

Enhanced Disclosure Adds Scrutiny To U.S. Executive Pay

BY LOUIS BERNEY



The credit crunch precipitated by careless bank-lending policies has taken a bite out of compensation packages offered to top payments-industry executives, and it likely will continue.

Indeed, senior officials with banks, card brands and related payments companies could find their future earnings more tightly tied to their own performance and that of their organizations, especially as shareholders take a larger role in deciding how corporations construct compensation packages. Moreover, the number of top-level jobs is diminishing, in part

because of mergers and acquisitions.

Also, with the U.S. economy being unstable, more companies are looking to hire executives with expertise in risk management, observers say.

For payments executives, median total compensation in 2007 was \$4.01 million, down 20.4% from \$5.04 million in 2006, according to data Standard & Poor's compiled for *Cards&Payments* from 12 public, U.S.-based companies (see charts on pages 30 and 32). It remains difficult, however, to make industrywide conclusions based on the S&P data, experts say.

Such card companies as American Express Co. and MasterCard

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Market changes and new SEC compensation disclosure rules may be prompting more payments firms to cut back on “golden parachutes” and other perks.

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Worldwide that are economically healthy and have not struggled with debt issues still are able to pay their top executives handsomely, with little movement toward lowering compensation. But senior officials with debt-riddled balance sheets and militant shareholders, particularly at banks, are likely to face diminished salaries and less-robust bonus packages, observers say.

“You’re going to see stagnation in compensation both with the card companies and the banks,” says Clark R. Beecher, managing director of Magellan International, a Houston-based executive search firm. “Since the market is in flux right now because of debt, it puts a lot of executives in jeopardy for their jobs, even if they’re doing good jobs. And if their stock prices fall, it’s difficult to compensate them more than before.”

Much of the tighter shareholder scrutiny, and, perhaps, even diminished compensation packages, stem from U.S. Securities and Exchange Commission rules enacted a couple years ago mandating more-rigid reporting of executive pay.

“Disclosure is driving a lot of the changes we’re seeing in executive pay,” points out David Wise, senior consultant with Hay Group, a Philadelphia-

based management-consulting firm. “Now that shareholders have more information, they have more power to impact how the companies are rewarding their executives.”

As an example, he says, payments-industry companies seem to be cutting back on “tax gross-ups on perquisites” they offer top executives.

Companies use tax gross-ups to ease the tax burden executives must bear on perks by reimbursing or paying the executive for the added tax obligation, says Wise. “But when we saw disclosures [as required by the SEC], we saw a lot of companies had eliminated the tax gross-ups in the past year,” he says.

Firms also reduced executives’ personal airplane use because they were uncomfortable with the disclosure of such a perk, Wise adds.

Benefit Cutbacks

Others agree that companies are shaving such executive perks as free travel and entertainment.

Despite the information culled by Standard & Poor’s, not everyone believes compensation for top payments-industry moguls is going down.

“If you’re a senior vice president or above, the payments industry is a good place to be,” says Dennis Simmons, president and CEO of SWACHA, a regional automated clearinghouse payments association in the Southwest.

Intense industry competition exists for senior executives, in part, because of consolidation in the industry, Simmons says. “There is competition for people who know what they’re doing,” he says. “And I think it’s not only banks that are competing for the talent, it’s the vendors, too.”

Some of S&P’s data bears out Simmons’ observations.

At such companies as Metavante Holding Co. (which was involved in a spin-off) and Total System Services Inc., total compensation for top execs

increased. Of the six Metavante executives cited by Standard & Poor’s, total compensation increased for the top five by between 50.8% and 68.3%, and for the sixth by 16.7%. At TSYS, total compensation for the five company officials listed rose between 17.9% and

contracts to expire, says Beecher.

Along with performance-based pay comes an industry focus on long-term compensation, says Wise. Some firms are offering long-term performance compensation that can zero out if executives or their companies fail to

Payments Executive Compensation Trends

	2007	2006	Change
Median Total Comp. (in millions)	4.01	5.04	-20.4%
Median Salary	\$454,227	\$494,451	-8.1%
Median Bonus	\$575,084	\$829,381	-30.7%
Median Salary & Bonus as % of Total Pay	25.3%	26.3%	

Source: Standard & Poor’s.

34.1%. And at AmEx, although the total compensation of President and CEO Kenneth I. Chenault dropped 10%, to \$26.2 million in 2007 from \$29.1 million the previous year (mainly because of a fall in the value of awarded stock), other officials at the credit card company saw their compensation increase last year.

Performance pay is the prevailing new ethos in the industry, and Beecher says many companies are tending to reward performance with cash bonuses instead of stock options, as they had done in recent years.

“You’ll see a trend with the banks and card companies of less equity-based compensation and more cash-based compensation,” he explains.

On the other hand, some companies are offering additional equity to executives who meet or exceed their performance goals, according to Ed Schmitt, a practice manager with TopGrading Solutions, an executive-search firm based in Port St. Lucie, Fla.

The emphasis on performance means that “the day of the CEO walking out with \$200 million for failing is probably over,” though it might take a while for all such golden-parachute

meet prescribed objectives, he says.

“Shareholders have grown tired of seeing CEOs take home compensation they did not earn,” Wise explains.

Observers generally agree that expertise in risk management is a growing asset for executive candidates. Corporations need chief executives who can balance the upside with the need to protect assets, Wise explains.

Another important resume entry is the relationships executives have established within the industry. Schmitt says payments firms want to hire executives who bring relationships to their new jobs that can demonstrate instant credibility to their partners.

Companies also are looking for executives who bring with them strategic views on how payments can fit into the overall strategies of financial institutions, Simmons says.

Yet each company has its own requirements for new executives, just as it has its own ideas about compensation.

“From a company-to-company perspective, the only one consistency in executive compensation seems to be inconsistencies,” asserts Larry Lebofsky, practice manager at TopGrading Solutions. **CP**

Card Industry Executive Pay, 2007 and 2006

	Total Compensation			2007 Components			
	2007	2006	Change	Salary	Bonus	Value of Stock Awards	Value of Option Awards
ALLIANCE DATA SYSTEMS CORP.							
J. Michael Parks Chairman and CEO	\$6,175,776	\$6,634,413	-6.9%	\$900,000	\$100,000	\$2,351,484	\$1,094,290
John W. Scullion President and Chief Operating Officer	4,554,043	3,493,476	30.4%	774,435	134,316	1,399,380	596,156
Ivan M. Szeftel EVP, President of Retail Credit Services	3,556,422	3,526,464	0.8%	475,000	7,556	1,660,552	485,839
Edward J. Heffernan EVP, Chief Financial Officer	3,010,100	2,717,479	10.8%	425,000	63,189	1,462,321	371,946
Dwayne H. Tucker EVP, President of Transaction Services	2,538,836	2,539,459	0.0%	375,000	45,140	1,152,332	360,234
AMERICAN EXPRESS CO.							
Kenneth I. Chenault Chairman and CEO	26,249,876	29,137,014	-9.9%	1,238,461	6,000,000	6,476,202	8,288,342
Edward P. Gilligan Vice Chairman	13,390,097	10,346,528	29.4%	759,615	3,206,000	1,636,972	2,634,900
Alfred F. Kelly Jr. President	11,097,573	7,504,969	47.9%	771,154	3,625,000	1,771,091	2,685,830
Louise M. Parent EVP, General Counsel	6,763,288	6,026,735	12.2%	524,591	2,195,000	124,995	1,986,478
Daniel T. Henry EVP, Chief Finance Officer	4,529,070			411,192	2,156,000	360,663	723,161
Gary L. Crittenden Former EVP and Chief Finance Officer; Head, Global Network Services	526,876	7,671,546	-93.1%	110,793	0	0	0
CAPITAL ONE FINANCIAL CORP.							
John Adam Kansas President-Banking	23,526,094			0	0	23,333,383	0
Richard D. Fairbank Chairman, President and CEO	20,412,429	37,438,699	-45.5%	0	0	-6,400,156	26,727,706
Gary L. Perlin Chief Finance Officer	6,502,420	5,577,426	16.6%	850,000	1,225,000	1,738,684	2,493,712
John G. Finneran, Jr. General Counsel and Secretary	5,773,680	9,458,792	-39.0%	666,667	690,000	1,543,816	2,679,920
David R. Lawson President-Capital One Auto Finance	5,425,217	8,421,923	-35.6%	670,833	528,750	1,525,552	2,526,661
Peter A. Schnall Chief Risk Officer	4,289,750			545,833	1,070,000	1,030,938	1,499,826
EQUIFAX INC.							
Richard F. Smith Chairman and CEO	8,387,813	7,083,869	18.4%	1,340,385	536,154	3,329,263	714,364
Kent E. Mast Vice President and General Counsel	1,624,476	1,836,510	-11.5%	388,253	69,886	307,545	310,136
Paul J. Springman Vice President and Chief Marketing Officer	1,601,826	1,798,366	-10.9%	365,163	87,639	219,165	308,718
Lee Adrean Vice President and Chief Finance Officer	1,576,340	309,540	409.3%	433,077	77,954	347,513	256,060
Coretha M. Rushing Vice President and Chief Human Resources Officer	1,329,994			395,192	71,135	258,881	198,601
FAIR ISAAC CORP.							
Charles M. Osborne EVP and Chief Finance Officer	2,743,120			400,000	0	806,673	1,406,671
Thomas G. Grudnowski Former President and CEO	2,152,976			236,077	0	0	579,466
Mark N. Greene CEO	1,408,229			334,231	100,000	255,546	250,862
Michael H. Campbell EVP and Chief Operating Officer	1,371,335			375,000	0	16,262	877,918
Bernhard Nann Senior Vice President and Chief Technology Officer	1,125,545			300,000	80,063	193,730	305,956
Eric J. Educate Vice President and Former Chief Marketing Officer	1,067,736			330,000	0	67,680	659,618
Richard Deal Senior Vice President and Chief Human Resources Officer	1,034,494			270,000	0	109,410	532,612
FISERV INC.							
Jeffrey W. Yabuki President and CEO	7,073,830	4,412,169	60.3%	840,000	0	1,004,284	2,972,610
Norman J. Balthasar Senior EVP and Chief Operating Officer	3,098,315	3,196,295	-3.1%	730,000	0	697,735	1,002,789
Thomas A. Neill Group President-Depository Institution Core Processing	1,646,540	1,579,590	4.2%	445,000	0	209,382	529,445
Thomas W. Warsop III Group President-Financial Institutions	1,346,025			350,000	600,000	195,363	70,107
Thomas J. Hirsch EVP, Chief Finance Officer and Treasurer	1,156,445	724,134	59.7%	400,000	0	83,017	348,368
HEARTLAND PAYMENTS SYSTEMS INC.							
Charles H.N. Kallenbach General Counsel and Chief Legal Officer	706,500			190,000	0	0	421,500
Sanford C. Brown Chief Sales Officer	533,930	525,586	1.6%	476,425	0	0	57,505
Robert O. Carr Chairman and CEO	495,197	350,000	31.2%	350,000	0	0	0
Robert H.B. Baldwin Jr. President and Chief Financial Officer	429,147	260,001	65.1%	276,056	0	0	71,974
Thomas M. Sheridan Chief Portfolio Officer	329,313	222,150	48.2%	225,896	0	0	57,505
HYPERCOM CORP.							
Philippe Tartavull President and CEO	1,163,811			309,615	0	336,792	257,580
William Keiper Former CEO	866,997	1,772,878	-51.1%	312,285	0	-136,414	-26,223
Thomas Liguori Former SVP and Chief Financial Officer	586,056	1,107,520	-47.1%	315,000	0	0	269,571
Neil Hudd Former SVP, Global Product Development and Marketing	465,832	1,293,903	-64.0%	220,366	0	-102,393	-23,495
Scott Tsujita SVP, Finance, Treasury and Investor Relations	251,404			174,680	0	0	76,724
Douglas Reich SVP, Chief Compliance Officer, General Counsel and Secretary	246,494			203,860	0	0	42,634
MASTERCARD CORP.							
Robert W. Selander President and CEO	13,907,205	15,328,763	-9.3%	900,000	82,800	5,000,094	2,500,003
Alan J. Heuer Chief Operating Officer	6,513,976	10,271,552	-36.6%	750,000	69,000	2,700,191	1,350,049
Noah J. Hanft General Counsel	3,957,979	3,462,450	14.3%	454,167	41,783	1,829,404	550,176
W. Roy Dinbar President, Global Technology and Operations	3,332,660	5,216,498	-36.1%	600,000	55,200	1,357,557	308,453
Chris A. McWilton President, Global Accounts	2,923,046	2,798,202	4.5%	500,000	46,000	1,055,994	181,431
Martina Hund-Mejean Chief Financial Officer	160,852			68,269	0	74,177	15,864
METAVANTE HOLDING CO.							
Frank R. Martire President and CEO	4,462,818	2,836,248	57.3%	570,833	0	248,569	2,336,226
Michael D. Hayford Senior EVP and Chief Operating Officer	3,229,265	1,918,227	68.3%	462,500	0	142,785	1,659,420
Frank G. D'Angelo Senior EVP	2,360,605	2,023,295	16.7%	383,333	0	136,324	1,047,687
Paul T. Danola Senior EVP	1,966,797	1,258,925	56.2%	355,000	138,000	125,415	694,159
Steven A. Rathgaber EVP	1,721,746	1,141,621	50.8%	315,000	69,000	118,360	226,214
Timothy C. Oliver Senior EVP and Chief Finance Officer	738,362			163,160	140,000	13,224	174,628
TOTAL SYSTEM SERVICES INC.							
Philip W. Tomlinson Chairman and CEO	4,949,753	3,692,005	34.1%	711,833	0	864,620	1,755,430
M. Troy Woods President and Chief Operating Officer	3,396,709	2,650,611	28.1%	500,000	0	671,132	1,078,313
William A. Pruett Senior EVP and Chief Client Officer	2,314,110	1,929,539	19.9%	416,000	0	213,567	988,491
Kenneth L. Tye Senior EVP and Chief Information Officer	2,189,916	1,849,341	18.4%	400,000	0	197,443	934,329
James B. Lipham Senior EVP and Chief Financial Officer	2,045,578	1,735,632	17.9%	347,500	0	181,737	913,995
VISA INC.							
Joseph W. Sanders Chairman and CEO	11,147,317			804,519	10,230,514	0	0
John M. Partridge Chief Operating Officer	5,580,666	4,928,350	13.2%	635,411	1,170,183	0	0
John (Hans) C. Morris President	3,494,371			145,192	3,343,750	0	0
Joshua R. Floum General Counsel and Secretary	3,267,345			532,104	445,918	0	0
William M. Sheedy Global Head, Corporate Strategy and Business Development	2,418,639	1,966,055	23.0%	360,430	354,785	0	0
Bryon H. Pollitt Chief Financial Officer	277,083			27,083	250,000	0	0

Source: Standard and Poor's Compustat

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			2006 Components							
Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (\$000)			Value of Stock Awards	Value of Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	
			Salary	Bonus						
\$1,635,863	\$29,282	\$64,857	\$840,000	\$0	\$2,784,859	\$1,335,655	\$1,572,196	\$25,796	\$75,907	
1,343,162	0	306,594	549,622	91,296	1,395,903	606,367	792,180	0	58,108	
755,606	9,593	94,272	460,000	66,066	1,532,637	538,998	825,844	6,831	96,088	
631,890	6,675	49,079	400,000	56,579	1,170,508	408,828	628,650	4,086	48,828	
451,406	11,502	143,222	365,000	20,224	1,243,090	413,993	334,020	7,663	155,469	
500,000	2,671,958	1,074,913	1,100,000	6,000,000	5,131,099	12,527,610	500,000	2,745,040	1,133,265	
1,414,500	446,178	3,291,932	575,000	1,800,000	846,709	1,933,104	1,183,050	379,415	3,629,250	
1,414,500	455,969	374,029	575,000	2,000,000	1,049,907	1,985,640	1,218,900	439,783	235,739	
1,250,000	556,772	125,452	495,385	1,400,000	374,984	2,103,271	956,000	592,184	104,911	
460,000	226,337	191,717								
0	311,191	104,892	575,000	1,850,000	1,187,824	2,026,352	1,218,900	571,007	242,463	
0	83,942	108,769								
0	15,294	69,585	0	0	6,389,113	30,892,792	0	5,310	151,484	
0	0	195,024	583,333	520,800	1,151,769	2,316,510	869,476	0	135,538	
0	1,661	191,616	540,000	479,600	2,895,109	4,583,656	800,692	1,356	158,379	
0	0	173,421	495,833	440,000	2,634,613	3,983,148	734,580	0	133,749	
0	0	143,153								
1,483,806	844,300	139,541	1,300,000	520,000	2,270,315	458,248	1,851,200	155,700	528,406	
257,878	223,700	67,078	372,517	67,053	381,630	318,824	318,241	305,506	72,739	
242,541	326,000	52,600	344,850	82,764	267,637	271,562	294,605	441,038	95,910	
287,650	113,400	60,686	94,808	17,066	28,850	84,065	80,994	0	3,7578	
262,487	120,700	22,998								
120,440	0	9,336								
0	0	1,337,433								
425,000	0	42,590								
101,840	0	315								
75,000	0	170,795								
0	0	10,438								
110,850	0	11,622								
888,720	0	1,368,216	840,000	0	810,457	1,865,852	893,760	0	2,100	
620,500	0	47,291	730,000	0	610,032	1,184,637	621,376	0	50,250	
420,000	0	42,713	445,000	0	236,896	607,781	240,000	0	49,913	
100,000	0	30,555								
300,000	0	25,060	301,667	0	46,926	131,941	224,500	0	19,100	
95,000	0	0								
0	0	0	219,086	0	0	106,500	200,000	0	0	
109,197	0	0	350,000	0	0	0	0	0	0	
81,117	0	0	260,001	0	0	0	0	0	0	
36,532	0	9,380	208,000	0	0	0	0	0	14,150	
0	0	259,824								
0	0	717,349	400,000	79,234	448,495	388,926	0	0	456,223	
0	0	1,485	300,000	0	147,857	192,402	0	0	467,261	
0	0	371,354	265,000	41,598	201,033	149,948	0	0	636,324	
0	0	0								
0	0	0								
2,160,000	379,605	2,884,703	900,000	0	3,850,835	2,815,272	4,886,000	425,744	2,450,912	
1,300,000	0	344,736	750,000	1,000,000	2,726,198	912,189	2,427,000	128,098	2,328,067	
650,000	255,675	176,774	445,833	0	783,723	141,267	1,497,410	159,646	434,571	
810,000	90,935	110,515	600,000	1,995,000	611,669	130,536	1,670,849	98,395	110,049	
800,000	105,966	233,655	495,833	0	391,505	76,780	1,538,674	88,274	207,136	
0	0	2,542								
1,144,136	0	163,054	500,000	0	290,789	543,690	1,387,783	0	113,986	
854,593	0	109,967	395,000	0	147,131	274,791	1,008,992	0	92,313	
695,570	0	97,691	350,000	36,190	147,956	271,054	1,124,200	0	93,895	
560,371	0	93,852	340,000	15,345	124,919	257,554	430,745	0	90,362	
940,175	0	52,997	300,000	0	123,013	69,304	576,250	0	73,054	
205,596	0	41,754								
960,930	0	656,940	652,000	0	583,775	1,157,063	847,600	0	451,567	
675,000	0	472,264	458,000	0	473,229	824,221	595,400	0	299,761	
477,360	0	218,692	396,000	0	168,190	756,590	437,580	0	171,179	
459,000	0	199,144	375,000	0	154,474	745,859	414,375	0	159,633	
398,790	0	203,556	332,500	0	144,180	738,935	367,413	0	152,604	
0	41,113	71,171								
3,169,989	475,512	129,571	625,025	1,076,320	0	0	2,576,690	533,214	117,101	
0	5,429	0								
2,132,372	84,029	72,922								
1,490,768	155,105	57,551	350,013	250,000	0	0	1,254,106	45,096	66,840	
0	0	0								