00	-0.06
2Y	0.17	0.00	0.04
5Y	0.87	0.02	0.51
10Y	1.66	0.03	0.74
30Y	2.33	0.03	0.68
FF Market	FF Disc	IORR	
0.06	0.25	0.10	
SOFR	Prime	OBER	
0.01	3.25	0.05	

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